

JUN 7 3 06 PM '83

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU: EXECUTIVE SECRETARIA¹
ES

THRU: AA/PPC, John R. Bolton

FROM: AA/AFR, Alexander R. Love (Acting)

SUBJECT: Sudan: Commodity Import Program (650-K-604) Amendment

MAY 27 1983

PD BAI 956

Problem: Your approval is required to authorize a grant Commodity Import Program (CIP) Amendment of \$18,000,000 from Economic Support Funds for the FY 1983 CIP (650-K-604) to the Government of the Republic of Sudan (GOS). It is planned that the entire amount will be obligated in FY 1983 in accordance with commitments made at the recent Consultative Group (CG) meeting. This \$18 million brings the total FY 1983 CIP to \$48 million, and total FY 1983 ESF to \$68 million.

Background: The action memorandum to you dated 12/8/82 (Attachment 2) on the original Program Assistance Agreement Document (PAAD) for the FY 83 Commodity Import Program (CIP) details at length the Sudanese need for stabilization support and numerous GOS efforts at policy reform.

These efforts led up to two important meetings on Sudan since your approval of the original FY 83 PAAD. The Consultative Group meeting held in Paris on January 12 through 14, 1983 generated extraordinary bilateral assistance, and the meeting among Sudan's creditor governments on February 3 and 4, 1983 undertook unprecedented debt rescheduling that was sufficient to allow the IMF 1983 Standby Agreement to be signed. At the CG meeting, donors agreed that their commitments would have to be quickly approved and disbursed in order to effectively support the IMF/GOS stabilization and the CG recovery program.

The constant endeavors by our USAID Mission and Embassy at the working levels and the U.S. Ambassador at the highest levels culminated in President Reagan's letter to President Nimeiri in October assuring the GOS of deep USG concern at our highest levels. Through President Reagan's letter, and all our efforts, we have committed ourselves to ensuring that Sudan will continue to be supported once it had made its public commitment on a tough reform package.

Since the current economic situation has dictated that even more stringent economic reforms will be necessary--in addition to those already implemented--it is essential that the GOS conform to the package of reforms in the recent IMF Agreement as the next but by no means final step. Thus, the USG has linked the original and this second tranche of its ESF assistance with progress on this front.

The amended PAAD contains the standard conditions precedent and covenants for a CIP, i.e., the same as those in the original

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PAAD. In addition, the minutes of the negotiations between the GOS and the USG for this commitment will again reflect GOS commitment to examine, with AID, the structure and behavior of Sudan's parallel economy, in an effort to accomplish the objectives set up by reforms under the IMF Standby Agreement. For this amendment the GOS will include a review of its progress on achieving the original PAAD covenants.

On December 2, 1982, the Executive Committee for Project Review reviewed and recommended the CIP for approval. Because of the initial FY 1983 Continuing Resolution which placed a \$50 million ceiling on the ESF level to Sudan only \$50 million in CIP and Program grant was approved and authorized.

This \$18 million increment will complete funding of the CIP for FY 1983 and fulfill our US commitment at the January Consultative Group Meeting in Paris to assure quick approval and disbursement of program assistance to Sudan.

In concert with on-going disbursements from the Standby Agreement the CIP will alleviate those shortages of foreign exchange resulting from GOS foreign exchange budget restrictions which threaten to preclude the timely import of its most essential and politically sensitive commodities. Given the timing of the announcement by Sudan to undertake the reforms included in the IMF Standby, such shortages are expected to coincide with the implementation of politically difficult budget and pricing reforms.

Discussion: Consistent with the original PAAD, the principal objective of the amended FY 1983 Commodity Import Program is to provide Sudan with urgently needed imports of highest economic importance and political sensitivity, thereby permitting the Government of Sudan to undertake the array of difficult policy reforms. The second objective of the CIP as amended is to increase support to the private sector where feasible. Procurement under the Program will be restricted to commodities of AID Geographic Code 941 source and origin. Recognizing the urgent need to continue supporting irrigated agriculture and industrial infrastructure rehabilitation, as has been reconfirmed at the recent Consultative Group and Paris Club meetings, the commodities procured will be drawn from the same \$200 million positive list of commodities used for the original FY 1983 CIP of \$30 million. The specific list will be agreed upon by the GOS and AID with the understanding that the commodities should be selected so as to maximize the development impact of the financial and economic recovery program. The breakout below represents a positive list illustrative of items which reflect recovery priorities and may be procured under the CIP:

1. Telecommunications spare parts and equipment (\$5-10 million),

2. Railroad spare parts (\$3-4 million),
3. Flight safety equipment for Civil Aviation Authority (\$1 million),
4. Chemicals and tinplate (\$2.5 million),
5. Fertilizer-making equipment (\$0.5 million), and
6. Spare parts and equipment for Kenana Sugar Co. (\$3 million).

AID proposes to allot and obligate the \$18 million to conform to our commitments to the Paris Consultative Group to provide timely disbursements of our pledge.

Sudanese local currency generated as counterpart funds by public and private imports will accrue to the GOS for use in agreed priority development areas, including expansion of food production in traditional rain-fed 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 GOS.

The proposed amended grant of \$18 million is to be obligated entirely in Fiscal Year 1983. The commodity eligibility date will be the date on which the Agreement officially takes effect. As in the past, 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. Fertilizers procured by GOS from the United States will meet this requirement.

The Executive Committee for Project Review (ECPR) considered the original PAAD and recommended approval on December 2, 1982. The full CIP request, of which this Amendment is part, was included in the 1983 Congressional Presentation and a Congressional Notification is therefore not required.

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 Finance and Economic Planning, have been active in the development of the grant, and the GOS will be able to sign the amendment to the Program Assistance Agreement within a very short period of time after the program grant is approved.

The ECPR was satisfied that implementation arrangements outlined in the PAAD are fully adequate, and that no special problems are anticipated in disbursing the grant.

The Committee, however, has been made aware of a GAO review, which pointed out problems in last year's CIP. The first \$25 million tranche of the 1982 CIP was disbursed in July 1982 under expedited procedures (i.e. pre-disbursement review of documents by field only) in order to meet a severe foreign exchange crisis in Sudan. In October 1982 AID/W discovered deficiencies in the documentation used to support earlier direct reimbursement to the GOS, and actions were begun to rectify those deficiencies.

The draft GAO report, dated March 29, 1983, states that AID did not follow "normal procedures" in disbursing the first FY 82 CIP tranche and did not promptly take followup action after discovering the deficiencies. The draft report contains no comment on AID's management of subsequent tranches of the \$100 million FY 82 CIP, which followed AID's "normal procedures". USAID and the GOS have stepped up efforts to supply satisfactory documentation and recent progress has been promising. USAID/Sudan has been requested by AID/W to inform the GOS that a bill for collection will be issued for the amount of the unsupported portion of the disbursement if adequate documentation is not received within a reasonable time period.

In addition, a GAO interim memo on Sudan's FY 1980-82 CIP's from GAO's International Division to USAID Director Mudge dated March 10, 1983 (attached) has now been generally distributed. The memo identified three major issues concerning these CIP's: first, that arrival accounting and disposition of commodities were not properly monitored; second, that a system for monitoring and tracking deposits and usage of local currency generations was inadequate, particularly for the FY 1980 CIP and that the GAO felt the approach of using local currencies for unspecified general budget support was unsatisfactory; and thirdly, that AID/W approval may have been required for procurement of sugar industry commodities under the FY 1982 CIP pursuant to Policy Directive 71 (attached), which states that such procurement should be subject to "review with SER/COM participation when the Mission is aware that the commodities will contribute to establishing or expanding production, processing or marketing of these products (citrus, palm oil and/or sugar) for export".

The management concerns related to the first and second issues are being dealt with in four fundamental ways: first, because of a difficult logistical situation in Sudan compounded by GOS manpower limitations, a Foreign Direct-Hire and a Third Country

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National have been hired to monitor CIP-related matters while a second U.S. Direct-Hire Supply Management Officer is expected on board in two weeks. Second, two local private shipping forwarders - one a joint American/Sudanese firm - are being considered for a local currency-funded contract designed to help the USAID Controller's Office resolve site-specific commodity management concerns such as those raised in the GAO memo. Third, the USAID has approved a GOS request for use of CIP local currency for improving office operations and administration related to local currency monitoring requirements. Fourth, a project implementation letter was issued last January followed by a meeting with the Ministry of Finance and Economic Planning and GOS directors of local currency-funded projects, establishing a mutually acceptable system of semi-annual financial and physical progress reports in addition to GOS audited quarterly reports on the status of the special account holding CIP local currency generations. The additional Mission staff will work with the GOS to help finalize the systems and assure accurate and timely implementation.

As for the issue of using local currencies for unspecified general budget support, under the present CIP, the USAID and GOS will agree to use local currency proceeds for mutually identified, specific development activities in addition to the standard Trust Fund and other CIP management-related uses.

Since the USAID has demonstrated in its CDSS and previous CIP's that it is aware Sudan is a sugar importer and will be unable to produce enough for export for at least two more years when Sudan's sugar schemes are expected to be fully rehabilitated, we believe that we are in compliance with PD 71 as it is stated. This CIP Amendment includes a statement regarding the PD 71 restriction.

The Committee, in reviewing the current CIP (including the present Amendment) found that it utilizes standard CIP disbursement procedures. The Committee is convinced that the modifications and additions of these procedures and the measures described above are now adequate to address AID's concern over satisfactory program management and implementation.

The original 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 responsibility for program administration under the direction of the USAID

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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 program is Allan Reed, AFR/PD/EAP. The SER/COM/ALI officer responsible for the program is Georgia Fuller. The USAID/Khartoum officer responsible for the project is Pierre Elissabide.

The major GOS entities responsible for implementing and administering the amended grant are the Ministry of Finance and Economic Planning (MINFEP), the Ministry of Cooperation, Commerce and Supply (MCCS), and the Bank of Sudan. The MINFEP will allocate the grant proceeds and has overall responsibility for grant administration. The MCCS establishes GOS 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 funds generation. Counterpart funds generated by this activity will be jointly programmed by USAID/Sudan and the GOS.

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

Recommendation: That you sign the attached PAAD Amendment, thereby authorizing an amendment to the FY 1983 CIP PAAD in the amount of \$18 million from the requested FY 1983 ESF grant program for Sudan.

Attachments:

1. PAAD Amendment
2. Original FY 1983 PAAD
3. ESF cables series
4. Nimeiri to Reagan letter dated Sep. 25, 1982
5. Reagan to Nimeiri letter date Oct. 22, 1982
6. State 091557 on FY 82 CIP problems
7. GAO memo to Director Mudge dated 3/10/83
8. Policy Determination 71

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This clearance process is too long. Everyone involved should be more concerned with timely resolution of issues or just plain getting the work done.

[Signature]

Clearances:

AFR/EA: DMendelson	<i>SW P. DM</i>	Date	<u>5/4/83</u>
AFR/EA: ESpriggs	<i>[Signature]</i>	Date	<u>5/4/83</u>
AFR/PD/EAP: AReed	(draft)	Date	<u>4/20/83</u> ←
AFR/DP: JGovan	<i>JGovan</i>	Date	<u>5-3-83</u>
AAA/AFR/DP: HJohnson	<i>H Johnson</i>	Date	<u>5/5/83</u>
AFR/PD: NCohen	<i>[Signature]</i>	Date	<u>5/11/83</u>
AFR/TR: LHoldcroft	<i>[Signature]</i>	Date	<u>5-11-83</u>
GC/AFR: TBork	<i>[Signature]</i>	Date	<u>5-11-83</u>
PPC/PDPR: JWolgin	<i>[Signature]</i>	Date	<u>5/11/83</u>
SER/COM/ALI: PHagan	<i>[Signature]</i>	Date	<u>5/10/83</u>
M/FM: CChristensen	<i>[Signature]</i>	Date	<u>5-6-83</u>
DAA/AFR/ESA: GPatterson	<i>[Signature]</i>	Date	<u>5-10-83</u>
AAA/PPC/PDPR: EHullander	<i>[Signature]</i>	Date	<u>5/22/83</u>
AAA/PPC/PB: JHummon	<i>[Signature]</i>	Date	<u>6/7/83</u>
GC: JMullen	<i>[Signature]</i>	Date	<u>6/7/83</u>

[Signature]
 Drafted: AFR/EA, TCocrell/SWalworth:2/21/83:ext:22978;
 portions redrafted: AFR/EA: EJSpriggs 4/20/83:ext
 20216.

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Att 1 to App 3B, Ch 3, HB 4

<p>AID 1120-1 (B-88)</p> <p>PAAD</p>	<p>DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT</p> <p>PROGRAM ASSISTANCE APPROVAL DOCUMENT</p> <p>AMENDMENT</p>	<p>1. PAAD NO. Grant No. 650-K-604</p> <p>2. COUNTRY Democratic Republic of the Sudan</p> <p>3. CATEGORY Commodity Financing - Standard Procedure 605-K-604</p> <p>4. DATE</p>	
<p>5. TO: Administrator, A.I.D.</p>	<p>6. OYB CHANGE NO. N/A</p>		
<p>7. FROM: AA/AFR, Alexander R. Love (Acting)</p>	<p>8. OYB INCREASE None</p> <p>TO BE TAKEN FROM: N/A</p>		
<p>9. APPROVAL REQUESTED FOR COMMITMENT OF: \$ 18,000,000</p>	<p>10. APPROPRIATION - ALLOTMENT ESF</p>		
<p>11. TYPE FUNDING <input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT</p>	<p>12. LOCAL CURRENCY ARRANGEMENT <input type="checkbox"/> INFORMAL <input checked="" type="checkbox"/> FORMAL <input type="checkbox"/> NONE</p>	<p>13. ESTIMATED DELIVERY PERIOD Jun 15, 1983 - Oct 15, 1984</p>	<p>14. TRANSACTION ELIGIBILITY DATE April 15, 1983</p>
<p>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.</p> <p>Note: Latest revision - TM 15:49 (January 1, 1980)</p>			
<p>16. PERMITTED SOURCE U.S. only: Limited F.W.: \$18,000,000 (Code 941) Free World: Cash:</p>		<p>17. ESTIMATED SOURCE U.S.: \$18,000,000 Industrialized Countries: Local: Other:</p>	
<p>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.</p> <p>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.</p> <p>A grant to the Government of the Democratic Republic of the Sudan is hereby authorized in the amount of \$18,000,000 for financing the items described above, subject to the following terms and conditions:</p> <ol style="list-style-type: none"> Procurement will be restricted to A.I.D. Geographic Code 941 sources. Up to \$1,000,000 of the Grant may be used to finance technical assistance activities directly related to commodity purchases and PAAD covenants, which assistance may occur both prior and subsequent to the procurement of such commodities according to A.I.D. CIP standard regulations. 			
<p>19. CLEARANCES</p> <p>AA/AFR: A.R. Love (Acting) <u>2/29/83</u></p> <p>M/FM: WMcKeel <u>5-6-83</u></p> <p>GC: JMullen <u>6-6</u></p> <p>AA/PPC: JBolton <u>6/7/83</u></p>		<p>20. ACTION <input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED</p> <p><u>Frank B. ...</u> <u>June 9, 1983</u></p> <p>AUTHORIZED SIGNATURE M. Peter McPherson Administrator</p> <p>TITLE</p>	

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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. A.I.D. direct contracting procedures will be used.

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

SUDAN
PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)
AMENDMENT
COMMODITY IMPORT PROGRAM FY 1983
650-K-604

USAID/Sudan

May 1983

SUDAN

COMMODITY IMPORT PROGRAM FY 1983

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SUDAN

Program Assistance (650-K-604) Amendment FY 1983

Summary and Recommendations

The accompanying analysis is presented in support of a request by the Government of Sudan (GOS) for the second tranche of \$18 million of an Economic Support Fund (ESF) grant in FY 1983. Consistent with the original PAAD this Amendment would be used to help ease Sudan's immediate foreign exchange crisis by financing essential commodity imports from Geographic Code 941 sources thereby enabling the GOS to embark immediately on another series of difficult economic reforms. Also, any technical assistance for delivery services, in accordance with AID CIP regulations, will be provided to ensure the proper transfer and use of commodities.

Since independence, Sudan has been making a difficult transition, originally from under an Anglo-Egyptian Condominium and more recently from a Soviet-styled and supported economy. With the rise of oil and manufactured goods prices after 1973 and the exodus of more than 500,000 skilled Sudanese workers to the Gulf states--coupled with some ill-advised policy and program decisions and poor project implementation--Sudan began to move from a balance of payments surplus to a deficit. By 1977, Sudan's irrigated sector, which is the basis of its foreign exchange earnings and monetized sector, began to collapse. This situation has continued until the point where Sudan's total accumulation of debt currently approximates its GNP. Arrears could reach \$2.4 billion, or three years of exports. Debt service each year is expected to reach 150 percent of exports. Imports for 1982/83 are estimated at \$1.8 billion while exports for the year are estimated to rise to only \$900 million leaving a Balance of Payments deficit of \$900 million.

Since 1978, the GOS, with the assistance of the World Bank, IMF and bilateral donors, has been working to reverse the economic deterioration and change the macro-economic policy framework particularly in key areas such as exchange rates and credit.

Since June 1978, the GOS has engaged in a series of exchange rate moves resulting in considerable devaluation of the Sudanese pound (LS or Lsd). By the time of the resumption of the IMF negotiations on a new Standby Agreement in 1982, Sudan had devalued its pound by 55 percent from (LS 1.00 = \$2.50) to (LS 1.00 = \$1.12). Recently, as part of the GOS effort to reach a new agreement with the IMF on exchange rate reform, GOS announced on November 15, 1982 a further devaluation of the Lsd by 44 percent from (LS 1.00 = \$1.12) to (LS 1.00 = \$0.76).

Thus, the total devaluation of the Sudanese pound since 1978 has amounted to almost a 70 percent devaluation.

In an effort to balance its budget, increase revenues and at the same time improve the external trade balance by providing better export incentives and discouraging imports, the GOS has revised many of its taxes including numerous changes in tax rates on imports, exports and domestic sales.

Addressing internal price distortions which have historically promoted consumption at the expense of productive investment, the GOS has embarked on a dramatic upward adjustment of prices, including those of politically sensitive urban consumer items such as wheat, sugar and petroleum. At the new exchange rate and current world prices, direct budget subsidies on all consumer items are eliminated. The GOS has announced its intention to avoid the recurrence of subsidies by passing international price increases onto the consumer.

Sudan has also agreed upon a Three Year Recovery Program (Public Investment Program) with the World Bank which will give highest priority to completion of ongoing projects with the best promise of quick foreign exchange benefits; rehabilitation of projects, particularly those in the irrigated subsector, that have high potential for economic viability; and infrastructure facilities to support export-oriented production. This represents a substantial change from the Six Year Plan for 1977 to 1982 where emphasis was on creation on new rather than better utilization of existing capacity.

In the area of agricultural rehabilitation, major efforts have been made by the GOS to restructure the agricultural sector, to improve export performance and to reduce imports of important food products. Particularly notable have been measures that have increased the financial incentives to farmers, both within and outside the public irrigated schemes, by removing or reducing export taxes, by offering a more favorable exchange rate and by liberalizing the marketing of export products. Further steps to improve the incentives to export production include measures such as replacement of the joint account system by a system of land and water charges specific to individual crops and farmers.

Steps have also been taken to improve the efficiency of the industrial sector by upgrading management of industrial entities, rehabilitate key industrial enterprises such as sugar, to actively pursue domestic oil production and to reschedule the nation's foreign debt.

Within the last two years, the Government of Sudan has shown a strong and growing commitment to undertaking the difficult macro-economic and sectoral policy reforms. With assistance of other major donors, Sudan has embarked upon its Export Action

Program aimed at increasing public and private investment in the agricultural, mainly irrigated, sector. The whole system of pricing and supplying inputs to the sector was restructured and a host of new incentives for improved production were introduced. Despite considerable political risk, in recent months Sudan has initiated a number of measures aimed at rectifying some of the economy's more glaring deficiencies. Most notable, of course, was the second exchange rate devaluation of 44 percent, and significant increases in prices of the highly sensitive commodities such as wheat, petroleum and sugar.

These efforts culminated in Sudan's signing a Letter of Intent with the IMF in December 1982, followed by an extraordinary bilateral donor response in January and February of 1983 when the Consultative Group and Sudan's creditor governments met separately to agree on additional, quick-disbursing bilateral assistance and sufficient debt relief to satisfy the IMF and effect a 1983 Standby program.

Since the current economic situation dictates even more stringent economic reforms will be necessary, it has become essential that the GOS conform to the package of reforms in the IMF Standby Agreement as a next but by no means final step. Thus, the USG has linked this second tranche of its ESF assistance to Sudan with progress on this reform front. The basic overall strategy for Sudan's economic recovery remains to concentrate on establishing production in the irrigated sector to levels achieved in the early 1970's. To address the shorter term implications engendered by this economic crisis, the IMF Agreement engenders a series of reforms including exchange rate devaluation with periodic review, budget austerity measures and a series of fiscal and monetary adjustments. To address the longer-term aspects of the economic crisis, Sudan has been preparing, in collaboration with the World Bank, an intensive three year Recovery Program, encompassing a strict investment portfolio and a series of sectoral and macro-economic policy reforms. The Recovery Program document was submitted to the donors' Consultative Group and is being reviewed.

The USG has played an active role in encouraging Sudan to adopt an aggressive approach to macro-economic policy reform and a positive attitude to the IMF reform process. The constant endeavors by our USAID Mission and Embassy at the working levels and by the U.S. Ambassador at the highest levels were culminated by President Reagan's letter to President Nimeiri in October assuring the GOS of deep USG concern at the highest levels. Through President Reagan's letter, and all our efforts, we have committed ourselves to ensuring that Sudan will not be abandoned after it has made its commitment on a tough reform package.

Now, for the third successive year, Sudan 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, a large financing gap remains. Sudan has virtually no foreign exchange. Some \$2.4 billion of Sudan's current \$8 billion foreign debt is in arrears, and the country's access to commercial sources of import credit is nil.

Even with disbursements from the new Standby Agreement Sudan will continue to be faced with severe shortages of foreign exchange due to GOS foreign exchange budget restrictions which threaten to preclude the timely import of its most essential and politically sensitive commodities. Given the timing of an announcement by Sudan to undertake the reforms included in the IMF Standby, such shortages could well coincide with the politically difficult budget and pricing reforms.

The USG has been providing balance of payments support to the Sudan through PL 480 Title I/III and ESF-financed commodity import programs since resumption of the AID program in FY 1978. The justification for such substantial and continued U.S. support, including the current ESF grant amendment proposed herein for FY 1983, is the belief that 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 this year, reform efforts will include adherence to the provisions of the latest IMF Standby Arrangement and the formulation of a rational medium-term public investment and reform program. It also will require that 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.

It is very much in the interest of the USG to continue to provide balance of payments support to 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 1983 CIP grant amendment will be largely similar to those financed under the original FY 83 CIP and previous ESF grants in FY 1980, 1981 and 1982, which included some petroleum given Sudan's total current lack of foreign exchange and the country's urgent need to continue production in its modern irrigated agricultural sector. Also, technical assistance for delivery services will

be provided where needed in accordance with present AID regulations.

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

General Considerations

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

Sudan is presently experiencing a severe and chronic foreign exchange crisis, having registered sizeable current account deficits in its balance of payments since the mid-1970's. A deficit of \$853 million occurred in 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 twice before, and may have to be rescheduled once again. Outstanding external debt was estimated at U.S. \$3.7 billion by the end of 1981. Between 1976 and 1981, external debt grew at a compounded rate of 16 percent per annum. Despite rescheduling, the debt service ratio for 1980 (actual principal and interest payments as a percentage of exports) was approximately 30 percent. For 1982, this debt service ratio has grown to a phenomenal 150 percent. 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.

Most importantly, although it is estimated that Sudan had immediate requirements for approximately \$135 million worth of essential import commodities to cover the months of December and January 1982/83, the country had no foreign exchange reserves with which to pay for the commodities. Foreign exchange receipts for last December and January are estimated at only \$50 million. Even with the new Standby Agreement's disbursements Sudan will continue to be faced with severe restricted, minimal levels of foreign exchange which threaten to preclude the timely import of its most essential and politically sensitive commodities.

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 deficiencies have compounded the country's economic difficulties. Cotton exports, which accounted for 60 percent of total exports and averaged \$300 million annually during the 1970's, fell to \$158 million and 32 percent 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, imports, led by petroleum and sugar, rose from \$1.0 billion in 1976 to \$1.7 billion in 1981, an increase of 70 percent.

1. The GOS/IMF Three Year Stabilization Program

In response to the worsening economic situation, the government, with IMF assistance, embarked upon a three-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 percent per annum; (b) to lower the rate of inflation from the 26.7 percent registered in 1978/79 to 10 percent by 1981/82; (c) to hold the current account deficit to US \$400 million by 1981/82 (vs. \$458 million in 1978/79); and (d) 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.

On the basis of its assessment of GOS performance during the first year of the three-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 three-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 three-year program was an anticipated large expansion of cotton production. This was to have resulted 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 three-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 accelerated 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 steps 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 internal and external prices. The GOS has 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 percent for nearly half of imports and of 12.5 percent for other imports and all exports.

The Stand-By Program for 1982 attempted to build on the reform momentum generated in recent months. The main policy changes focussed on the further restructuring of financial incentives

in agriculture, along with proper maintenance of physical capital and timely provision of management services, and attempted 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 percent at present to about 25 percent; and maintenance of an exchange system that would encourage remittances and exports. While it was expected that the deficit in the current account of the balance of payments would continue to be large, the Stand-By Program aimed to contain the size of the deficit through demand restraint and the expansion of non-cotton exports.

In May 1982, Sudan was not able to make its second purchase under the 1982 Stand-By Arrangement, because certain performance criteria had not been observed by the GOS. As a result, the arrangement broke down. However, the IMF and GOS were able to negotiate a 1983 Standby in February because of extraordinary donor assistance and debt rescheduling.

To gain greater control over the allocation of scarce capital resources, the GOS with IBRD assistance has promulgated a current version of its rolling three-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 three-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) improvement of social services and water availability in rural areas.

C. The 1983 Standby Agreement

Because of extraordinary bilateral assistance pledging and guaranteed debt rescheduling in January and February of 1983, respectively, and the recent GOS policy reform progress the IMF entered into a 1983 Standby with the GOS in January/February 1983. Better performance under the Agreement is expected due to the donor governments' response, GOS policy reforms to date, the Agreement's incorporation of the previous Standby experience, and the use of more accurate assumptions about the world economy vis a vis Sudanese capacity to respond economically.

Based on a series of policy reforms already undertaken by Sudan in line with IMF recommendations the following are the series of economic targets to which Sudan must conform in order to make the 1983 Standby tranche drawdowns:

- (a) to ensure the attainment of the monetary target a limitation on the domestic assets of the banking system from Oct. 31, 1982 to Dec. 31, 1983 through the imposition of ceiling of 26% on net domestic assets on the banking system and a sub-ceiling of only 9% on net claims on the Government;
- (b) to alleviate the external payments situation pricing policies and licensing mechanisms aimed at import policy targets, which facilitate essential consumer and producer imports and import substitution;
- (c) a flexible exchange rate policy incorporating periodic reviews of the US dollar rate, inflationary pressures in Sudan, the relative profitability of major exports and import substitute activities, and balance of payments developments, and studies on linking the Sudanese pound to a currency basket;
- (d) to provide for the proper allocation of production costs among the various crops in the irrigated schemes a minimum level of collection from land and water charges by May 31, 1983;
- (e) progress on and performance under debt restructuring, specifically progress on avoiding arrears of the most recent debt rescheduling and on payments and transfers for current international transactions other than external debt service will be reviewed by May 31, 1983;
- (f) GOS refrains from concluding bilateral payments agreements inconsistent with the economic recovery program ;
- (g) elimination of subsidies on key public sector imports by adjusting prices according to changes in international prices during the Standby period; and
- (h) GOS refrains from any new nonconcessional public or publicly guaranteed foreign borrowing with a maturity range of over one year and up to and including ten years.

D. 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 percent of the total, followed by the U.S., 20 percent; Abu Dhabi, 15 percent; the Islamic Bank, 10 percent; France, the EEC, and others, 15 percent. Most of the funds contributed by the Arab donors were provided through loans and were used to finance oil imports.

The nature and distribution of official receipts by the GOS have remained relatively constant although absolute levels of assistance by other donors has increased in FY 1982 to approximately \$957 million.

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 debts. 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 have needed to cover the remaining \$373 million gap through increased balance of payments support from donor countries.

At the Consultative Group meeting in January 1983 about \$300 million in project assistance, \$489 million in fast-disbursing program assistance, and \$40 million in suppliers' credit were pledged. At the Paris Club meeting the following month 100% of principal and interest falling due in calendar year 1983 was agreed to be rescheduled over a 16 year period of which 6 years would be grace. The fast-disbursing assistance amounted to \$69 million more than that needed, according to IBRD/IMF projections, so that the debt relief could technically close the projected balance of payments gap for 1983.

E. U.S. Contributions to Date

The U.S. has been providing balance of payments support to the Sudan since resumption of the AID 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 five-year, \$100 million Title III program. Combined Title I/III wheat imports for FY 1983 are programmed at \$45.5 million.

U.S. balance of payments assistance has also been provided since FY 1980 through annual ESF-financed commodity import programs (CIPs). ESF grants for CIP imports amounted to \$40.0 million in FY 1980, \$50.0 million in FY 1981, and \$100.0 million in FY 1982. In addition to the recent ESF-funded cash grant of \$20 million, a grant of \$18 million is hereby being proposed as the second tranche of a total \$48 million CIP program for FY 1983.

III. Rationale for Continued U.S. Assistance

The justification for continued U.S. balance of payments support for the Sudan 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 1983, this includes adherence to the provisions of the IMF Standby Arrangement, specifically the reduction of government expenditures and borrowing, the establishment and maintenance of a more realistic exchange rate, and the alignment of administered prices and interest rates at realistic, market-determined 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 three-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 steps to improve overall management performance. To this end, the Amendment is predicated on GOS adherence to the covenants agreed to in the original Program Agreement, that is:

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 expenditures and borrowing, establish and maintain 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 toward 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 the 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 is incorporating in the original CIP agreement and will incorporate in this amendment, appropriate linkages between the allocation and disbursement of ESF funds and GOS progress toward improved management performance.

While the primary justification for continued US 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. US Interests and Overall Assistance Strategy

The Sudan has major significance for US 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 US 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 US interests in Africa and the Middle East, and its critical need for foreign exchange, the AID country strategy gives highest priority to balance of payments and budget

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support programs, such as the CIP, that finance essential imports and help to cover the local costs of development programs.

2. Providing an incentive for improved economic management and reform

As noted earlier, delays in the implementation of the economic reforms espoused under the three-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 toward 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. Contributing to private sector participation in development

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 percent of capacity, primarily because of the lack of raw materials and spare parts. Although the initial tranche of the FY 1983 CIP concentrates on the urgent imports needed to keep the economy going in sensitive sectors which are currently administered by the public sector, it is planned that this and future tranches of this CIP as well as any future year programs will continue U.S. emphasis on assisting in the rebuilding of and support to the Sudanese private sector.

The priority given to private sector uses reflects AID'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

Funds will be deposited into a special account at the Bank of Sudan, and their use jointly determined by AID and the GOS. Priority in the allocation of CIP counterpart funds will be given to AID and other donor-assisted 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 AID 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 US Mission in the Sudan. The balance of the counterpart funds generated under the FY 1983 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 and FY 1982 budgets. Against total expenditures of Lsd 1.3 billion in FY 1981, for example, the budget shows a deficit of Lsd 545 million, or over 40 percent. More recent data indicate that the actual ratio may be closer to 50 percent. By comparison development expenditures in FY 1982 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. Development uses and relation to other components of the US assistance program

As in past years, the goods to be imported under the Amendment will contribute directly to GOS development efforts. Perhaps the most direct link is in the agriculture processing sector, where imported spare parts and machinery will help maintain production efficiency in the face of decreasing agriculture prices for exports/import-substitutes. For example, sugar is a highly sensitive food commodity which would otherwise be imported if not produced domestically. With donor assistance the sugar industry has proven it can be one of the most efficient operations in the world. Upon recovery of sugar prices the industry expects to be exporting significant quantities to oil-rich Mid-East nations. Under an earlier CIP, A.I.D. provided mechanical cotton pickers and vehicles to facilitate the mechanization of field operations. Telecommunication parts and tools are considered prime commodities for this program assistance since the size of Sudan and its poor infrastructure serve as severe bottlenecks not only for government but especially domestic business, and as a significant disincentive in attracting foreign investment.

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 1983 CIP will be used to help overcome such shortages. AID is also trying to help increase agricultural output in the Sudan through project-financed technical assistance deliveries. 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 considerably strengthen AID's technical assistance to the agricultural sector.

CIP imports of chemicals and tin plate will help to sustain labor-intensive local manufacturing industries. 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 to 1982 is set forth in Table 1 below.

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 imports. In 1977/78, cotton exports were valued at \$296 million and accounted for 54 percent of total exports. By 1981, cotton exports had dropped to \$158 million, representing only 32 percent 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 percent increase in cotton exports, key factors include a 23 percent increase in non-cotton exports coupled with a comparatively modest 15 percent increase in the value of petroleum imports and a 20 percent 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 recurrent account deficits through 1990. Further, despite projected increases in private remittances and official grants and loans, the country will continue to face recurring financial gaps and arrearages on past loans throughout the decade.

A more recently completed IBRD analysis, published in February 1982 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 developmental resources to revitalization of

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	Proj.* 1982/83
Exports	<u>551</u>	<u>527</u>	<u>581</u>	<u>560</u>	<u>493</u>	<u>592</u>	<u>675</u>
- Cotton	<u>296</u>	<u>321</u>	<u>333</u>	<u>160</u>	<u>158</u>	<u>180</u>	<u>240</u>
Other	<u>255</u>	<u>206</u>	<u>248</u>	<u>400</u>	<u>335</u>	<u>412</u>	<u>435</u>
Imports	<u>-1,188</u>	<u>-1,138</u>	<u>-1,340</u>	<u>-1,670</u>	<u>-1,620</u>	<u>-1,706</u>	<u>-1,800</u>
Petroleum	<u>-118</u>	<u>-178</u>	<u>-254</u>	<u>-405</u>	<u>-362</u>	<u>-415</u>	<u>-490</u>
Sugar	<u>-44</u>	<u>-28</u>	<u>-123</u>	<u>-65</u>	<u>-64</u>	<u>-51</u>	<u>-60</u>
Other	<u>-1,026</u>	<u>-932</u>	<u>-963</u>	<u>-1,200</u>	<u>-1,194</u>	<u>-1,240</u>	<u>-1,250</u>
Trade Balance	<u>-637</u>	<u>-611</u>	<u>-759</u>	<u>-1,110</u>	<u>-1,127</u>	<u>-1,114</u>	<u>-1,125</u>
Services	<u>-73</u>	<u>-104</u>	<u>-63</u>	<u>-206</u>	<u>-40</u>	<u>-249</u>	<u>75</u>
Receipts	<u>159</u>	<u>181</u>	<u>229</u>	<u>355</u>	<u>342</u>	<u>379</u>	<u>N/A</u>
Payments	<u>-172</u>	<u>-207</u>	<u>-221</u>	<u>-300</u>	<u>-280</u>	<u>-329</u>	<u>N/A</u>
Interest	<u>-60</u>	<u>-78</u>	<u>-71</u>	<u>-261</u>	<u>-102</u>	<u>-299</u>	<u>N/A</u>
Transfers	<u>244</u>	<u>257</u>	<u>293</u>	<u>505</u>	<u>425</u>	<u>510</u>	<u>580</u>
Private	<u>221</u>	<u>240</u>	<u>209</u>	<u>355</u>	<u>325</u>	<u>380</u>	<u>430</u>
Official	<u>23</u>	<u>17</u>	<u>84</u>	<u>150</u>	<u>100</u>	<u>130</u>	<u>150</u>
Current Account	<u>-466</u>	<u>-458</u>	<u>-529</u>	<u>-811</u>	<u>-742</u>	<u>-853</u>	<u>-470</u>
Capital	<u>65</u>	<u>348</u>	<u>442</u>	<u>375</u>	<u>382</u>	<u>287</u>	<u>525</u>
Receipts	<u>132</u>	<u>405</u>	<u>532</u>	<u>535</u>	<u>480</u>	<u>472</u>	<u>N/A</u>
Payments	<u>-67</u>	<u>-57</u>	<u>-90</u>	<u>-160</u>	<u>-98</u>	<u>-185</u>	<u>N/A</u>
Allocation of SDRs	<u>==</u>	<u>13</u>	<u>13</u>	<u>==</u>	<u>11</u>	<u>==</u>	<u>50</u>
Errors and omissions	<u>325</u>	<u>103</u>	<u>26</u>	<u>...</u>	<u>159</u>	<u>...</u>	
Monetary movements (increase -)	<u>76</u>	<u>-6</u>	<u>48</u>	<u>...</u>	<u>190</u>	<u>...</u>	
Financing gap				<u>436</u>		<u>566</u>	
				Overall Balance			55
				IMF Financing (Net)			50
				Special B/P Assistance			50
				Available for debt servicing			155
				(In per cent)			
Memorandum items:							
Growth rates							
Exports	<u>-7</u>	<u>-4</u>	<u>10</u>	<u>16</u>	<u>-1</u>	<u>20</u>	
Imports	<u>20</u>	<u>-4</u>	<u>18</u>	<u>2</u>	<u>3</u>	<u>5</u>	
Current account deficit as per cent of GDP	<u>6</u>	<u>5</u>	<u>10</u>	<u>11</u>	<u>11</u>	<u>11</u>	

Sources: Bank of Sudan, Ministry of Finance and Economic Planning, and IMF staff estimates.
* Assumes increased levels of donor assistance and no debt-servicing.

Table 2: Balance of Payments Projections, 1982-1990

(\$ Million)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
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 which Interest Public MLT loans	-267	-279	-287	-301	-316	-334	-350	-366	-388
Interest Arrears	(-151)	(-161)	(-179)	(-202)	(-226)	(-254)	(-281)	(-309)	(-338)
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
<u>Public Grants and MLT Loans</u>									
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

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

	1977/78	1978/79	1979/80	1980/81	1980	Prov. 1981
Cotton	295.8	120.7	333.4	182.0	230.6	14.0
Groundnuts	80.1	25.5	13.2	65.6	10.7	82.6
Sesame	55.4	27.8	40.6	32.2	47.3	43.1
Gum arabic	35.3	40.0	43.9	32.6	32.3	43.9
Dura (sorghum)	8.6	8.7	68.7	71.4	80.4	52.8
Vegetable oil and cake	17.5	46.5	26.3	33.6	34.9	33.6
Castor seeds	3.2	3.5	--	--	--	0.4
Livestock products	26.7	30.0	35.6	43.7	42.0	54.5
Other	9.2	6.8	19.8	17.8	18.7	29.6
Subtotal	<u>531.8</u>	<u>509.5</u>	<u>581.5</u>	<u>478.9</u>	<u>496.9</u>	<u>454.5</u>
Re-exports 2/	19.2	17.5	--	--	--	--
Total	<u>551.0</u>	<u>527.0</u>	<u>581.5</u>	<u>478.9</u>	<u>496.9</u>	<u>454.5</u>

Sources: IMF, Sudan - Recent Economic Developments, August 30, 1982.

1/ Converted from data in Sudanese pounds at the following exchange rates: 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, July-September 1979; and for October 1979-September 1980, Lsd 1.00 = US\$2.00; October 1980-June 1981, Lsd 1 = US\$1.25 or US\$2.00 depending on the commodity; from June 1981 to September 1981, Lsd 1 = US\$1.25; and from October 1981 to December 1981, Lsd = US\$1.18.

2/ Exclusive of petroleum re-exports.

the agricultural sector, which currently accounts for some 95 percent 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, chemicals, 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 percent of total imports in 1977/78 to a projected \$420.0 million or 25 percent 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 percent 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.

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

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	<u>104.5</u>	<u>60.5</u>	<u>70.0</u>	<u>55.8</u>	<u>50.0</u>
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, 1976/77-1980/81

(In millions of U.S. dollars)

	1976/77	1977/78	1978/79	1979/80	1980/81
Western Europe	<u>472.9</u>	<u>622.0</u>	<u>567.5</u>	<u>624.9</u>	<u>687.6</u>
United Kingdom	<u>162.8</u>	<u>173.2</u>	<u>173.5</u>	<u>162.4</u>	<u>219.4</u>
Germany, Federal Republic of	85.9	149.9	114.0	123.8	103.0
France	54.0	97.6	84.8	106.4	112.8
Italy	63.2	60.9	54.3	33.4	43.6
Belgium	30.8	41.3	21.3	44.8	29.4
Others	76.2	99.1	119.6	154.1	179.4
China and Eastern Europe	<u>65.2</u>	<u>94.8</u>	<u>105.8</u>	<u>99.2</u>	<u>130.6</u>
China, People's Republic of	31.6	45.9	50.8	41.6	57.2
Czechoslovakia	4.9	10.3	13.0	15.2	9.0
Yugoslavia	8.0	10.1	16.5	13.2	15.8
Others	20.7	28.5	25.5	29.2	48.6
Western Hemisphere	<u>110.8</u>	<u>110.6</u>	<u>73.3</u>	<u>143.8</u>	<u>198.4</u>
United States	<u>74.4</u>	<u>57.7</u>	<u>62.3</u>	<u>125.2</u>	<u>120.6</u>
Others	36.4	52.9	11.0	18.6	77.8
Africa and Asia	<u>213.4</u>	<u>217.3</u>	<u>181.6</u>	<u>196.8</u>	<u>259.4</u>
Japan	<u>97.1</u>	<u>99.4</u>	<u>77.8</u>	<u>51.8</u>	<u>74.6</u>
India	62.9	36.8	41.8	33.4	34.6
Pakistan	15.5	26.7	3.8	22.6	10.4
Others	37.9	54.4	58.2	89.0	139.8
Arab countries	<u>123.5</u>	<u>143.3</u>	<u>209.7</u>	<u>275.2</u>	<u>355.4</u>
Total	<u>985.8</u>	<u>1,188.0</u>	<u>1,137.9</u>	<u>1,339.9</u>	<u>1,631.4</u>

Source: IMF, Sudan - Recent Economic Developments August 30, 1982.

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, 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 and 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 US, the IBRD, the Arab Monetary Fund, West Germany, France, the EEC, Italy, Great Britain 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 (Sudanese) 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. The Consultative Group meeting of January 1983 produced extraordinary non-project assistance of \$107 million such that an unfinanced external BOP gap of \$752 million remained for consideration at the Paris Club debt rescheduling meeting in February 1983. At that meeting 100% of all debt and arrears falling due in calendar year 1983 was liberally rescheduled such that the IMF 1983 Standby was allowed to be undertaken.

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	...	...	5.7	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.

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

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

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

(In millions of U.S. dollars)

End of Period	June Dec.		June Dec.		June Dec.		June Dec.	
	1977	1977	1978	1978	1979	1979	1980	1980
Monetary authorities	<u>-588</u>	<u>-625</u>	<u>-603</u>	<u>-600</u>	<u>-602</u>	<u>-692</u>	<u>-751</u>	<u>-964</u>
Convertible foreign exchange <u>1/</u>	25	28	22	32	31	80	61	65
Net bilateral claims <u>2/</u>	-36	-45	-41	-36	-37	-52	-58	-77
Net IMF position <u>3/</u>	-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	<u>55</u>	<u>58</u>	<u>81</u>	<u>158</u>	<u>120</u>	<u>194</u>	<u>265</u>	<u>435</u>
Liabilities -	-17	-30	23	-107	-21	-73	-74	-144
Net foreign assets	<u>-551</u>	<u>-598</u>	<u>-545</u>	<u>-539</u>	<u>-505</u>	<u>-571</u>	<u>-560</u>	<u>-673</u>

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.

Table 9. Sudan: Medium- and Long-Term External
Public Debt and Debt Service Payments, 1976-81

End of Period	1976	1977	1978	1979	1980	Est. 1981
<u>(In millions of U.S. dollars)</u>						
Total outstanding debt (disbursed only)	<u>1,722.4</u>	<u>1,949.0</u>	<u>2,250.2</u>	<u>2,856.9</u>	<u>3,487.0</u>	<u>3,694.2</u>
International organizations	374.4	408.5	534.8	655.7	863.2	1,133.5
Of which: net use of Fund credit <u>1/</u>	(157.1)	(140.4)	(176.3)	(243.4)	(341.7)	(482.3)
Foreign governments	762.2	862.3	865.7	1,362.6	1,785.9	1,897.0
Financial institutions	360.0	377.6	573.6	380.9	567.9	453.2
Suppliers' credits	275.8	300.6	285.1	257.7	270.0	210.5
Debt service payments (during period)	<u>159.0</u>	<u>124.1</u>	<u>130.9</u>	<u>140.0</u>	<u>163.4</u>	<u>234.8</u>
Principal	80.9	62.6	72.5	51.1	100.8	96.7
Interest	78.1	61.5	58.4	88.9	62.6	138.1
<u>(In per cent)</u>						
Memorandum item:						
Debt service payments/exports of goods and services	23.5	15.1	15.2	13.4	20.6	27.5

Sources: IBRD, IMF, and Bank of Sudan, Economic and Financial Statistics Review, various issues.

1/ Total repurchase obligations to the Fund required to return Fund holdings of Sudanese pounds to 100 per cent of quota.

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	4.1	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.

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 week's imports. Despite a slight improvement in 1979/80, the country's reserve position has remained practically unchanged since 1978, as Table 7 below illustrates

Table 7. Gross Reserves of the Bank of Sudan
(Millions of US dollars)

	<u>1977/78</u>	<u>1978/79</u>	<u>1979/80</u>	<u>1980/81</u>
Reserves level	21.9	27.4	40.5	24.5
Import equivalence	7 days	9 days	13 days	5 days

As indicated in Table 3 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.

E. External Debt and Annual Services Payments

The Sudan's total outstanding external debt amounted to \$3.7 billion at the end of 1981, having nearly doubled since 1976. As shown in Table 9, about \$1.9 billion of the total is owed to bilateral creditors, primarily Saudi Arabia, Kuwait, and the United Arab Emirates. Approximately \$1.1 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%; and an overall grant element of 63 percent) 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 percent. 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.

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 percent 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 percent increase in revenues as against a modest 16 percent increase in expenditures. The slower increase in expenditures takes into account the proposed elimination during this 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 percent of the Sudan's imports during the past five years. In 1979/80, the U.S. share was increased to 10 percent 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:

Agricultural commodities: Wheat, wheat flour and tallow

Agricultural equipment: Medium and large tractors, spare parts: plows, harrows, cultivators, cotton and peanut planters, and harvesters, pumps and water drilling equipment

Industrial raw materials: Tin plate, equipment for machinery, and spare parts, 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 telecommunications equipment, electric power generation and distribution equipment, and sugar-cane 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 (MCCS). 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= LSd 1.2961. The unofficial (market) rate is approximately US \$1.00= LSd 1.90.

B. CIP Pipeline

Following is a summary of the status of the FY 1980, FY 1981 and FY 1982 CIP programs through the end of FY 1982. Also shown are projected disbursements in FY 1983 for the two earlier programs as well as the proposed FY 1983 program.

(In millions of U.S. dollars)

<u>Program</u>	<u>Amount</u>	<u>Thru FY 81</u>		<u>Thru FY 82</u>		<u>Est FY 83</u>	
		<u>Oblig.</u>	<u>Expn.</u>	<u>Oblig.</u>	<u>Expn.</u>	<u>Oblig.</u>	<u>Expn.</u>
FY 1980	40.0	40.0	33.0	--	7.0	--	--
FY 1981	50.0	50.0	--	--	33.8	--	16.2
FY 1982	100.0	--	--	100.0	34.0	--	66.0
Propose FY 1983	48.0					48.0	39.0

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VII. Proposed FY 1983 C.I.P. Amendment

A. Positive List and Tentative Allocation of Commodities to be Procured

Following preliminary discussions with representatives of the Government of Sudan (GOS), USAID has constructed a positive list of commodities with upper limits of value from which commodities funded under both the first (\$30 million) and second (\$18 million) tranches of the FY 1983 CIP will be drawn. It is expected that the \$18 million will be allocated for the procurement of telecommunication and railroad spare parts and maintenance equipment (\$8-10 million), flight safety equipment (\$1-2 million), fertilizer-making equipment (\$0.5-1 million); chemicals and tinplate (\$2.5-5 million); and agro-industrial parts and equipment (\$3-6 million).

<u>Positive List of Commodities</u>	<u>Upper Limit of Value</u> (\$ million)
Fertilizer	40
Jute/baling hoops	9
Petroleum products	30
Tallow	16
Spare parts	14
Agricultural machinery, equip- ment and other inputs	34
Road maintenance equipment	7
Railroad equipment and spare parts	4
Telecommunications equipment	6
Industrial inputs and equipment	15
Chemicals and tinplate	5
Trucks, trailers and buses	5
Drilling equipment and pumps	15
Total	\$ 200 million.

Please note that procurement actions financed under this grant will be for commodities which have already been approved for financing within the Austere Recovery Recurrent and Development Program Budgets of the Government of Sudan.

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 Economic Planning (MOFEP), the Ministry of Cooperation, Commerce and Supply (MCCS), and the Bank of Sudan. The MOFEP will allocate the grant proceeds and will have overall responsibility for grant administration. The MCCS will establish GOS import controls and

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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 Mission 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 Mission 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 the use of Bank Letters of Commitment and/or Direct Letters of Commitments.

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 actually 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 list of allocations for the FY 83 Commodity Import 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 license must be approved for each CIP funded import.

E. Procurement Restrictions/Limitations

This grant will be restricted to Code 941 sources and origins for commodities and related incidental 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.

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.

Since the Sudan does not now and is not expected to export sugar in the near future, AID Policy Determination 71 does not apply to any commodities that may be made available to Sudan's sugar industry.

F. Commodity Eligibility Date

The Eligibility Date for Commodities and Commodity Related Services procured under this FY 83 CIP will be the date on which this Agreement officially takes effect.

G. Terminal Disbursement Date

The grant's Terminal Disbursement Date (TDD) will be 24 months from the date Conditions Precedent are met. Recognizing an urgent need to provide balance of payments support, efforts will be made by the Sudanese and USAID authorities 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.

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 with the recent opening of the highway to Khartoum. The past 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, the formerly large backlog of GOS public sector imports awaiting inland transportation in holding areas outside the port has been reduced significantly by the new Port Sudan to Khartoum highway.

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 been a need under the previous CIP grants to augment the GOS monitoring capabilities. The public sector allottees under the earlier CIP's have been greatly interested in receiving and using their A.I.D. imports in the most efficient and timely manner possible. 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 related 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.

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 government 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 licenses 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/allocation 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

June 1983	Amendment Signed
May 1983	Conditions Precedent Met
June 1983	First Letter of Commitment Issued
July 1983	First Shipment Made

July 1983
September 1983
February 1984
May 1984

First Shipment Arrives Sudan
Grant Fully Committed (L/COMS)
Final Shipment
Final Disbursement

VIII. Other Considerations

A. Impact of U.S. Balance of Payments

Some long-term positive impact of the U.S. balance of payments is likely, as U.S. suppliers and exporters reestablish old trade relationships and create new ones. Some long-term benefits can also be expected as a result of follow-up commercial orders.

This Commodity Import Program should help to increase the market share of U.S. suppliers. 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 percent of the Sudan's total imports.

B. Counterpart Generations

Under GOS budgetary/financial procedures, counterpart funds 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 funds generated and importers will deposit their counterpart funds when the foreign exchange is disbursed. Use of the counterpart funds will be limited to specific development activities, Trust Fund expenses, and CIP management support activities as determined by consultation between USAID and the GOS.

Management support activities include meeting 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 also be considered. While most public sector importers have sufficient funds in approved budgets for the 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 rural areas and 70 percent higher than rail costs on paralleling all weather roads. Another possible activity 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 site-specific support staff to perform this function itself.

C. Trust Account Deposit

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. Deposits in this Trust Account will be in local currency and equal to 10 percent of the value of this tranche of the CIP grant. 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 1983 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 inconvertibility 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. Recommendation

It is recommended that an amended grant to the Government of the Democratic Republic of the Sudan of eighteen million dollars (\$18,000,000) be authorized for financing the importation of selected commodities, and commodity related services.

A. Terms and Conditions

1. Conditions Precedent to Grant Disbursement.

--The Government of Sudan will provide the United States Government with a list of its essential import needs for the next four months and indicate thereon the expected sources of finance for these imports.

--The Government of Sudan will provide the United States Government with a list of the eligible items it proposes to procure with this grant.

--In accordance with the conditions precedent under the first tranche, the Government of Sudan will provide the United States Government with an updated report on the status of the Counterpart Accounts generated by this Commodity Import Program Grant.

2. Terms and Covenants of the Grant.

--To the extent that the Government of Sudan controls the prices of import related goods and services, and with the exception of certain essential commodities previously imported at the official exchange rate, for which controlled prices will be increased gradually, the controlled prices will be maintained at levels that reflect the prevailing rate of exchange.

--The Government of Sudan will continue its review of revenue policy and procedure and initiate measures to reform its tax structure (especially with regards to indirect taxes, such as customs tariffs, excise and consumption taxes, development sales taxes, and related levies) to ensure the collection of adequate domestic revenues to meet the Government's economic stabilization objectives.

--The Government of Sudan will continue to review its foreign exchange and import licensing systems to ensure that they function effectively in meeting the needs of the private sector, consistent with the priorities established for the use of the Sudan's limited foreign exchange resources.

--The Government of Sudan will determine and institute policy reforms necessary to encourage increased private savings and investment, particularly from Sudanese working abroad.

--The Government of Sudan will issue regulations in implementation of its investment code and undertake other measures necessary to encourage foreign and domestic private investment in developing the economy, particularly in the agricultural sector.

--The Government of Sudan will review its policies and procedures relating to the import and distribution of petroleum products, and as determined appropriate, increase private sector participation in the importation and distribution thereof.

--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.

--An equivalent of 10 percent of the local currencies generated by this grant shall be deposited by the Government of Sudan into a Trust Account for use by the Government of the United State to cover program and administrative costs of the United States Assistance Program and administrative costs of elements of the U.S. Mission in the Sudan.

--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 amendment.

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481. Has it been determined that the government of the recipient country has failed to take adequate steps to prevent narcotic 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, or transported through 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?

2. 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) the debt is not denied or contested by such government?

No

3. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) 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

4. FAA Sec. 532(c), 620(a), 620(f), 620D; FY 1982 Appropriation Act Secs. 512 and 513. Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Vietnam, Syria, Libya, Iraq, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver?
No

5. ISDCA of 1981 Secs. 724, 727 and 730. For specific restrictions on assistance to Nicaragua, see Sec. 724 of the ISDCA of 1981. For specific restrictions on assistance to El Salvador, see Secs. 727 and 730 of the ISDCA of 1981.
N.A.

6. 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

7. FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC?
8. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters? No
- (b) If so, has any deduction required by the Fishermen's Protective Act been made? No
9. FAA Sec. 620(q); FY 1982 Appropriation Act Sec. 517. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill appropriates funds? At present Sudan is not in arrears on loan repayments to A.I.D.
10. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking into Yes

Consideration" memo:
"Yes, taken into account
by the Administrator at
time of approval of
Agency OYB." This
approval by the
Administrator of the
Operational Year Budget
can be the basis for an
affirmative answer during
the fiscal year unless
significant changes in
circumstances occur.)

11. FAA Sec. 620(t). 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?
12. FAA Sec. 620(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? (Reference may be made to the Taking into Consideration memo.)
13. FAA Sec. 620A; FY 1982 Appropriation Act Sec. 520. Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism? Has the country aided or

The Sudan Government severed diplomatic relations with the U.S. in 1967, but such relations were resumed in 1972. The 1958 Bilateral Assistance Agreement was reconfirmed in 1971 and remains in effect.

Sudan was not considered to have been in arrears on payments of its U.N. obligations at the time that the A.I.D. administration approved the FY 82 OYB.

No

abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime?

No

14. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

No

15. 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 transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

No

16. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Session of the General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed

Sudan was represented at this meeting and to date has not disassociated itself with the communique in question. This action on the part of Sudan has been considered by the U.S. Government (see Taking into account memo dated January 15, 1982) in approving the Agency's FY 82 OYB.

to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.

17. ISDCA of 1981 Sec. 721.
See special requirements for assistance to Haiti.

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria.

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest?

No

b. ISDCA of 1981, sec. 725(b). If ESF is to be furnished to Argentina, has the President certified that (1) the Govt. of Argentina has made significant progress in human rights; and (2) that the provision of such assistance is in the national interests of the U.S.?

This activity will provide assistance using FY 83 ESF to Sudan.

c. ISDCA of 1981, Sec. 726(b). If ESF assistance is to be furnished to Chile, has the President certified that (1) the Govt. of Chile has made significant progress in human rights; (2) it is in the national interest of the U.S.; and (3) the Govt. of Chile is not aiding international terrorism and has taken steps to bring to justice those indicted in connection with the murder of Orlando Letelier?

This activity provides assistance using FY 83 ESF to Sudan.

Initial Environmental Examination
or Categorical Exclusion

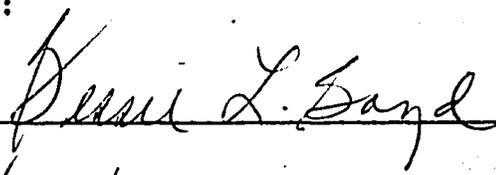
Country: Sudan
Title: Sudan Commodity Import Program Grant
Funding: FY 83 (ESF Account) \$18 million
Period of Assistance: The terminal date for requesting disbursement authorization is 12 months from the date of the Grant Agreement. The terminal disbursement date is 24 months from the date Conditions Precedent were met.
IEE Prepared by: Thomas F. Cornell, AFR/EA
Environmental Action Recommended: Categorical Exclusion under AID Regulation 16, paragraph 216.2(c)(2)(ix).

Concurrence:



Edward J. Spriggs
Director, AFR/EA

Bureau Environmental Officer's Decision:

Approved: 
Disapproved: _____
Date: 3/30/83

Clearance

AFR/PD/EAP: AReed 

GC/AFR: DRobertson 

Examination of Nature, Scope and Magnitude of Environment Impacts

I. Description of the Project

The project proposes to provide an amendment of \$18 million to an original commodity import grant of \$30 million to the Government of Sudan (GOS) from the Economic Support Fund on standard A.I.D. terms. The principal objective of this amendment is the same as the original grant, to provide Sudan with urgently needed imports of the highest economic importance and political sensitivity, thereby permitting the GOS to undertake an array of difficult policy reforms. A second objective is to increase support to the private sector where feasible.

Commodities will be selected from the list of eligible commodities (Handbook 15, Appendix B), all of which have been screened for any adverse effects they may have on the environment. No pesticides will be imported under the proposed grant and USAID/Sudan will inform the GOS and AID/W prior to the purchase of any potentially hazardous materials or uses once these become known.

II. Recommended Environmental Action

In accordance with AID Regulation 16, Section 216.2(c)(ix), assistance under a Commodity Import Program is eligible for categorical exclusion from environmental procedures when, "prior to approval, AID does not have knowledge of the specific commodities to be financed and when the objective in furnishing such assistance requires neither knowledge, at the time the assistance is authorized, nor control, during implementation, of the commodities or their use in the host country."

As the contemplated grant assistance fulfills both the qualifications cited above, it should be granted a categorical exclusion.

SUDAN

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

COMMODITY IMPORT PROGRAM FY 1983

650-K-604

USAID/Sudan

November 30, 1982

DEC 14 1982

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU: ES

THRU: AA/PPC, John R. Bolton *FWS*

FROM: AA/AFR, F.S. Huddy *FWS*

SUBJECT: Sudan: Commodity Import Program (650-K-604)

Problem: Your approval is required for a grant to the Government of the Republic of Sudan (GOS) in the amount of \$30 million from Economic Support Funds for what is expected to be the first tranche of the FY 1983 Commodity Import Program (650-K-604). It is planned that the entire amount will be obligated early in FY 1983 upon the signing of the Letter of Intent by the Government of Sudan to enter into the newest IMF Standby Agreement.

Background: Despite recent attempts to reform basic economic policies and structures, Sudan continues to be plagued by a severe economic crisis. This situation has continued to the point where Sudan's total accumulation of debt approximately equals its GNP. Arrears could reach \$2.4 billion or three years of exports. Debt service is expected to reach 150 percent of annual export earnings. Official imports for FY 1982/83 are estimated at \$1.8 billion with official exports for the year reaching only \$900 million leaving a Balance of Payments deficit of \$900 million.

The USG has played an active role in encouraging Sudan to adopt an aggressive view to macro-economic policy reform and a positive attitude to the IMF reform process.

Since 1978, the GOS, with the assistance of the World Bank, the IMF and bilateral donors, has been working to reverse the economic deterioration and change the macro-economic policy framework, particularly in key areas such as exchange rates, budget and credit. Since June of 1978, the GOS has engaged in a series of exchange rate moves resulting in considerable devaluation of the Sudanese pound. The recent announcement of a 44 percent devaluation brings the total devaluation since 1978 to almost 70 percent. The GOS has revised many of its taxes including numerous changes in tax rates on imports, exports and domestic sales in an effort to balance its budget, increase needed government revenues and at the same time improve the external trade balance. To address the internal

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price distortions which have historically promoted consumption at the expense of productive investment, the GOS has embarked on a dramatic upward adjustment of prices, including those of politically sensitive urban consumer items such as wheat, sugar and petroleum. The GOS has been eliminating all budget subsidies and has announced its intention to avoid recurrence of subsidies by passing international price increases onto the consumer.

In addition, Sudan has recently agreed upon a strict Three Year Recovery Program with the World Bank which will give highest priority to completion of on-going projects with the best promise of quick foreign exchange benefits.

In particular within the last two years, the GOS has shown a strong and growing commitment to undertake the difficult macro-economic and sectoral policy reforms. With the assistance of other major donors, Sudan has embarked upon its Export Action Program aimed at increasing public and private investment in the agricultural, mainly irrigated sector. The whole system of pricing and supplying inputs to the sector was restructured and a host of new incentives for improved production were introduced. Despite the considerable political risk, Sudan has in recent months initiated a number of measures aimed at rectifying some of the economy's more glaring deficiencies. Most notable, of course, was the latest exchange rate devaluation of 44 percent and the significant increases in the prices of the highly sensitive commodities such as wheat, petroleum and sugar.

Since the current economic situation dictates that even more stringent economic reforms will be necessary, it has become essential that the GOS adopt the package of reforms in the IMF Agreement as a next and probably not final step. Thus the USG has linked this first tranche of its ESF assistance closely with progress on this front.

The constant endeavors by our USAID Mission and Embassy at the working levels and the U.S. Ambassador at the highest levels were culminated by President Reagan's letter to President Nimeiri in October assuring the GOS of deep USG concern at our highest levels. Through President Reagan's letter, and all our efforts, we have committed ourselves to ensuring that Sudan will continue to be supported once it has made its public commitment on a tough reform package.

Until disbursements from the latest Standby Agreement are made as expected within the next two or three months, Sudan will continue to be faced with severe shortages of foreign exchange which threaten to preclude the timely import of its most essential and politically sensitive commodities. Given the timing of an announcement by Sudan to undertake the reforms included in the IMF Standby, such shortages could well coincide with the politically difficult budget and pricing reforms.

The USG has continually tried to allay GOS fears and encourage Sudan to enter into the reforms agreement by assuring them of our political and economic support. We have also let the GOS know that we would be prepared to provide our first tranche of Economic Support Fund as soon as the GOS signed its Letter of Intent with the IMF to enter into the 1982 Standby Agreement.

Discussion: The principal objective of the initial tranche of the FY 1983 Commodity Import Program is to provide Sudan with urgently needed imports of highest economic importance and political sensitivity, thereby permitting the Government of Sudan to undertake the array of difficult policy reforms. Procurement under the Program will be restricted to commodities of A.I.D. Geographic Code 941 source and origin. Although discussions with the GOS have indicated that the most urgent items financeable under a CIP would be fertilizers (\$20 million), jute and lubricants (up to \$10 million), the breakout below represents an illustrative list of items which may be procured under this CIP:

1. Fertilizers
2. Jute/Baling hoops
3. Petroleum products
4. Tallow
5. Spare parts
6. Agricultural machinery and equipment
7. Road maintenance equipment
8. Telecommunications equipment
9. Industrial inputs and equipment
10. Chemicals and tinsplate
11. Trucks, trailers and buses
12. Drilling equipment and pumps

Sudanese local currency generated as counterpart by public and private imports will accrue to the GOS 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. Ten percent of the local currency generated by the CIP will also be used to cover some of the program/administrative costs of USAID/Sudan and general budget costs of the GOS.

In addition to the standard conditions precedent and covenants for a CIP, the PAAD will contain three Conditions Precedent to Grant Disbursement and eight covenants to assure optimal effectiveness of the Program. As Conditions Precedent, the GOS will provide the U.S. with a list of its essential import needs for the next four months and indicate expected sources of financing for these; provide a list of the eligible items it proposes to procure with the CIP; and provide an updated report on the status of the Counterpart Accounts generated by past U.S. CIP's.

As covenants, the GOS will agree in substance to continue its work in assuring that controlled prices for commodities will be maintained at levels that reflect the prevailing rate of exchange; to continue its review of revenue policy and procedures and initiate measures to reform tax structures to ensure the collection of adequate domestic revenues to meet GOS economic stabilization objectives; to review its foreign exchange and import licensing systems to ensure that they function effectively in meeting the needs of the private sector; determine and institute policy reforms necessary to encourage increased private savings and investment, particularly from Sudanese working abroad; to issue regulations concerning the import and distribution of petroleum products and, as determined appropriate, increase private sector participation in the importation and distribution thereof; and issue regulations in implementation of the investment code as necessary to encourage foreign and domestic private investment.

Finally, the minutes of the negotiations between the GOS and the USG will reflect GOS commitment to examine, with A.I.D., the structure and behavior of Sudan's parallel economy in an effort to accomplish the objectives established under the IMF Standby Agreement. The proposed grant of \$30 million is to be obligated entirely in Fiscal Year 1983. The commodity eligibility date is June 30, 1982, to enable the GOS to disburse the grant as fast as possible. A.I.D. Regulation 1 (22 AFR, 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. Fertilizers procured by GOS from the United States will meet this requirement.

The Executive Committee for Project Review (ECPR) considered this program and recommended approval on December 2, 1982. The CIP was included in the 1983 Congressional Presentation and a Congressional Notification was therefore not required.

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 Finance and Economic Planning, have been active in the development of the grant, and the GOS will be able to sign the Program Assistance Agreement within a very short period of time after the program grant is approved and the Letter of Intent with the IMF is signed.

The ECPR is satisfied that implementation arrangements outlined in the PAAD are fully adequate, and that 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 responsibility 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 program is Allan Reed, AFR/PD/EAP. The SER/COM/ALI officer responsible for the program is Georgia Fuller. The USAID/Khartoum officer responsible for the program is Pierre Elissabide.

The major GOS entities responsible for implementing and administering the grant are the Ministry of Finance and Economic Planning (MINFEP), the Ministry of Cooperation, Commerce and Supply (MCCS), and the Bank of Sudan. The MINFEP will allocate the grant proceeds and has overall responsibility for grant administration. The MCCS established GOS 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 programmed by USAID/Sudan and the GOS.

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

Recommendation: That you sign the attached PAAD, thereby authorizing the proposed CIP grant to Sudan in the amount of \$30 million.

Attachments:

1. PAAD
2. ESF cables serie
3. Nimeiri to Reagan letter dated Sep. 25, 1982
4. Reagan to Nimeiri letter dated Oct. 22, 1982

Clearance:

AFR/EA:DMendelson	<i>JM</i>	Date	12/9/82
AFR/EA:BChapnick	<i>BC</i>	Date	12/9/82
AFR/EA:EJSpriggs	<i>EJS</i>	Date	12/8/82
AFR/PD/EAP:MBaker	<i>MB</i>	Date	12-8-82
AFR/DP:RHynes	<i>RH</i>	Date	12-8-82
AAA/AFR/DP:HJohnson	<i>HJ</i>	Date	12-8-82
AFR/PD:NCohen	<i>NC</i>	Date	12/9/82
AFR/TR:LHoldcroft	<i>LH</i>	Date	12/9/82
GC/AFR:TBork	<i>TB</i>	Date	12/9/82
SER/COM/ALI:PHagan	<i>PH</i>	Date	
M/FM/BFD:RBonnafant	<i>RB</i>	Date	12/9/82
DAA/AFR/ESA:GPatterson	<i>GP</i>	Date	12/9/82
DAA/AFR:ARLove	<i>AR</i>	Date	
AAA/PPC/PDPR:JERicksson	<i>JE</i>	Date	12/15/82
AAA/PPC/PB:JHumpton	<i>JH</i>	Date	12/15/82
GC:CLvanOrman	<i>CL</i>	Date	15 DEC

JM
AFR/EA:TFCornell:fw:12/8/82:X-22978

SUDAN

COMMODITY IMPORT PROGRAM FY 1983

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SUDAN

Commodity Import Program (650-R-604) FY 1983

Summary and Recommendations

The accompanying analysis is presented in support of a request by the Government of Sudan (GOS) for the first tranche of \$ 30 million of an Economic Support Fund (ESF) grant in FY 1983. The CIP would be used to help ease Sudan's immediate foreign exchange crisis by financing essential commodity imports from Geographic Code 941 sources thereby enabling the GOS to embark immediately on another series of difficult economic reforms.

Since independence, Sudan has been making the difficult transition, originally from under an Anglo-Egyptian Condominium and more recently from a Soviet-styled and supported economy. With the rise of oil and manufactured goods prices after 1973 and the exodus of more than 500,000 skilled Sudanese workers to the Gulf states--coupled with some ill-advised policy and program decisions and poor project implementation--Sudan began to move from a Balance of Payments surplus to a deficit. By 1977, Sudan's irrigated sector, which is the basis of its foreign exchange earnings and monetized sector, began to collapse. This situation has continued until the point where Sudan's total accumulation of debt currently approximates its GNP. Arrears could reach \$ 2.4 billion, or three years of exports. Debt service each year is expected to reach 150 percent of exports. Imports for 1982/83 are estimated at \$1.8 billion while exports for the year are estimated to rise to only \$900 million leaving a Balance of Payments deficit of \$900 million.

Since 1978, the GOS, with the assistance of the World Bank, IMF and bilateral donors, has been working to reverse the economic deterioration and change the macro-economic policy framework particularly in key areas such as exchange rates and credit.

Since June 1978, the GOS has engaged in a series of exchange rate moves resulting in considerable devaluation of the Sudanese pound (LS). By the time of the resumption of the IMF negotiations on a new Standby Agreement in 1982, Sudan had devalued its pound by 55 percent from (LS 1.00 = \$2.50) to (LS 1.00 = \$1.12). Recently, as part of the GOS effort to reach a new agreement with the IMF on exchange rate reform, GOS announced on November 15, 1982 a further devaluation of the LS by 44 percent from (LS 1.00 = \$1.12) to (LS 1.00 = \$0.76). Thus, the total devaluation of the Sudanese pound since 1978 has amounted to almost a 70 percent devaluation.

In an effort to balance its budget, increase revenues and at the same time improve the external trade balance by providing

better export incentives and discouraging imports, the GOS has revised many of its taxes including numerous changes in tax rates on imports, exports and domestic sales.

Addressing internal price distortions which have historically promoted consumption at the expense of productive investment, the GOS has embarked on a dramatic upward adjustment of prices, including those of politically sensitive urban consumer items such as wheat, sugar and petroleum. At the new exchange rate and current world prices, direct budget subsidies on all consumer items are eliminated. The GOS has announced its intention to avoid the recurrence of subsidies by passing international price increases onto the consumer.

Sudan has also agreed upon a Three Year Recovery Program (Public Investment Program) with the World Bank which will give highest priority to completion of ongoing projects with the best promise of quick foreign exchange benefits; rehabilitation of projects, particularly those in the irrigated subsector, that have high potential for economic viability; and infrastructure facilities to support export-oriented production. This represents a substantial change from the Six Year Plan for 1977 to 1982 where emphasis was on the creation of new rather than better utilization of existing capacity.

In the area of agricultural rehabilitation, major efforts have been made by the GOS to restructure the agricultural sector, to improve export performance and to reduce imports of important food products. Particularly notable have been measures that have increased the financial incentives to farmers, both within and outside the public irrigated schemes, by removing or reducing export taxes, by offering a more favorable exchange rate and by liberalizing the marketing of export products. Further steps to improve the incentives to export production include measures such as replacement of the joint account system by a system of land and water charges specific to individual crops and farmers.

Steps have also been taken to improve the efficiency of the industrial sector by upgrading management of industrial entities, rehabilitate key industrial enterprises such as sugar, to actively pursue domestic oil production and to reschedule the nation's foreign debt.

Within the last two years, the Government of Sudan has shown a strong and growing commitment to undertaking the difficult macro-economic and sectoral policy reforms. With assistance of other major donors, Sudan has embarked upon its Export Action Program aimed at increasing public and private investment in the agricultural, mainly irrigated, sector. The whole system of pricing and supplying inputs to the sector was restructured and a host of new incentives for improved production were introduced. Despite considerable political risk, in recent months Sudan has initiated a number of measures aimed at rectifying some of the economy's more glaring deficiencies.

Most notable, of course, was the second exchange rate devaluation of 44 percent, and significant increases in of the highly sensitive commodities such as wheat, petroleum and sugar.

Since the current economic situation dictates even more stringent economic reforms will be necessary, it has become essential that the GOS adopt the package of reforms in the IMF Agreement as a next but by no means final step. Thus, the USG has linked this first tranche of its ESF assistance to Sudan with progress on this reform front. The basic overall strategy for Sudan's economic recovery, remains to concentrate on establishing production in the irrigated sector to levels achieved in the early 1970's. To address the shorter term implications engendered by this economic crisis, Sudan has been negotiating the new 1982 Standby Agreement with the IMF and will have signed its Letter of Intent by the time of obligation of the CIP. The IMF Agreement will engender a series of reforms including exchange rate devaluation with periodic review, budget austerity measures and a series of fiscal and monetary adjustments. To address the longer-term aspects of the economic crisis, Sudan has been preparing, in collaboration with the World Bank, an intensive three year Recovery Program, encompassing a strict investment portfolio and a series of sectoral and macro-economic policy reforms. The Recovery Program document has been submitted to the donors' Consultative Group and is being reviewed prior to the CG meeting currently planned for early January, 1983.

The USG has played an active role in encouraging Sudan to adopt an aggressive approach to macro-economic policy reform and a positive attitude to the IMF reform process. The constant endeavors by our USAID Mission and Embassy at the working levels and by the U.S. Ambassador at the highest levels were culminated by President Reagan's letter to President Nimeiri in October assuring the GOS of deep USG concern at the highest levels. Through President Reagan's letter, and all our efforts, we have committed ourselves to ensuring that Sudan will not be abandoned after it has made its commitment on a tough reform package.

Now, for the third successive year, Sudan 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, a large financing gap will remain. Sudan has virtually no foreign exchange. Some \$2.4 billion of Sudan's current \$8 billion foreign debt is in arrears, and the country's access to commercial sources of import credit is nil.

Until the disbursements from the new Standby Agreement are made as expected within the next two or three months, Sudan will continue to be faced with severe shortages of foreign exchange which threaten to preclude the timely import of its most essential and politically sensitive commodities. Given the timing of an announcement by Sudan to undertake the reforms included in the IMF Standby,

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such shortages could well coincide with the politically difficult budget and pricing reforms.

The USG has been providing balance of payments support to the Sudan through PL 480 Title I/III and ESF-financed commodity import programs since resumption of the AID program in FY 1978. The justification for such substantial and continued U.S. support, including the current ESF grant proposed herein for FY 1983, is the belief that 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 this year, reform efforts will include adherence to the provisions of the latest IMF Standby Arrangement and the formulation of a rational medium-term public investment and reform program. It also will require that 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.

It is very much in the interest of the USG to continue to provide balance of payments support to 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 1983 CIP grant will be largely similar to those financed under the previous ESF grants in FY 1980, 1981 and 1982. However, given Sudan's total current lack of foreign exchange and the country's urgent need for key consumer commodities essential for a stable and orderly continuation of economic activity, it is expected that petroleum will be included as a commodity to be financed under the current tranche of the Program.

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

General Considerations

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

Sudan is presently experiencing a severe and chronic foreign exchange crisis, having registered sizeable current account deficits in its balance of payments since the mid-1970's. A deficit of \$853 million occurred in 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, has had to be rescheduled twice before and will

have to be rescheduled once again. Outstanding external debt was estimated at U.S. \$3.7 billion by the end of 1981. Between 1976 and 1981, external debt grew at a compounded rate of 16 percent per annum. Despite rescheduling, the debt service ratio for 1980 (actual principal and interest payments as a percentage of exports) was approximately 30 percent. For 1982, this debt service ratio has grown to a phenomenal 150 percent. 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.

Most importantly, although it is estimated that Sudan has immediate requirements for approximately \$135 million worth of essential import commodities to cover the months of December and January, the country currently has no foreign exchange reserves with which to pay for the commodities. Anticipated foreign exchange receipts for the period of December and January are estimated at only \$ 50 million. Until a new Standby Agreement is signed with the IMF and disbursements made as expected within the next few months, Sudan will continue to be faced with severe shortages of foreign exchange which

threaten to preclude the timely import of its most essential and politically sensitive commodities.

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 deficiencies have compounded the country's economic difficulties. Cotton exports, which accounted for 60 percent of total exports and averaged \$300 million annually during the 1970's, fell to \$158 million and 32 percent 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, imports, led by petroleum and sugar, rose from \$1.0 billion in 1976 to \$1.7 billion in 1981, an increase of 70 percent.

1. The GOS/IMF Three Year Stabilization Program

In response to the worsening economic situation, the government, with IMF assistance, embarked upon a three-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 percent per annum; (b) to lower the rate of inflation from the 26.7 percent registered in 1978/79 to 10 percent by 1981/82; (c) to hold the current account deficit to US \$400 million by 1981/82 (vs. \$458 million in 1978/79); and (d) 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.

On the basis of its assessment of GOS performance during the first year of the three-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

three-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 three-year program was an anticipated large expansion of cotton production. This was to have resulted 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 three-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 accelerated 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 steps 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 internal and external prices. The GOS has moved to increase

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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 percent for nearly half of imports and of 12.5 percent for other imports and all exports.

The Stand-By Program for 1982 attempted to build on the reform momentum generated in recent months. The main policy changes focussed on the further restructuring of financial incentives in agriculture, along with proper maintenance of physical capital and timely provision of management services, and attempted 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 percent at present to about 25 percent; and maintenance of an exchange system that would encourage remittances and exports. While it was expected that the deficit in the current account of the balance of payments would continue to be large, the Stand-By Program aimed to contain the size of the deficit through demand restraint and the expansion of non-cotton exports.

In May 1982, Sudan was not able to make its second purchase under the 1982 Stand-By Arrangement, because certain performance criteria had not been observed by the GOS. As a result, the arrangement broke down. Presently IMF and GOS are negotiating a 1983 standby.

To gain greater control over the allocation of scarce capital resources, the GOS with IBRD assistance has promulgated a current version of its rolling three-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 three-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) improvement of 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 percent of the total, followed by the U.S., 20 percent; Abu Dhabi, 15 percent; the Islamic Bank, 10 percent; France, the EEC, and others, 15 percent. Most of the funds contributed by the Arab donors were provided through loans and were used to finance oil imports.

The nature and distribution of official receipts by the GOS have remained relatively constant although absolute levels of assistance by other donors has increased in FY 1982 to approximately \$957 million.

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 debts. 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 reconvening the donor group to identify potential sources for these residual requirements.

D. U.S. Contributions to Date

The U.S. has been providing balance of payments support to the Sudan since resumption of the AID 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 five-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 (CIPs). ESF grants for CIP imports amounted to \$40.0 million in FY 1980, \$50.0 million in FY 1981, and \$100.0

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million in FY 1982. A grant of \$ 50 million is hereby being proposed as a first tranche for FY 1983.

III. Rationale for Continued U.S. Assistance

The justification for continued U.S. balance of payments support for the Sudan, including the proposed \$30.0 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 1983, this includes adherence to the provisions of the IMF Standby Arrangement, specifically the reduction of government expenditures and borrowing, the establishment and maintenance 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 three-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 steps 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 IMF under which the government will reduce government expenditures and borrowing, establish and maintain 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 toward 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 the 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 toward improved management performance.

While the primary justification for continued US 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. US Interests and Overall Assistance Strategy

The Sudan has major significance for US 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 Nimeri, 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 US 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 US interests in Africa and the Middle East, and its critical need for foreign exchange, the AID 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. Providing an incentive for improved economic management and reform

As noted earlier, delays in the implementation of the economic reforms espoused under the three-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 toward 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. Contributing to private sector participation in development

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 percent of capacity, primarily because of the lack of raw materials and spare parts. Although the initial tranche of the FY 1983 CIP concentrates on the urgent imports needed to keep the economy going in sensitive sectors which are currently administered by the public sector, it is planned that future tranches of this CIP as well as any future year programs will continue U.S. emphasis on assisting in the rebuilding of and support to the Sudanese private sector.

The priority given to private sector uses reflects AID'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

Funds will be deposited into a special account at the Bank of Sudan, and their use jointly determined by AID

and the GOS. Priority in the allocation of CIP counterpart funds will be given to AID and other donor-assisted 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 AID 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 US Mission in the Sudan. The balance of the counterpart funds generated under the FY 1983 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 and FY 1982 budgets. Against total expenditures of LS 1.3 billion in FY 1981, for example, the budget shows a deficit of LS 545 million, or over 40 percent. More recent data indicate that the actual ratio may be closer to 50 percent. By comparison development expenditures in FY 1982 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.

Development uses and relation to other components of the US assistance program

As in past years, the goods to be imported under the FY 1983 CIP will contribute directly to GOS development efforts. Perhaps the most direct link is in the agricultural sector, where the \$20 million in fertilizer will be used. The Rahad Irrigation Scheme, where the largest percentage of the fertilizer procured under this program will be utilized, is a key element in expanding the production of export crops primarily sorghum and groundnuts. The A.I.D. contribution to the overall Rahad Project began in February 1973 with a \$11.0 million loan. This loan supplied heavy equipment and spare parts for construction of the irrigation works and for land preparation. Under an earlier CIP, A.I.D. provided mechanical cotton pickers and vehicles to facilitate the mechanization of field operations. Fertilizer has been identified as a prime commodity for this program assistance for the following reasons: (1) it will have a direct effect on increasing food production; (2) it is easily procured in the U.S. and distributed in Sudan; and (3) there would otherwise be a substantial shortfall in donor-supplied fertilizer imports beginning in 1983.

There is also a likelihood that GOS would procure its immediate needs in petroleum under this CIP. The transport sector is most affected by short term shortages in supply of petroleum,

accounting for 54 percent of total petroleum consumption. AID 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 1983 CIP will be used to help overcome such shortages. AID is also trying to help increase agricultural output in the Sudan through project-financed technical assistance deliveries. 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 considerably strengthen AID'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 cottonseed 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 to 1982 is set forth in Table 1 below.

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 percent of total exports. By 1981, cotton exports had dropped to \$158 million, representing only 32 percent 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 percent increase in cotton exports, key factors include a 23 percent increase in non-cotton exports coupled with a comparatively modest 15 percent increase in the value of petroleum imports and a 20 percent 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 recurrent account deficits through 1990. Further, despite projected increases in private remittances and official grants and loans, the country will continue to face recurring financial gaps and arrearages on past loans throughout the decade.

A more recently completed IBRD analysis, published in February 1982 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 developmental resources to revitalization of the

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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	Proj.* 1982/83
Exports	<u>551</u>	<u>527</u>	<u>581</u>	<u>560</u>	<u>493</u>	<u>592</u>	<u>675</u>
Cotton	<u>296</u>	<u>321</u>	<u>333</u>	<u>160</u>	<u>158</u>	<u>180</u>	<u>240</u>
Other	<u>255</u>	<u>206</u>	<u>248</u>	<u>400</u>	<u>335</u>	<u>412</u>	<u>435</u>
Imports	<u>-1,188</u>	<u>-1,138</u>	<u>-1,340</u>	<u>-1,670</u>	<u>-1,620</u>	<u>-1,706</u>	<u>-1,800</u>
Petroleum	<u>-118</u>	<u>-178</u>	<u>-254</u>	<u>-405</u>	<u>-362</u>	<u>-415</u>	<u>-490</u>
Sugar	<u>-44</u>	<u>-25</u>	<u>-123</u>	<u>-65</u>	<u>-64</u>	<u>-51</u>	<u>-60</u>
Other	<u>-1,026</u>	<u>-932</u>	<u>-963</u>	<u>-1,200</u>	<u>-1,194</u>	<u>-1,240</u>	<u>-1,250</u>
Trade Balance	<u>-637</u>	<u>-611</u>	<u>-759</u>	<u>-1,110</u>	<u>-1,127</u>	<u>-1,114</u>	<u>-1,125</u>
Services	<u>-73</u>	<u>-104</u>	<u>-63</u>	<u>-206</u>	<u>-40</u>	<u>-249</u>	<u>75</u>
Receipts	<u>159</u>	<u>181</u>	<u>229</u>	<u>355</u>	<u>342</u>	<u>379</u>	<u>N/A</u>
Payments	<u>-172</u>	<u>-207</u>	<u>-221</u>	<u>-300</u>	<u>-280</u>	<u>-329</u>	<u>N/A</u>
Interest	<u>-60</u>	<u>-78</u>	<u>-71</u>	<u>-261</u>	<u>-102</u>	<u>-299</u>	<u>N/A</u>
Transfers	<u>244</u>	<u>257</u>	<u>293</u>	<u>505</u>	<u>425</u>	<u>510</u>	<u>580</u>
Private	<u>221</u>	<u>240</u>	<u>209</u>	<u>355</u>	<u>325</u>	<u>380</u>	<u>430</u>
Official	<u>23</u>	<u>17</u>	<u>84</u>	<u>150</u>	<u>100</u>	<u>130</u>	<u>150</u>
Current Account	<u>-466</u>	<u>-458</u>	<u>-529</u>	<u>-811</u>	<u>-742</u>	<u>-853</u>	<u>-470</u>
Capital	<u>65</u>	<u>348</u>	<u>442</u>	<u>375</u>	<u>382</u>	<u>287</u>	<u>525</u>
Receipts	<u>132</u>	<u>405</u>	<u>532</u>	<u>335</u>	<u>480</u>	<u>472</u>	<u>N/A</u>
Payments	<u>-67</u>	<u>-57</u>	<u>-90</u>	<u>-160</u>	<u>-98</u>	<u>-185</u>	<u>N/A</u>
Allocation of SDRs	<u>=</u>	<u>13</u>	<u>13</u>	<u>=</u>	<u>11</u>	<u>=</u>	<u>50</u>
Errors and omissions	<u>325</u>	<u>103</u>	<u>26</u>	<u>...</u>	<u>159</u>	<u>...</u>	
Monetary movements (increase -)	<u>76</u>	<u>-6</u>	<u>48</u>	<u>...</u>	<u>190</u>	<u>...</u>	
Financing gap				<u>436</u>		<u>566</u>	
				Overall Balance			55
				IMF Financing (Net)			50
				Special B/P Assistance			50
				Available for debt servicing			133
				(In per cent)			
Memorandum items:							
Growth rates							
Exports	<u>-7</u>	<u>-4</u>	<u>10</u>	<u>16</u>	<u>-1</u>	<u>20</u>	
Imports	<u>20</u>	<u>-4</u>	<u>18</u>	<u>2</u>	<u>3</u>	<u>5</u>	
Current account deficit as per cent of GDP	<u>6</u>	<u>5</u>	<u>10</u>	<u>11</u>	<u>11</u>	<u>11</u>	

Sources: Bank of Sudan, Ministry of Finance and Economic Planning, and IMF staff estimates.
* Assumes increased levels of donor assistance and no debt-servicing.

Table 2: Balance of Payments Projections, 1982-1990

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	1982	1983	1984	1985	1986	1987	1988	1989	1990
Exports (including NPS)	1369	1557	1768	2012	2270	2573	2889	3243	3641
Imports (including NPS)	-2199	-2448	-2727	-3037	-3365	-3730	-4138	-4584	-5080
Resource Balance	-830	-891	-959	-1025	-1095	-1157	-1249	-1341	-1439
Investment Income, net of which Interest Public MLT loans	-267	-279	-287	-301	-316	-334	-350	-366	-388
Interest Arrears	(-151)	(-161)	(-179)	(-202)	(-226)	(-254)	(-281)	(-309)	(-338)
	(-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
<u>Public Grants and MLT Loans</u>									
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	-	-	-	-	-	-	-	-	-
Cap 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

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

	1977/78	1978/79	1979/80	1980/81	1980	Prov. 1981
Cotton	295.8	320.7	333.4	182.0	230.6	114.0
Groundnuts	80.1	25.5	13.2	65.6	10.7	82.6
Sesame	55.4	27.8	40.6	32.2	47.3	43.1
Gum arabic	35.3	40.0	43.9	32.6	32.3	43.9
Dura (sorghum)	8.6	8.7	68.7	71.4	80.4	52.8
Vegetable oil and cakes	17.5	46.5	26.3	33.6	34.9	33.6
Castor seeds	3.2	3.5	--	--	--	0.4
Livestock products	26.7	30.0	35.6	43.7	42.0	54.5
Other	9.2	6.8	19.8	17.8	18.7	29.6
Subtotal	<u>531.8</u>	<u>509.5</u>	<u>581.5</u>	<u>478.9</u>	<u>496.9</u>	<u>454.5</u>
Re-exports <u>2/</u>	19.2	17.5	--	--	--	--
Total	<u>551.0</u>	<u>527.0</u>	<u>581.5</u>	<u>478.9</u>	<u>496.9</u>	<u>454.5</u>

Sources: IMF, Sudan - Recent Economic Developments, August 30, 1982.

1/ Converted from data in Sudanese pounds at the following exchange rates: 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, July-September 1979; and for October 1979-September 1980, Lsd 1.00 = US\$2.00; October 1980-June 1981, Lsd 1 = US\$1.25 or US\$2.00 depending on the commodity; from June 1981 to September 1981, Lsd 1 = US\$1.25; and from October 1981 to December 1981, Lsd = US\$1.18.

2/ Exclusive of petroleum re-exports.

agricultural sector, which currently accounts for some 95 percent 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, chemicals, 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 percent of total imports in 1977/78 to a projected \$420.0 million or 25 percent 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 percent 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.

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

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

In millions of U.S. dollars) 1/

	1977/78	1978/79	1979/80	<u>Prelim.</u> <u>1980/81</u>	<u>Proj.</u> <u>1981/82</u>
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 <u>2/</u>	(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	<u>104.5</u>	<u>60.5</u>	<u>70.0</u>	<u>55.8</u>	<u>50.0</u>
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, 1976/77-1980/81

In millions of U.S. dollars).

	1976/77	1977/78	1978/79	1979/80	1980/81
Western Europe	<u>472.9</u>	<u>622.0</u>	<u>567.5</u>	<u>624.9</u>	<u>687.6</u>
United Kingdom	162.8	173.2	173.5	162.4	219.4
Germany, Federal Republic of	85.9	149.9	114.0	123.8	103.0
France	55.0	97.6	84.8	106.4	112.8
Italy	63.2	60.9	54.3	33.4	43.6
Belgium	30.8	41.3	21.3	44.8	29.4
Others	76.2	99.1	119.6	154.1	179.4
China and Eastern Europe	<u>65.2</u>	<u>94.8</u>	<u>105.8</u>	<u>99.2</u>	<u>130.6</u>
China, People's Republic of	31.6	45.9	50.8	41.6	57.2
Czechoslovakia	4.9	10.3	13.0	15.2	9.0
Yugoslavia	8.0	10.1	16.5	13.2	15.8
Others	20.7	28.5	25.5	29.2	48.6
Western Hemisphere	<u>110.8</u>	<u>110.6</u>	<u>73.3</u>	<u>143.8</u>	<u>198.4</u>
United States	74.4	57.7	62.3	125.2	120.6
Others	36.4	52.9	11.0	18.6	77.8
Africa and Asia	<u>213.4</u>	<u>217.3</u>	<u>181.6</u>	<u>196.8</u>	<u>259.4</u>
Japan	97.1	99.4	77.8	51.8	74.6
India	62.9	36.8	41.8	33.4	34.6
Pakistan	15.5	26.7	3.8	22.6	10.4
Others	37.9	54.4	58.2	89.0	139.8
Arab countries	<u>123.5</u>	<u>143.3</u>	<u>209.7</u>	<u>275.2</u>	<u>355.4</u>
Total	<u>985.8</u>	<u>1,188.0</u>	<u>1,137.9</u>	<u>1,339.9</u>	<u>1,631.4</u>

Source: IMF, Sudan - Recent Economic Developments August 30, 1982.

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, 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 and 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 US, the IBRD, the Arab Monetary Fund, West Germany, France, the EEC, Italy, Great Britain 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 (Sudanese) 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. The upcoming Consultative Group meetings will discuss, among other things, debt rescheduling and balance of payments assistance for 1983.

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.

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	Prov. Actual July-Dec. 1980
Grants	...	...	<u>3.7</u>	<u>7.2</u>	<u>42.0</u>	<u>60.0</u>	<u>79.0</u>	<u>57.2</u>
Commodity	...	...	...	...	30.5	...	38.0 ^{2/}	...
Project	...	...	...	...	11.5	...	41.0 ^{3/}	...
Loans	...	...	<u>46.0</u>	<u>162.0</u>	<u>266.0</u>	<u>399.8</u>	<u>321.0</u>	<u>118.6</u>
Cash	...	...	...	...	128.5)	189.9)	144.0 ^{2/})	109.2
Commodity	...	...	...	...	29.0)))	
Project	...	...	...	...	108.5	209.9	177.0 ^{3/}	9.4
Total	<u>84.5</u>	<u>53.5</u>	<u>49.7</u>	<u>169.2</u>	<u>308.0</u>	<u>459.8</u>	<u>400.0</u>	<u>175.8</u>
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.

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

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

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

(In millions of U.S. dollars)

End of Period	June Dec.		June Dec.		June Dec.		June Dec.	
	1977		1978		1979		1980	
Monetary authorities	<u>-588</u>	<u>-625</u>	<u>-603</u>	<u>-600</u>	<u>-602</u>	<u>-692</u>	<u>-751</u>	<u>-964</u>
Convertible foreign exchange <u>1/</u>	25	28	22	32	31	80	61	65
Net bilateral claims <u>2/</u>	-36	-45	-41	-36	-37	-52	-58	-77
Net IMF position <u>3/</u>	-134	-117	-92	-150	-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	<u>-551</u>	<u>-598</u>	<u>-545</u>	<u>-539</u>	<u>-503</u>	<u>-571</u>	<u>-560</u>	<u>-673</u>

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.

Table 9. Sudan: Medium- and Long-Term External
Public Debt and Debt Service Payments, 1976-81

End of Period	1976	1977	1978	1979	1980	Est. 1981
<u>(In millions of U.S. dollars)</u>						
Total outstanding debt (disbursed only)	<u>1,722.4</u>	<u>1,949.0</u>	<u>2,250.2</u>	<u>2,856.9</u>	<u>3,487.0</u>	<u>3,694.2</u>
International organizations	374.4	408.5	534.8	655.7	863.2	1,133.5
Of which: net use of Fund credit <u>1/</u>	(157.1)	(140.4)	(176.3)	(243.4)	(341.7)	(482.3)
Foreign governments	762.2	862.3	865.7	1,362.6	1,785.9	1,897.0
Financial institutions	360.0	377.6	573.6	380.9	567.9	453.2
Suppliers' credits	275.8	300.6	285.1	257.7	270.0	210.5
Debt service payments (during period)	<u>159.0</u>	<u>124.1</u>	<u>130.9</u>	<u>140.0</u>	<u>163.4</u>	<u>234.8</u>
Principal	80.9	62.6	72.5	51.1	100.8	96.7
Interest	78.1	61.5	58.4	88.9	62.6	138.1
<u>(In per cent)</u>						
Memorandum item:						
Debt service payments/exports of goods and services	23.5	15.1	15.2	13.4	20.6	27.5

Sources: IBRD, IMF, and Bank of Sudan, Economic and Financial Statistics Review, various issues.

1/ Total repurchase obligations to the Fund required to return Fund holdings of Sudanese pounds to 100 per cent of quota.

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	57.0
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	4.1	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.

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By June 1978, gross reserves of the Bank of Sudan were equivalent to only one week's imports. Despite a slight improvement in 1979/80, the country's reserve position has remained practically unchanged since 1978, as Table 7 below illustrates.

Table 7. Gross Reserves of the Bank of Sudan
(Millions of US dollars)

	<u>1977/78</u>	<u>1978/79</u>	<u>1979/80</u>	<u>1980/81</u>
Reserves level	21.9	27.4	40.5	24.5
Import equivalence	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.

E. External Debt and Annual Services Payments

The Sudan's total outstanding external debt amounted to \$3.7 billion at the end of 1981, having nearly doubled since 1976. As shown in Table 9, about \$1.9 billion of the total is owed to bilateral creditors, primarily Saudi Arabia, Kuwait, and the United Arab Emirates. Approximately \$1.1 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%; and an overall grant element of 63 percent) 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 percent. 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.

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 percent 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 percent increase in revenues as against a modest 16 percent increase in expenditures. The slower increase in expenditures takes into account the proposed elimination during this 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 percent of the Sudan's imports during the past five years. In 1979/80, the U.S. share was increased to 10 percent 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:

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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 telecommunications equipment, electric power generation and distribution equipment, and sugar-cane 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 (MCCS). 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= Lsd 1.2961. The unofficial (market) rate is approximately US \$1.00= Lsd 1.90.

B. CIP Pipeline

Following is a summary of the status of the FY 1980, FY 1981 and FY 1982 CIP programs through the end of FY 1982. Also shown are projected disbursements in FY 1983 for the two earlier programs as well as the proposed FY 1983 program.

(In millions of U.S. dollars)

<u>Program</u>	<u>Amount</u>	<u>Thru FY 81</u>		<u>Thru FY 82</u>		<u>Est FY 83</u>	
		<u>Oblig.</u>	<u>Expn.</u>	<u>Oblig.</u>	<u>Expn</u>	<u>Oblig</u>	<u>Expn</u>
FY 1980	40.0	40.0	33.0	--	39.7	--	.3
FY 1981	50.0	50.0	--	--	37.1	--	12.0
FY 1982	100.0	--	--	100.0	34.3	--	65.7
Proposed FY 1983	70.0					70.0	70.0

VII. Proposed FY 1983 C.I.P.

A. Positive List and Tentative Allocation of Commodities to be Procured

Following preliminary discussions with representatives of the Government of Sudan (GOS), USAID has constructed a positive list of commodities with upper limits of value from which commodities funded under the first tranche of the FY 1983 CIP (\$30 million) will be drawn. It is expected that the \$30 million will be allocated for the procurement of fertilizer (\$20 million), jute products (\$8 million) and other commodities (\$2 million).

<u>Positive List of Commodities</u>	<u>Upper Limit of Value</u> (\$ million)
Fertilizer	40
Jute/baling hoops	9
Petroleum products	30
Tallow	16
Spare parts	14
Agricultural machinery, equip- ment and other inputs	34
Road maintenance equipment	7
Railroad equipment and spare parts	4
Telecommunications equipment	6
Industrial inputs and equipment	15
Chemicals and tinfoil	5
Trucks, trailers and buses	5
Drilling equipment and pumps	15
Total	\$ 200 million.

Please note that procurement actions financed under this grant will be for commodities which have already been approved for financing within the Austere Recovery Recurrent and Development Program Budgets of the Government of Sudan.

B. Implementation Procedures

1. GOS

The major GOS entities responsible for administrating 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 Mission 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 Mission 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 the use of Bank Letters of Commitment and/or Direct Letters of Commitments.

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 actually 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 list of allocations for the FY 83 Commodity Import 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 license must be approved for each CIP funded import.

E. Procurement Restrictions/Limitations

This grant will be restricted to Code 941 sources and origins for commodities and related incidental 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.

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. Commodity Eligibility Date

The Eligibility Date for Commodities and Commodity Related Services procured under this FY 83 CIP will be June 30, 1982.

G. Terminal Disbursement Date

The grant's Terminal Disbursement Date (TDD) will be 24 months from the date Conditions Precedent are met. Recognizing an urgent need to provide balance of payments support, efforts will be made by the Sudanese and USAID authorities 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.

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 earlier 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 related 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.

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 government 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 licenses for a specific purchase are issued 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/allocation 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

December 1982	Agreement Signed
December 1983	Conditions Precedent Met
January 1983	First Letter of Commitment Issued
February 1983	First Shipment Made

February 1983
 June 1983
 October 1983
 January 1984

First Shipment Arrives Sudan
 Grant Fully Committed (L/COMS)
 Final Shipment
 Final Disbursement

VIII. Other Considerations

A. Impact of U.S. Balance of Payments

Some long-term positive impact of the U.S. balance of payments is likely, as U.S. suppliers and exporters reestablish old trade relationships and create new ones. Some long-term benefits can also be expected as a result of follow-up commercial orders.

This Commodity Import Program should help to increase the market share of U.S. suppliers. 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 percent of the Sudan's total imports.

B. Counterpart Generations

Under GOS budgetary/financial procedures, counterpart funds 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 funds generated and importers will deposit their counterpart funds when the foreign exchange is disbursed. Use of the counterpart funds will be determined in consultation between USAID and the GOS.

One probable use of the counterpart funds 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 also be considered. While most public sector importers have sufficient funds in approved budgets for the 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 rural areas and 70 percent 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 Deposit

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. Deposits in this Trust Account will be in local currency and equal to 10 percent of the value of this grant. 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 1983 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 inconvertibility 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. Recommendation

It is recommended that a grant to the Government of the Democratic Republic of the Sudan of thirty million dollars (\$30,000,000) be authorized for financing the importation of selected commodities, and commodity related services.

A. Terms and Conditions

1. Conditions Precedent to Grant Disbursement.

--The Government of Sudan will provide the United States Government with a list of its essential import needs for the next four months and indicate thereon the expected sources of finance for these imports.

--The Government of Sudan will provide the United States Government with a list of the eligible items it proposes to procure with this grant.

--The Government of Sudan will provide the United States Government with an updated report on the status of the Counterpart Accounts generated by this Commodity Import Program Grant.

2. Terms and Covenants of the Grant.

--To the extent that the Government of Sudan controls the prices of import related goods and services, and with the exception of certain essential commodities previously imported at the official exchange rate, for which controlled prices will be increased gradually, the controlled prices will be maintained at levels that reflect the prevailing rate of exchange.

The Government of Sudan will continue its review of revenue policy and procedure and initiate measures to reform its tax structure (especially with regards to indirect taxes, such as customs tariffs, excise and consumption taxes, development sales taxes, and related levies) to ensure the collection of adequate domestic revenues to meet the Government's economic stabilization objectives.

--The Government of Sudan will continue to review its foreign exchange and import licensing systems to ensure that they function effectively in meeting the needs of the private sector, consistent with the priorities established for the use of the Sudan's limited foreign exchange resources.

--The Government of Sudan will determine and institute policy reforms necessary to encourage increased private savings and investment, particularly from Sudanese working abroad.

--The Government of Sudan will issue regulations in implementation of its investment code and undertake other measures necessary to encourage foreign and domestic private investment in developing the economy, particularly in the agricultural sector.

--The Government of Sudan will review its policies and procedures relating to the import and distribution of petroleum products, and as determined appropriate, increase private sector participation in the importation and distribution thereof.

--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.

--An equivalent of 10 percent of the local currencies generated by this grant shall be deposited by the Government of Sudan into a Trust Account for use by the Government of the United State to cover program and administrative costs of the United States Assistance Program and administrative costs of elements of the U.S. Mission in the Sudan.

--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

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481. Has it been determined that the government of the recipient country has failed to take adequate steps to prevent narcotic 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, or, transported through 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?

2. 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) the debt is not denied or contested by such government?

No

No

3. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) 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

4. FAA Sec. 532(c), 620(a), 620(f), 620D; FY 1982 Appropriation Act Secs. 512 and 513. Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Vietnam, Syria, Libya, Iraq, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver? No

5. ISDCA of 1981 Secs. 724, 727 and 730. For specific restrictions on assistance to Nicaragua, see Sec. 724 of the ISDCA of 1981. For specific restrictions on assistance to El Salvador, see Secs. 727 and 730 of the ISDCA of 1981. N.A.

6. 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

7. FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC?
8. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters? No
- (b) If so, has any deduction required by the Fishermen's Protective Act been made? No
9. FAA Sec. 620(g); FY 1982 Appropriation Act Sec. 517. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill appropriates funds? At present Sudan is not in arrears on loan repayments to A.I.D. No
10. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking into Yes

Consideration" memo:
"Yes, taken into account
by the Administrator at
time of approval of
Agency OYB." This
approval by the
Administrator of the
Operational Year Budget
can be the basis for an
affirmative answer during
the fiscal year unless
significant changes in
circumstances occur.)

11. FAA Sec. 620(t). 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?
12. FAA Sec. 620(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? (Reference may be made to the Taking into Consideration memo.)
13. FAA Sec. 620A; FY 1982 Appropriation Act Sec. 520. Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism? Has the country aided or

The Sudan Government severed diplomatic relations with the U.S. in 1967, but such relations were resumed in 1972. The 1958 Bilateral Assistance Agreement was reconfirmed in 1971 and remains in effect.

Sudan was not considered to have been in arrears on payments of its U.N. obligations at the time that the A.I.D. administration approved the FY 82 OYB.

No

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abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime?

No

14. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

No

15. 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 transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

No

16. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Session of the General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed

Sudan was represented at this meeting and to date has not disassociated itself with the communique in question. This action on the part of Sudan has been considered by the U.S. Government (see Taking into account memo dated January 15, 1982) in approving the Agency's FY 82 OYB.

to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)

17. ISDCA of 1981 Sec. 721.
See special requirements for assistance to Haiti.

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria.

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest?

No

b. ISDCA of 1981, Sec. 725(b). If ESF is to be furnished to Argentina, has the President certified that (1) the Govt. of Argentina has made significant progress in human rights; and (2) that the provision of such assistance is in the national interests of the U.S.?

This activity will provide assistance using FY 83 ESF to Sudan.

c. ISDCA of 1981, Sec. 726(b). If ESF assistance is to be furnished to Chile, has the President certified that (1) the Govt. of Chile has made significant progress in human rights; (2) it is in the national interest of the U.S.; and (3) the Govt. of Chile is ~~not~~ aiding international terrorism and has taken steps to bring to justice those indicted in connection with the murder of Orlando Letelier?

This activity provides assistance using FY 83 ESF to Sudan.

Initial Environmental Examination
or Categorical Exclusion

Country: Sudan
Title: Sudan Commodity Import Program Grant
Funding: FY-83 (ESF Account) \$30 million.
Period of Assistance: 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 were met.

IEE Prepared by: Thomas F. Cornell, AFR/EA.

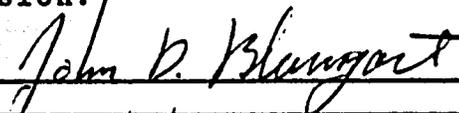
Environmental Action Recommended: Categorical Exclusion under AID regulation 16, Paragraph 216.2(c)(2)(ix).

Concurrence:


Edward Spriggs,
Director, AFR/EA.

Bureau Environmental Officer's Decision:

Approved: _____
Disapproved: _____
Date: _____



12/8/82

Clearance:

AFR/PD/EAP: MBaker
GC/AFR: DRobertson




Examination of Nature, Scope and Magnitude of Environmental Impacts.

I. Description of the Project.

The project proposes to provide a commodity import grant of \$30 million to the Government of Sudan (GOS) from the Economic Support Fund on standard A.I.D. terms. The principle objective of this grant is to provide Sudan with urgently needed imports of the highest economic importance and political sensitivity, thereby permitting the GOS to undertake an array of difficult policy reforms. A second objective is to increase support to the private sector where feasible.

Commodities will be selected from the list of eligible commodities (Handbook 15, Appendix B), all of which have been screened for any adverse effects they may have on the environment. No pesticides will be imported under the proposed grant and USAID/Sudan will inform the GOS and AID/W prior to the purchase of any potentially hazardous materials or uses once these become known.

II. Recommended Environmental Action.

In accordance with AID Regulation 16, Section 216.2(c)(ix), assistance under a Commodity Import Program is eligible for categorical exclusion from environmental procedures when, "prior to approval, AID does not have knowledge of the specific commodities to be financed and when the objective in furnishing such assistance requires neither knowledge, at the time the assistance is authorized, nor control, during implementation, of the commodities or their use in the host country".

As the contemplated grant assistance fulfills both the qualifications cited above, it should be granted a categorical exclusion.

SUDAN

COMMODITY IMPORT PROGRAM FY 1982

BIBLIOGRAPHY

Country Development Strategy Statement - FY 1983,
Sudan, January 1981

Agency for International Development, Annual Budget Submission - FY 1983,
Sudan, June 1981

Bank of Sudan, 21st Annual Report - 1980
March 1981

Economic and Financial Statistics Review,
January-March and April-June 1981

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

The original document contained the ESF Cable Series, (1982)
which included the following:

Kharto 10950 (Confidential)

State 319146 (Limited Official Use)

Kharto 10056 (Limited Official Use)

Kharto 10056 (Limited Official Use)

Kharto 10056 (Limited Official Use)

Kharto 09744 (Confidential)

State 301723 (Confidential)

State 299998 (Confidential)

Kharto 10935 (Unclassified)

Kharto 10822 (Unclassified)

Kharto 10501 (Unclassified)

Kharto 10822 (Unclassified)

Kharto 10501 (Unclassified)

THE PRESIDENT



Khartoum 25.9.1982

Mr. President and Dear Friend,

Last November I announced an economic reform and fiscal austerity program which included, inter alia, a significant devaluation of the Sudanese pound of 80%, removal of all subsidies on commodities, production incentives, control of public expenditure, rehabilitation of existing capital stock.. etc. This program was formulated in coordination with both World Bank and International Monetary Fund.

Some of the measures have been harsh on our people and have naturally given the disruptive elements in our country a chance for political exploitation, at a time we so much needed stability to support the peace efforts and forces in the area; and at a time our country is receiving increasing influx of refugees from six neighbouring countries.

Mr. President and Dear Friend.

At present we are conducting a further dialogue with both the World Bank and the Fund for a recovery program on which we have reached an agreement on all the basic issues. Our only difference with the Fund is on the EXTENT of another adjustment in the rate of exchange which we believe should not, at present, exceed 30%, whereas the Fund insists on 45%. Such an issue we believe should not, in the circumstances, be considered on purely technical basis, void of social and political constraints. We are therefore seeking your support.

We also seek such support in an increased level of US aid particularly in wheat imports over the next few years in addition to the present level until our current plans with the World Bank for restructuring the agricultural sector are fully implemented.

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We take this opportunity to thank you personally and to express our gratitude for the members of your esteemed government and the American People for their continuous support to Sudan in the past and we look forward to more cooperation under your able leadership in the future.

With our best wishes of good health and continued happiness, please, accept, Dear Friend the assurances of our highest consideration and gratitude.

Sincerely



GAAFAR MOHAMMED NIMEIRI
PRESIDENT OF THE DEMOCRATIC
REPUBLIC OF THE SUDAN.

H.E. RONALD REAGAN
PRESIDENT OF THE UNITED
STATES OF AMERICA,
WHITE HOUSE,
WASHINGTON.

THE WHITE HOUSE
WASHINGTON

October 22, 1982

Dear Mr. President:

I read your letter of September 25 with great interest and concern. Virtually all countries, including my own, are experiencing economic difficulties but Sudan's burden has been a particularly heavy one.

Let me express my admiration for the courageous course of economic reform you have taken for the betterment of the Sudanese people. The United States Government has enthusiastically supported the efforts already undertaken, and I want to assure you that you can expect the continued full support of the United States as you work to consolidate the gains already attained and continue on the difficult and treacherous path towards a rejuvenated economy. In this regard, while it is contrary to longstanding USG policy to intervene in International Monetary Fund negotiations with member nations, the United States has been working hard to foster the sort of broad support within the creditor and donor communities that Sudan needs. If we are to succeed in this effort, however, it is crucial that Sudan and the International Monetary Fund reach agreement on an appropriate set of economic policies that will not only provide the basis for sustained economic growth, but will also serve as a focal point around which Sudan's friends can rally with the complementary debt relief and other balance of payments assistance.

Finally, mindful of Sudan's difficult times, my Administration has allocated over \$30 million in assistance this fiscal year under our Food for Peace

program, an increase in funding over previous years.
I hope this will ease some of the burden of your
people.

Sincerely,

Ronald Reagan

His Excellency
Gaafar Mohammed Nimeiri
President of the Democratic Republic
of the Sudan
Khartoum

SUDAN

COMMODITY IMPORT PROGRAM FY 1982

BIBLIOGRAPHY

Country Development Strategy Statement - FY 1983,
Sudan, January 1981

Agency for International Development, Annual Budget Submission - FY 1983,
Sudan, June 1981

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March 1981

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January-March and April-June 1981

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

ACTION
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PAGE 01
ACTION AID-00

KHARTO 10935 030826Z

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ACTION OFFICE AFFA-03
INFO AAAP-02 AFDR-06 FM-02 C-01 CALI-02 AFDA-01 RELO-01
TELE-01 MAST-01 AFPM-01 /021 A4 83

INFO OCT-00 /035 W

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O 030824Z DEC 82
FM AMEMBASSY KHARTOUM
TO SECSTATE WASHDC IMMEDIATE 0002

UNCLAS KHARTOUM 10935

AIDAC

E. O. 12356: N/A
SUBJECT: PROPOSED ECONOMIC SUPPORT FOR THE SUDAN: FY 83 CIP

REF: A) KHARTOUM 10822, B) STATE 333729 (not in file)

1. WITHIN DOLS 200 MILLION CIP REQUIREMENTS LIST PROVIDED REF A, USAID CONSIDERS FOLLOWING LIST TOTALING DOLS 50 MILLION TO REPRESENT THE SUDAN'S MOST URGENT NEEDS, EXCLUDING OF COURSE PETROLEUM/PRODUCT WHICH GOS HAS REPORTEDLY COVERED UNTIL FEBRUARY BY WRINGING LAST AVAILABLE FX CREDIT FROM BANKING SYSTEM. IN THE ABSENCE OF DEFINITIVE GOS PRIORITY LISTS WITHIN DOLS 50 MILLION AND DOLS 150 MILLION AVAILABILITIES, WHICH ARE STILL AWAITING FINANCE MINISTER MANSOUR'S RETURN TO SUDAN, ETA DECEMBER 3, THIS IS BEST WE CAN DO NOW TO MEET AID/W NEED CITED PARAS 1 AND 3 REF B. WILL ADVISE FURTHER FOLLOWING MANSOUR RETURN.

2. COMMODITY	AMOUNT (DOLS MILLION)	SOURCE
- FERTILIZER	20.0	U. S.
- JUTE	8.4	BANGLADESH
- PUMPS	1.0	U. S.
- BALING HOOPS	0.9	U. S.
- SPARE PARTS	4.0	U. S.
- TELECOMMUNICATIONS EQMT.	3.0	U. S.
- ROAD MAINTENANCE EQMT.	3.0	U. S.
- PETROLEUM PROD. (LUBRICANTS)	7.0	U. S.
- INDUSTRIAL RAW MATERIALS	2.7	U. S.

KONTOS

Action Office Sudan
Date Received 12/3
Date Action Due 12/9
Date Action Taken _____

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CONFIDENTIAL

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PAGE 01 KHARTO 10950 031712Z

ACTION AF-10

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INFO	OCT-00	COPY-01	ADS-00	AID-07	INR-10	SS-10	CIAC-00
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	SSO-00	LAB-04	DOE-10	TRSE-00	PM-09	OPIC-07	OME-01
	STR-14	SIL-01	INRE-00	AGRE-00	FRB-03	JUS-01	USIE-00
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FM AMEMBASSY KHARTOUM

TO SECSTATE WASHDC NIACT IMMEDIATE 0018

CONFIDENTIAL KHARTOUM 10950

PASS TO AF/E AND AFR/EA

E.O. 12356: DECL: OADR

TAGS: BAID, SU

SUBJ: ECONOMIC SUPPORT FOR SUDAN

(A. J. Hedges)
EB

1. ENTIRE TEXT CONFIDENTIAL.

2. OUR OBJECTIVE IS TO BE AS HELPFUL AS POSSIBLE TO THE SUDAN TOWARD AVAILABILITY OF SUFFICIENT FOREIGN EXCHANGE FOR ESSENTIAL IMPORTS OVER CRUCIAL NEXT TWO-THREE MONTHS PENDING DISBURSEMENT UNDER IMF STANDBY. THE QUESTION NOW PRESENTED IS WHETHER THERE ARE ENOUGH SUCH ESSENTIAL IMPORTS ELIGIBLE FOR FINANCING UNDER THE CIP AND READILY PROCURABLE THEREUNDER TO MAKE OPTIMUM USE OF \$50 MILLION NOW AVAILABLE.

3. PER DECEMBER 2 KHARTOUM CABLE ON CIP, IT IS APPARENT THAT 20 MILLION OF FERTILIZER 8 MILLION OF JUTE PRODUCTS AND LIKELY \$7 MILLION OF LUBRICANTS FITS THIS DESCRIPTION IN ADDITION, THERE ARE PHARMACEUTICAL AND PESTICIDE REQUIREMENTS THAT ARE EQUALLY URGENTLY NEEDED BUT WOULD AT BEST BE SLOW MOVING UNDER CIP.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02

KHARTO 10950 031712Z

4. RELATIVE TO OIL, MINISTER OF ENERGY SHARIF EL TUHAMI TODAY INFORMED USAID DIRECTOR THAT SUPPLY IS STILL NOT ASSURED. HE SAID THAT SMALL OIL TRADING FIRMS OPERATING FROM THE SPOT MARKET ARE WORKING ON THEIR OWN BANKS TO PROVIDE SUPPLIER CREDITS. IF ALL CREDITS COME THROUGH, THERE SHOULD BE SUFFICIENT SUPPLY FOR ABOUT THREE MONTHS. TUHAMI THUS CONFIRMS STATEMENT OF ACTING FINANCE MINISTER BASHIR ISHAG REPORTED SEPTEL THAT FUEL SUPPLY FOR NEXT THREE MONTHS FAR FROM SECURE. ACCORDINGLY, CIP FINANCING OF SOME OIL MIGHT BE HIGHLY USEFUL, BUT TUHAMI AGREES THAT AS LONG AS SUPPLIER CREDITS ARE AVAILABLE FOR OIL, THEY, RATHER THAN CIP SHOULD BE USED, LEAVING CIP FOR NEEDS WHICH COULD NOT OTHERWISE BE FINANCED.

5. IF AT LEAST \$15 TO 20 MILLION OF OIL WERE TO BE FINANCED UNDER CIP, THERE WOULD BE NO NEED FOR ADVANCE MECHANISM. IF, HOWEVER, AS APPEARS MORE LIKELY, OIL NEED NOT BE FINANCED BY CIP, THERE WOULD REMAIN ABOUT \$15 TO 20 MILLION OF THE CIP WHICH WOULD BE USEFUL FOR URGENT FY REQUIREMENTS NOT READILY PROCURED UNDER CIP, E.G., PESTICIDES, PHARMACEUTICALS, SPARE PARTS, ETC. PROPOSED ADVANCE MECHANISM WOULD NOT ONLY ASSURE OPTIMUM UTILITY OF \$50 MILLION IN SUCH CONTINGENCY, BUT WOULD PROVIDE CLEAR SIGNAL TO GOS LEADERSHIP THAT U.S. WAS TAKING EXTRAORDINARY MEASURES TO HELP GOS IN ITS TIME OF NEED. AT A TIME WHEN INTENTIONS OF U.S. AS WELL AS IMF ARE BEING QUESTIONED, SUCH SIGNAL WOULD BE HELPFUL IN ENCOURAGING GOS TO TAKE NECESSARY DIFFICULT MEASURES UNDER IMF STANDBY AGREEMENT

6. ACCORDINGLY, EMBASSY AND USAID STRONGLY RECOMMEND THAT CIP AUTHORIZATION INCLUDE PROVISION FOR UP TO \$20 MILLION CASH ADVANCE AGAINST EQUIVALENT BANK OF SUDAN I/COM FOR PROCUREMENT OF CIP ELIGIBLE COMMODITIES OVER SUBSEQUENT 12 MONTHS. MONTHS

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TELEGRAM

PAGE 01 KHARTO 10222 011205Z 3326 001515 AID0145
ACTION AID-00

KHARTO 10222 011205Z 3326 001515 AID01
EMBASSY, POSSIBLY BY DECEMBER 2. NONTOS

ACTION OFFICE 4FEA-03
INFO AA4F-02 AFDP-02 FM-02 C-01 CALI-02 CPC-02 AFDA-01 RELO-01
~~TELECOM~~ HACT-01 /018 AS 1201

INFO DCI-00 INR-10 AF-00 CIAE-00 EG-00 INPE-00 /063 V
-----066227 011205Z /30

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FM AMEMBASSY KHARTOUM
TO SECSTATE WAS-DC IMMEDIATE 9948

UNCLAS KHARTOUM 10222

AIDAC

E.O. 12356: N/A
SUBJECT: ECONOMIC SUPPORT FOR THE SUDAN

REFERENCES: (A) STATE 330360 (B) STATE 3191
(C) KHARTOUM 10056 (D) MUDGE/CORNELL
TELECOM OF NOV 24

AFEA

ACTION COM

1. BASED ON DISCUSSIONS WITH OFFICIALS OF THE GOS MINISTRIES OF FINANCE AND COMMERCE, FOLLOWING IS TENTATIVE EXPANDED CIP LIST REQUESTED REFS (A) AND (B). LIST IS ARRANGED BY CATEGORIES IN APPROXIMATE ORDER OF PRIORITY. GOS STILL WORKING ON MORE REFINED ASSIGNMENT OF PRIORITIES, WEIGHING LESS ESSENTIAL PORTION OF HIGHER PRIORITY CATEGORIES AGAINST MORE ESSENTIAL PORTION OF LOWER RANKED CATEGORIES, WITHIN TWO LEVELS OF CIP AVAILABILITY: \$50 MILLION AND \$150 MILLION. FIGURES CITED ARE IN DOLS MILLION:

- FERTILIZER	40
- JUTE/BALING HOOPS	9
- PHARMACEUTICALS	5
- PETROLEUM	30
- WHEAT/WHEAT FLOUR	30
- TALLOW	16
- SPARE PARTS	14
- AGRI MACHINERY AND EQUIPMENT	14
- ROAD MAINTENANCE EQUIPMENT	7
- RAILWAY EQMT. AND SPARE PARTS	4
- TELECOMMUNICATIONS EQMT.	6
- INDUSTRIAL INPUTS AND EQMT.	10
- CHEMICALS AND TINPLATE	5
- TRUCKS, TRAILERS AND BUSES	5
- DRILLING EQMT. AND PUMPS	5
-	200

2. DURING DISCUSSIONS, USAID OFFICIALS NOTED THAT DUE TO PROCUREMENT DIFFICULTIES UNDER CIP REGULATIONS PHARMACEUTICALS WOULD BETTER BE PURCHASED FROM OTHER SOURCES OF FOREIGN EXCHANGE. ALSO, WE NOTED THAT WE WERE SEEKING AN INCREASE IN PL 488 TO FINANCE WHEAT/WHEAT FLOUR IMPORTS RATHER THAN DRAW ON CIP AVAILABLE FOR OTHER ESSENTIAL IMPORTS. SIMILARLY, REGARDING PETROLEUM, WE NOTED THAT WHILE CIP COULD BE USED, IT WOULD BE BETTER TO ARRANGE SUPPLY FROM SAUDI ARABIA AND OTHER FRIENDLY OIL PRODUCING COUNTRIES FOR WHOM OIL IS THE PREFERRED FORM OF ASSISTANCE. CONCERNING CURRENT REPORTS THAT SUDAN HAS ARRANGED CREDITS TO COVER ITS PETROLEUM REQUIREMENTS FOR NEXT 3-4 MONTHS, STATE MINISTER FOR FINANCE, BASHIR ISHAG, SAID THAT GOS HAS ONLY BEEN ABLE TO LINE UP FINANCING FOR 2-3 WEEK SUPPLIES ON QUOTE HAND-TO-MOUTH BASIS UNQUOTE. WE REMINDED GOS THAT OUR ABILITY TO FINANCE PETROLEUM DIRECTLY UNDER CIP WAS LIMITED TO CODE 941 COUNTRIES, WHICH AMONG NEIGHBORING OIL PRODUCERS INCLUDES ONLY EGYPT.

3. WE WILL FORWARD MORE DEFINITIVE PRIORITY LISTS AFTER THEY HAVE BEEN RECEIVED FROM MINFEP AND REVIEWED BY USAID/

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PAGE 01
ACTION AID-00

KHARTO 02371 141400Z

1086 086763 AID9165

 ACTION OFFICE AFEA-03
 INFO AAAF-02 AFDR-06 FM-02 C-01 CALI-02 CPP-01 CPS-02 CSE-02
 AFDA-01 RELO-01 TELE-01 MAST-01 AFPM-01 /026 A4 814

INFO OCT-00 AF-00 /045 W

-----062134 141408Z /38

O 141400Z MAR 83
FM AMEMBASSY KHARTOUM
TO SECSTATE WASHDC IMMEDIATE 1755

UNCLAS KHARTOUM 02371

AIDAC

FOR AFR/EA, PASS TO ARTHUR MUDGE, DIRECTOR

E.O. 12356: N/A
SUBJECT: SUDAN: FY 1983 COMMODITY IMPORT PROGRAM
(650-K-604)

REF: (A) STATE 42880, (B) KHARTOUM 1274

1. PURSUANT TO RECEIPT OF REF A, USAID HAS CONTINUALLY PRESSED GOS FOR FIRM INDICATION OF PROPOSED ALLOCATIONS UNDER ADDITIONAL DOLS 20.0 MILLION ESF.

2. WE HAVE JUST BEEN INFORMED MARCH 14 THAT LETTER FROM MINISTER OF FINANCE AND ECONOMIC PLANNING TO USAID IS BEING FINALIZED AND CONTAINS FOLLOWING BREAKDOWN:

A. DOLS 2 MILLION FOR TECHNICAL ASSISTANCE TO HELP ANALYZE CRITICAL POLICY ISSUES AND IMPLEMENT POLICY REFORMS, PARTICULARLY THOSE DESIGNED TO PROMOTE PRIVATE SECTOR PARTICIPATING IN ACTIVITIES CURRENTLY RUN BY GOVERNMENT OR PARASTATAL ENTERPRISES.

B. DOLS 5 MILLION FOR PUBLIC SECTOR PURCHASE OF SPARE PARTS, TOOLS, ETC. TO REHABILITATE TELECOMMUNICATIONS SYSTEM. ✓

C. DOLS 3 MILLION FOR PROCUREMENT OF SPARE PARTS BY SUDAN RAILWAYS. ✓

D. DOLS 1 MILLION TO CIVIL AVIATION AUTHORITY FOR FLIGHT SAFETY EQUIPMENT. ✓

E. DOLS 6 MILLION TO KENANA SUGAR CO. FOR PARTS AND EQUIPMENT, EXCLUDING SUGAR MAKING MACHINERY.

F. DOLS 1 MILLION FOR PROCUREMENT OF INDUSTRIAL CHEMICALS BY THE PRIVATE SECTOR (NOT PESTICIDE). ✓

G. DOLS 1.5 MILLION FOR TINPLATE. ✓

H. DOLS 0.5 MILLION TO SUDAN N-REN FOR FERTILIZER MAKING EQUIPMENT. ✓

3. REGARDING THE DOLS 6 MILLION FOR KENANA, USAID HAS INFORMALLY EXPRESSED CONCERN ABOUT THIS BEING IDENTIFIED AS PRIVATE SECTOR BY GOS AND WAS TOLD THAT SUCH AN ALLOCATION WOULD BE THE EQUIVALENT OF THE REQUIRED GOS CAPITAL CONTRIBUTION INTO THE CORPORATION. KONTOS

cc TEC
cc SW

3/14/83
A. Mudge
Sec of State

Action Office Sudan

Date Received 3/14

Date Action Due 3/16

Date Action Taken _____

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UNCLASSIFIED
Department of State

INCOMING
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PAGE 01 KHARTO 10501 191013Z 2912 094951 A109016
ACTION AID-00

KHARTO 10501 191013Z 2912 094951 A109016

FROM THE SIGNING OF AN AGREEMENT, THE GOS HAS REQUESTED A ONE-YEAR PERIOD FOR IMPLEMENTATION. USAID RECOMMENDS A ONE-YEAR PERIOD.

ACTION OFFICE AFEA-03
INFO AAFA-02 AFDP-02 AFOR-06 GC-01 GCAF-01 GCFL-01 FM-02
OL-01 C-01 CALI-02 CPP-01 CPS-02 AFDA-01 TVA-01 RELO-01
~~TELE-01~~ MAST-01 AFPM-01 /031 A4 819

2. COVENANTS TO BE INCLUDED IN CIP AGREEMENT WILL BE SUBJECT SEPTEL.

INFO OCT-00 AF-00 AMAD-01 /046 V
-----035567 191018Z /30

3. ALSO ADVISE SOONEST (1) YOUR CONCURRENCE USE OF BDS AS OFFSET IMPLEMENTING AGENT, (2) ANSWER TO SOURCE QUESTION RAISED PARA 1.C. ABOVE, AND (3) STEPS TO ACCELERATE FERTILIZER PROCUREMENT. KONTOS

O 191005Z NOV 82
FM AMEMBASSY KHARTOUM
TO SECSTATE WASHDC IMMEDIATE 9800

UNCLAS KHARTOUM 10501

AIDAC

FOR DON BOOTH, AF/E

E.O. 12356: N/A
SUBJECT: PROPOSED ECONOMIC SUPPORT FOR THE SUDAN

REF: STATE 319146

1. USAID HAS REVIEWED AND DISCUSSED WITH OFFICIALS AT GOS MINISTRY OF FINANCE AND THE BANK OF SUDAN, ALTERNATIVE CIP APPROACHES CITED REFTEL. FOLLOWING COMMENTS PERTAIN:

AFEA
**ADVANCE
ACTION COPY**

A. USAID AND GOS CONCUR THAT THE PREPARATION OF A NEW CIP FOR FY 1983 PROVIDING FOR QUOTE NORMAL UNQUOTE ELIGIBLE COMMODITIES WOULD BE PREFERABLE.

B. GOS CONCUR. IN THE PROCUREMENT OF UP TO DOLS 20 MILLION FERTILIZER FROM A U.S. SOURCE AND HAS ASKED THAT THE PROCUREMENT PROCESS BE INITIATED AS SOON AS POSSIBLE, EVEN BEFORE SIGNING OF THE NEW AGREEMENT IF POSSIBLE. WE WOULD APPRECIATE AID/W COUNSEL AND ASSISTANCE FOR THUS ACCELERATING PROCUREMENT OF URGENTLY NEEDED FERTILIZER.

C. GOS MUCH APPRECIATES AID/W PROPOSAL FOR ADVANCE DISBURSEMENT OF UP TO DOLS 30 MILLION, AND IS PREPARED TO SIGN A MEMORANDUM OF UNDERSTANDING THAT THE SUDAN WOULD IMPORT CIP ELIGIBLE COMMODITIES EQUIVALENT IN VALUE TO THE ADVANCE. HOWEVER, PLEASE ADVISE WHETHER OFFSET PROCUREMENT COULD NOT APPLY TO CODE 941 AS WELL U.S. SOURCE PROCUREMENT. REFTEL AMBIGUOUS ON THIS POINT. ALSO, IN LIEU OF IMPLEMENTING OFFSET PROCUREMENT THROUGH AN L/COM WITH A U.S. BANK, GOS WOULD STRONGLY PREFER SETTING UP A MONITORING SYSTEM AT THE BANK OF SUDAN. IN BRIEF, ON THE BASIS OF THE CIP ELIGIBILITY CRITERIA CITED PARA 3.D. REFTEL, THE BOS WOULD SCREEN IMPORT TRANSACTIONS INVOLVING U.S. OR CODE 941 COUNTRIES, WOULD REPORT PERIODICALLY TO USAID ON PROGRESS TOWARD FULFILLING THE IMPORT OFFSET REQUIREMENT, AND WOULD PROVIDE SUPPORTING DOCUMENTATION. REASON GIVEN BY GOS FOR WANTING TO USE THE BOS RATHER THAN A U.S. BANK IS THE GOS SENSE THAT GIVEN ITS CURRENT FINANCIAL PREDICAMENT GOS WOULD HAVE DIFFICULTY OPENING AN L/COM WITH A U.S. BANK.

Best Available Document

D. USAID IS SYMPATHETIC TO USING THE BDS AS THE IMPLEMENTING BANK INASMUCH AS IT WOULD ENABLE US TO MONITOR THE OFFSET PROCUREMENT PROCESS MORE CLOSELY. ALSO, IF THE GOS MUST GO THE L/COM ROUTE, U.S. BANK WILL LIKELY REQUIRE SOME INDICATION OF U.S. BACKING IF NOT A GUARANTEE, WHICH WE DOUBT CAN BE GIVEN. FYI, THE GOS IS WILLING TO SEND A BDS OFFICIAL TO THE U.S. IMMEDIATELY TO ATTEMPT TO OPEN AN L/COM IF NECESSARY.

E. GOS IS NOW PREPARING AN EXPANDED FY 1983 CIP LIST. WILL FORWARD AS SOON AS RECEIVED. ALTHOUGH IT EXPECTS TO BE ABLE TO FULFILL THE IMPORT OFFSET REQUIREMENT WITHIN SIX MONTHS

UNCLASSIFIED

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ORIGIN AID-08

8456 089661 AID3654

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ORIGIN OFFICE AFEA-03

INFO AAAF-02 AFDP-02 AFDR-06 PFCE-01 PDPR-01 PPPB-03 GC-01
GCAF-01 GCFL-01 FM-02 OL-01 C-01 CALI-02 CPP-01 CPS-02
CSE-02 AFDA-01 ES-01 RELO-01 MACT-01 DO-01 /037 A4 313

INFO OCT-88 COPY-01 INR-10 AF-00 EB-00 /864 R

DRAFTED BY AID/AFR/EA: T. F. CORNELL; B. CHAPNICK: 1W
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STATE/AF/E: DBDUTH

STATE/AF/EPS: M. GARRISON

AID/LEG/PPD: M. SULLIVAN (DRAFT)

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O 122306Z NOV 82
FM SECSTATE WASHDC
TO AMEMBASSY KHARTOUM IMMEDIATE

LIMITED OFFICIAL USE STATE 319146

AIDAC

E.O. 12356: N/A

TAGS:

SUBJECT: PROPOSED ECONOMIC SUPPORT FOR THE SUDAN

REF: A) KHARTOUM 10056, B) CORNELL/MUDGE TELCON OF
NOV. 8, 1982, C) STATE 298022, D) STATE 301723,
E) KHARTOUM 9744

1. WITH THE PRESSING NEED, FROM BOTH THE POLITICAL AND ECONOMIC POINTS OF VIEW, FOR KEY PRODUCTION INPUTS AND HIGHLY SENSITIVE CONSUMPTION ITEMS, NO KNOWN STOCKS OR ANTICIPATED DONOR SOURCES AND CURRENT FOREIGN EXCHANGE RESERVES AT NIL, AID/W APPRECIATES MISSION'S STRONG RECOMMENDATION FOR USG APPROVAL OF GOS REQUEST FOR IMMEDIATE RELEASE OF DOLS 50 MILLION ECONOMIC SUPPORT FUNDS FY 1983 CONTAINED REF A.

2. BECAUSE OF THE POTENTIAL INFLUENCE OF THE CIP MECHANISM ON SHAPING THE COMPOSITION OF GOS IMPORTS, AS WELL AS THE STRONG U.S. DESIRE TO FINANCE CODE 941 SOURCE AND ORIGIN COMMODITIES WITH OUR ASSISTANCE FUNDS, AID/W WOULD PREFER TO MAINTAIN THE CIP MECHANISM IF AT ALL POSSIBLE.

3. THUS, AID/W REQUESTS USAID ASSESSMENT OF THE FOLLOWING ALTERNATIVE CIP APPROACH:

A. AFR/EA WOULD PREPARE NEW CIP REVISING EXISTING (1982) CIP WITH USAID CABLE GUIDANCE FOR DOLS 50 MILLION. THIS AMENDMENT WOULD PROVIDE FOR QUOTE NORMAL UNQUOTE ELIGIBLE COMMODITIES, THE LIST OF WHICH WOULD BE DETERMINED IN LINE WITH PARA 3 BELOW. THIS COMMODITY LIST WOULD INCLUDE DOLS 20 MILLION FOR FERTILIZER FOR REASONS OUTLINED PARA 3 (C) BELOW.

B. WITHIN THE REVISED CIP, A. I. D. WOULD REVISE THE DISBURSEMENTS PROVISIONS TO PERMIT QUOTE ADVANCE DISBURSEMENT UNQUOTE FOR AN AMOUNT UP TO DOLS 30 MILLION.

C. IMMEDIATELY UPON APPROVAL OF CIP, AID/W WOULD PROCEED TO INITIATE PROCUREMENT OF UP TO DOLS 20 MILLION OF FERTILIZER (THE LEVEL SUGGESTED AS TOTAL UNFUNDED REQUIREMENT OF GOS FOR NOVEMBER AND DECEMBER).

SER/CDM ADVISES THAT FOR THE EMERGENCY SITUATION DESCRIBED REF A, A. I. D. COULD GREATLY STREAMLINE THE PROCUREMENT PROCESS FOR FERTILIZER THEREBY PERMITTING PROCUREMENT FROM U.S. SOURCE ALMOST AS FAST AS GOS COULD PROCURE ELSEWHERE. GIVEN CURRENT FERTILIZER PRODUCTION SITUATION IN U.S., AID/W HAS A PARTICULARLY STRONG PREFERENCE TO ENCOURAGE U.S. PROCUREMENT OF THIS COMMODITY.

D. IN EXCHANGE, WE WOULD WANT A FIRM UNDERSTANDING FROM GOS THAT SUDAN WOULD IMPORT, FROM THE U.S., COMMODITIES EQUIVALENT IN VALUE TO THE ADVANCE. PROCUREMENT OF THESE COMMODITIES WOULD BE DOCUMENTED ACCORDING TO A. I. D. REQUIREMENTS AND BE SUBJECT TO ALL A. I. D. PROCUREMENT REGULATIONS USUAL FOR A NORMAL CIP, E.G., A. I. D. FORM 31 (COMMODITY ELIGIBILITY), A. I. D. FORM 262 (INVOICE AND CONTRACT ABSTRACT), SD/SB SHIPPING.

PREFERRED MEANS OF IMPLEMENTING THESE PROCUREMENT PROCEDURES WOULD BE FOR GOS TO OPEN BANKING LETTER OF COMMITMENT IN ITS OWN NAME IN A U.S. BANK IN THE SAME MANNER THAT AID/W WOULD HAVE DONE IN THIS YEAR'S CIP. GOS WOULD DRAW DOWN ACCOUNT USING BANK ADMINISTERED A. I. D. REGULATIONS.

4. IN ADDITION TO USAID/SUDAN ASSESSMENT OF THE PROPOSAL OUTLINED IN PARA 3 ABOVE (I.E., OFF-SET OF ADVANCE) A. I. D. ALSO REQUIRES USAID ASSESSMENT OF WHETHER OF FOLLOWING DEPENDING ON MECHANISM CHOSEN: A) FOR BANKING ADMINISTERED COMMODITY PROCUREMENT FROM U.S.: REQUEST LENGTH OF TIME IT MIGHT TAKE GOS TO OPEN ITS OWN LETTER OF COMMITMENT IN U.S. BANK IN ORDER TO INITIATE U.S. COMMODITY PROCUREMENT; OR B) FOR AN ALTERNATIVE PROCESS TO OFFSET ADVANCE: TO FULLY DOCUMENT THE OFFSET OF THE ADVANCE, SHOULD ANOTHER MECHANISM BE SELECTED. IN CASE OF AN ALTERNATIVE TO AID/W PREFERRED BANK ADMINISTERED OFFSET, REQUEST SPECIFIC USAID DESCRIPTION OF ALTERNATIVE PROPOSED.

5. ALSO REQUEST USAID FINAL ASSESSMENT OF TIMING CONSTRAINT SINCE ALTERNATIVE FUNDING MECHANISMS SUCH AS PROGRAM GRANT (CASH GRANT) OR AMENDMENT TO 1982 CIP FOR FY 83 WOULD NOT FREE UP FUNDS FOR OBLIGATION UNTIL A CONGRESSIONAL NOTIFICATION ELAPSED.

6. AID/W RECOGNIZES THAT PARA 4 REF A PRESENTS SHORTEST PRIORITY LIST FOR EMERGENCY NOVEMBER AND DECEMBER PROCUREMENT. ASSUMING THAT ADVANCE METHOD OUTLINED PARA 3 ABOVE WERE USED, AID/W REQUESTS USAID/SUDAN TO PROVIDE EXPANDED 1983 CIP COMMODITY LIST BEYOND THE FOUR PRIORITIES FOR NOVEMBER AND DECEMBER AND ALSO BEYOND IMMEDIATE NOVEMBER/DECEMBER TIME FRAME OUTLINED REF A. ALSO REQUEST ANY OTHER INFORMATION USAID DEEMS APPROPRIATE FOR INCORPORATION TO CIP PAAD.

7. AID/W BELIEVES THAT THIS APPROACH SATISFIES THE POLITICAL NEED FOR QUOTE QUICK DISBURSEMENTS UNQUOTE AND WOULD ALSO APPRECIATE U.S. EMBASSY ASSESSMENT OF APPROACH.

8. DECENTROL SEPTEMBER 30, 1983. SHULTZ

LIMITED OFFICIAL USE

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LIMITED OFFICIAL USE
Department of State

INCOMING TELEGRAM

5

PAGE 01 KHARTO 10056 01 OF 03 051240Z 0148 062113 1107528
ACTION AID-00

KHARTO 10056 01 OF 03 051240Z 0148 013:13
FINANCING FOR THESE COMMODITIES.

ACTION OFFICE CTP0-03
INFO AA4F-02 AFFA-03 AFDR-06 FM-02 C-01 CALI-02 CPP-01 CPS-02
CT-01 STAG-02 CAST-01 AFDA-01 AGRI-01 STFA-01 TRSY-05
TVA-01 RELO-01 TELE-01 MAST-01 AFPM-01 /030 AA 85
INFO OCT-00 INR-10 AF-00 EB-00 ANAD-01 INRE-00 /064 V
-----255714 051243Z /30

O 051228Z NOV 82
FM AMEMBASSY KHARTOUM
TO SECSTATE WASHDC IMMEDIATE 9502

LIMITED OFFICIAL USE SECTION 01 OF 03 KHARTOUM 10056

AIDAC

PASS TO DON BOOTH, AF/E

E.O. 12356: N/A
SUBJECT: ECONOMIC SUPPORT FOR THE SUDAN

REF: (A) KHARTOUM 9744 (B) KHARTOUM 9523
(C) KHARTOUM 6803

1. SUMMARY: UNTIL A NEW STANDBY AGREEMENT IS SIGNED WITH THE IMF AND DISBURSEMENTS MADE, AS EXPECTED WITHIN THE NEXT 2-3 MONTHS, THE SUDAN WILL CONTINUE TO BE FACED WITH A SEVERE SHORTAGE OF FOREIGN EXCHANGE, PRECLUDING THE TIMELY IMPORT OF SOME OF ITS MOST ESSENTIAL COMMODITIES. TO HELP EASE THIS SITUATION, THE GOVERNMENT HAS REQUESTED THE IMMEDIATE RELEASE OF DOLS 50 MILLION ECONOMIC SUPPORT FUNDS (ESF). WE STRONGLY RECOMMEND U.S. APPROVAL OF THE GOS REQUEST. IN ADDITION TO MEETING URGENT IMPORT NEEDS, SUCH ASSISTANCE COULD HELP TO FORESTALL THE EMERGENCE OF A MAJOR POLITICAL CRISIS FOR THE GOS AS A CONSEQUENCE OF THE COUNTRY'S PRESENT ECONOMIC DIFFICULTIES. IT WOULD REASSURE THE GOVERNMENT OF OUR CONTINUED SUPPORT AT A TIME WHEN THE GOVERNMENT IS ABOUT TO INSTITUTE A SERIES OF MAJOR ECONOMIC POLICY AND PRICE ADJUSTMENTS WITH THEIR OWN IMPLICIT POLITICAL RISKS. THE MISSION WILL, OF COURSE, REQUIRE CONCRETE EVIDENCE THAT THE NEEDED ADJUSTMENTS ARE, IN FACT, TO BE IMPLEMENTED PRIOR TO RELEASING THE ESF FUNDS. END SUMMARY.

2. THE DIMENSIONS OF THE SUDAN'S FOREIGN EXCHANGE PROBLEMS ARE WELL-KNOWN. WITH IMPORTS TOTALING DOLS 1.8 BILLION AND EXPORTS AMOUNTING TO ONLY DOLS 600 MILLION, IT FACES AN ANNUAL TRADE DEFICIT OF AROUND DOLS 1.2 BILLION. DESPITE DONOR ASSISTANCE PRESENTLY AVERAGING DOLS 800 MILLION AND PRIVATE TRANSFERS (MAINLY WORKER REMITTANCES FROM THE ARAB OIL COUNTRIES) OF SOME DOLS 400 MILLION, THE SUDAN CONTINUES TO EXPERIENCE PERENNIAL FINANCING GAPS, REFLECTING PRIMARILY THE COUNTRY'S CRIPPLING DEBT SERVICE BURDEN. EVEN WITH PAST RESCHEDULING, THE DEBT SERVICE IN 1983 IS ESTIMATED AT OVER DOLS 1.1 BILLION. INTEREST ALONE WILL RUN DOLS 460 MILLION. FX RESERVES HELD BY THE BANK OF SUDAN ARE NIL.

3. OF THE SUDAN'S TOTAL DOLS 1.8 BILLION IMPORTS, ROUGHLY ONE-HALF IS FINANCED BY THE BANK OF SUDAN (BOS), INCLUDING PETROLEUM PRODUCTS, WHEAT AND WHEAT FLOUR, TALLOU, SUGAR, FERTILIZERS, INSECTICIDES AND PHARMACEUTICALS. THE GOS CHOOSES TO FINANCE THESE GOODS THROUGH THE BOS BECAUSE OF THEIR IMPORTANCE TO THE ECONOMY (PETROLEUM PRODUCTS, FERTILIZERS AND INSECTICIDES) OR THEIR POLITICAL IMPORTANCE AS KEY CONSUMPTION ITEMS (WHEAT AND WHEAT FLOUR, TALLOU, SUGAR AND PHARMACEUTICALS). THE GOVERNMENT'S MOST PRESSING NEED OVER THE NEXT 2 TO 3 MONTHS IS TO FIND

4. FOLLOWING IS AN ASSESSMENT OF THE NOVEMBER AND DECEMBER SUPPLY AND DEMAND SITUATION FOR THE COMMODITIES DEEMED BY GOS TO BE POLITICALLY AND ECONOMICALLY ESSENTIAL. AS INDICATED IN THE TABLE, GOS EXPORT EARNINGS FOR NOVEMBER-DECEMBER ARE EXPECTED TO TOTAL APPROXIMATELY DOLS 100 MILLION AT MOST, OF WHICH ONLY 50 PERCENT (OR DOLS 50 MILLION) WILL BE TRANSFERRED TO THE BOS FOR FINANCING OFFICIAL IMPORTS, DEBT, ETC. ASSUMING ALL BOS FX FROM EXPORTS IS USED TO FINANCE CRITICALLY-NEEDED IMPORTS, A GAP OF DOLS 35 MILLION WOULD STILL REMAIN AFTER PROVISION OF DOLS 50 MILLION U.S. AID.

ALL AMOUNTS IN U.S. MILLIONS OF DOLLARS:

COM-MO-DITY	NOV-REQUIRE-MENT	KNOWN STOCKS OR ANTICIPATED DONOR INPUTS	GOS REQUEST FOR U.S. AID	RESIDUAL GAP AFTER U.S. AID
PETROLEUM	93	93	26	67
FERTILIZER	20	20	15	5
PESTICIDES	10	10	--	10
WHEAT	20	35	--	--
JUTE/BAL-ING HOOKS	14	8	8	--
TALLOW	5	9	--	--
PHARMACEUTICALS	3	3	--	3
		135	50	85

EXPORT EARNINGS AVAILABLE FOR NOV-DEC COMMODITY IMPORT THROUGH BOS 50

Special letter

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ACTION AID-00

KH-R13 10056 02 OF 03 051242Z 0525

THERE WILL THEN BE A NEED FOR TALLOW FINANCING UNDER
FY 1983 CIP.

ACTION OFFICE STPO-B3
INFO AAF-02 AFEL-03 AFOR-06 FM-02 C-01 CALI-02 CPP-01 CPS-02
CI-01 STAG-02 SAST-01 AFDA-01 AGRI-01 STFA-01 TRSY-05
TYA-01 RELO-01 TELE-01 MAST-01 AFPH-01 /039 A4 85

INFO OCT-00 COPY-01 INR-10 AF-00 EB-01 INRE-00 /064 V
-----255756 051354Z /46

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FM AMEMBASSY KHARTOUM
TO SECSTATE WASHDC IMMEDIATE 9593

LIMITED OFFICIAL USE SECTION 02 OF 03 KHARTOUM 10056

AIDAC

PASS TO DON BOOTH, AF

RESIDUAL GAP

NOTE: NOV-DEC PETROLEUM REQUIREMENT INCLUDES 3-WEEK
STOCKS.

5. ANALYSIS OF NEEDS

A. PETROLEUM FIGURES GIVEN PARA 4 REPRESENT MINIMUM
NEEDS. CONSUMPTION IN NOV.-DEC. IS GENERALLY LOW COM-
PARED WITH OTHER MONTHS. EVEN SO, STOCKS ON HAND REPRESENT
LESS THAN ONE WEEK SUPPLY, WITH BUT WEEK ADDITIONAL
SUPPLIES REPORTED EN ROUTE. THE PORT SUDAN REFINERY IS
NOW CLOSED FOR YEARLY MAINTENANCE (WHICH WAS ORIGINALLY
SCHEDULED FOR JANUARY BUT WHICH NOW HAD BEEN ADVANCED
BECAUSE OF LACK OF FX TO FUND CRUDE). IN INTERIM, GOS
NEEDS TO BUY REFINED PRODUCTS ON CREDIT WHICH IT IS FIND-
ING DIFFICULT TO OBTAIN. AGAIN THE LACK OF FX PRECLUDES
GOS TAKING ADVANTAGE OF CURRENTLY LOW SPOT PRICES.

B. FERTILIZERS. PRIMARY NEED IS FOR UREA, THOUGH PHOS-
PHATIC FERTILIZERS ARE ALSO NEEDED. COTTON AND OTHER
CROP OUTPUTS HAVE SUFFERED IN PAST FROM INADEQUATE AND
POORLY TIMED APPLICATIONS OF FERTILIZERS. MOST FERTILIZER
DEALERS PRESENTLY HAVE NO STOCKS. GIVEN IMPORTANCE OF
AGRICULTURE TO SUDAN'S EXPORT EARNINGS (95 PERCENT),
QUICK IMPORTATION OF FERTILIZER IS HIGH PRIORITY.

C. GOS NEED FOR PESTICIDES IS SIMILAR TO THAT FOR
FERTILIZERS. GIVEN PROBLEMS DIFFICULTIES UNDER A.I.D.
REGULATIONS, USAID IS CONSIDERING FINANCING UNDER CIP.

D. WHEAT. PRESENT NEEDS BEING MET BY U.S. 1982 CIP WHEAT
SHIPMENTS NOW BEGINNING TO ARRIVE AND 9,000 TONS DELIVERED
FROM FRANCE END OCTOBER. YEARLY NEEDS ARE 720,000 MT, OF
WHICH APPROXIMATELY 200,000 COMES FROM DOMESTIC SOURCES.
U.S. 1982 CIP PROGRAM PROVIDING 150,000 MT WHEAT AND
40,000 MT WHEAT FLOUR TO BE DELIVERED BETWEEN NOW AND MID-
JANUARY. 1983 PL 400 WILL BE NEEDED BY LATE JANUARY.

E. JUTE. SHORTAGE OF JUTE BAGS LAST YEAR RESULTED IN
INABILITY TO TRANSPORT CRITICAL AND PERISHABLE AGRICUL-
TURAL OUTPUTS. BAGS MUST BE ORDERED NOW TO BE ON HAND
FOR COTTON AND HARVEST OTHER CROPS AND PREVENT EXPORT
LOSS.

F. TALLOW. YEARLY NEED IS DOLS 25 TO 30 MILLION. IF
SUFFICIENT FX UNAVAILABLE FOR TALLOW, COTTON SEED OIL IS
USED INSTEAD, ADVERSELY AFFECTING EXPORT EARNINGS.
PRESENT STOCKS OF TALLOW ARE SUFFICIENT TO MEET THE
SUDAN'S NEEDS FOR NEXT 3 TO 4 MONTHS, BUT WE ANTICIPATE

6. PHARMACEUTICALS. THE MINISTRY OF HEALTH HAS A MINI-
MONTHLY NEED FOR DOLS 1.4 MILLION FOR CRITICAL DRUGS
(CHRONIC AND LIFE-THREATENING ILLNESS, ETC.). THEY
ANTICIPATE NO FX WILL BE AVAILABLE FROM BOS OR OTHER
DONORS TO MEET THESE REQUIREMENTS. NON-CRITICAL DRUGS
MAY NOW BE IMPORTED WITH FX OBTAINED THROUGH STREET-
MARKET AND SHOULD BE AVAILABLE WITHOUT DONOR ASSISTANCE
THOUGH USAID AWARE OF DIRE NEED FOR CERTAIN DRUGS, WE H-
NOT INCLUDED MEDICINES FOR PROPOSED FINANCING BECAUSE OF
COMPLEXITIES OF PROCUREMENT UNDER A. I. D. REGULATIONS.

6. WE THINK IT IMPORTANT TO REEMPHASIZE, AS INDICATED
THE GOS AT THE RECENT IMF/IBRD MEETING IN TORONTO, THAT
THE SUDAN'S CURRENT FINANCIAL PREDICAMENT IS NOT ENTIRE
OF ITS OWN MAKING. REDUCED FX EARNINGS FOR THE COUNTRY
MAJOR EXPORT CROPS, COTTON, GROUND NUTS AND SORGHUM, HA
RESULTED FROM DEPRESSED MARKETS DESPITE SUBSTANTIAL
INCREASES IN DOMESTIC PRODUCTION. RAPID INCREASES IN
PETROLEUM IMPORT PRICES DURING THE PAST SEVERAL YEARS H-
SOAKED UP FX THAT COULD OTHERWISE HAVE BEEN USED TO
INCREASE AGRICULTURAL PRODUCTION.

7. THE GOVERNMENT'S FAILURE TO OBTAIN MOST OF THE
FINANCING AVAILABLE UNDER ITS CURRENT IMF STANDBY AGREE-
MENT HAS BEEN, PERHAPS, THE CHIEF CAUSE OF THE SUDAN'S
IMMEDIATE PAYMENTS CRISIS. THE LEVEL OF RESOURCES AVAIL-
ABLE WOULD HAVE SUBSTANTIALLY ALLEVIATED THE PRESENT
SHORTFALL. THE FAILURE OF THE CURRENT STANDBY IS MORE
RESULT OF UNREALISTIC DEBT RESCHEDULING THAN ANY LACK OF
EFFORT BY THE GOS. HAVING CLOSELY FOLLOWED THE NEGOTIA-
TIONS RELATING TO A NEW STANDBY OVER THE PAST 2 TO 3.

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ACTION OFFICE STPO-03

INFO AAAF-02 AFEA-03 AFDR-06 FM-02 C-01 CALI-02 CPP

CT-01 STAG-02 SAST-01 AFDA-01 AGRI-01 STFA-01

TVA-01 RELO-01 TELE-01 MAST-01 AFFPM-01 /039 A4

INFO OCT-00 COPY-01 INR-10 AF-00 EB-08 AMAD-01

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FM AMEMBASSY KHARTOUM
TO SECSTATE WASHDC IMMEDIATE 9594

LIMITED OFFICIAL USE SECTION 03 OF 03 KHARTOUM 10056

AIDAC

PASS TO DON BOOTH, AF/E

MONTHS, WE SEE NO POINT IN DWELLING ON THIS ISSUE EXCEPT TO NOTE OUR OPTIMISM THAT THE TECHNICAL RIGIDITIES INHERENT IN THE PRESENT STANDBY AGREEMENT ARE BEING SOFTENED APPROPRIATELY IN THE NEW AGREEMENT.

8. IT IS ALSO ENCOURAGING TO NOTE THE GOVERNMENT'S WILLINGNESS AND DETERMINATION TO CARRY OUT WHAT IT PERCEIVES AS NECESSARY AND APPROPRIATE REFORMS. WHILE THIS IS NOT A NEW DEVELOPMENT, WE SEE SOME SIGNIFICANT ADVANCES THIS YEAR OVER LAST YEAR. GOS ACCEPTANCE OF THE OIL PIPELINE IN LIEU OF A COSTLY REFINERY, AND ITS DECISION TO POSTPONE THE PORT SUAKIN AND NEW AIRPORT PROJECTS ARE CASES IN POINT. THE ELIMINATION DURING THE PAST YEAR OF BUDGET SUBSIDIES FOR PETROLEUM AND WHEAT PRODUCTS AND PHARMACEUTICALS IS A FURTHER INDICATION OF THE GOVERNMENT'S COMMITMENT TO DO WHAT NEEDS TO BE DONE TO GET THE ECONOMY BACK ON TRACK.

9. MOST OF THE NEXT ROUND OF PRICE ADJUSTMENTS AND OTHER REFORMS WILL MOST LIKELY BE IMPLEMENTED IN CONJUNCTION WITH THE NEW STANDBY AGREEMENT ALTHOUGH THERE IS SOME LIKELIHOOD OF AN EARLIER ANNOUNCEMENT ALONG THE LINES OF PRESIDENT NIMIERI'S SPEECH OF LAST NOVEMBER. AS ALREADY INDICATED, IT WOULD BE EXTREMELY USEFUL FOR THE PRESIDENT TO HAVE THE DOLS 50 MILLION ESF IN HAND AS HE IS ANNOUNCING THE REFORM MEASURES. A SUGAR PRICE HIKE LAST JANUARY BROUGHT THE STUDENTS OUT INTO THE STREETS IN KHARTOUM. INFLATION HAS BEEN AROUND 40 PERCENT THIS PAST YEAR, WHILE PUBLIC SECTOR SALARIES AND STUDENT ALLOWANCES HAVE REMAINED CONSTANT. THE POLITICAL REPERCUSSIONS THIS YEAR COULD BE CONSIDERABLY WORSE.

10. IN ORDER TO EXPEDITE AID/W ACTION ON THE GOS REQUEST, WE RECOMMEND AN AMENDMENT TO THE FY 1982 PROGRAM ASSISTANCE AGREEMENT AS THE QUICKEST WAY TO AUTHORIZE THE DOLS 50 MILLION ESF NEEDED FOR THE BALANCE OF CY 1982. THE ECONOMIC ANALYSIS CONTAINED IN THE FY 1982 PAAD IN SUBSTANTIVE TERMS STILL PERTAINS. GIVEN DEVELOPMENTS DURING THE PAST YEAR, UPDATING THE DATA TABLES IN THE PAAD WILL POINT UP AN EVEN GREATER NEED FOR B/P ASSISTANCE THAN IN 1982. ADVISE IF THE MISSION CAN BE OF ANY FURTHER ASSISTANCE IN THIS EFFORT, KONTOS

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TELEGRAM 604

PAGE 01 KHARTO 09744 280915Z 0758 076896 A10430

KHARTO 09744 280915Z

0758 076896 A104302

REQUIREMENTS ARE ALREADY BEING MET UNDER FY 1982 CIP, AND PL 480 PROGRAM AT CURRENT PROJECTED LEVEL IS EXPECTED TO COVER IMPORT NEEDS THROUGH MAY 1983. MONTOS

ACTION ER-01

ACTION OFFICE SIPO-03

INFO AAF-02 AFEA-03 AFDP-02 AFDR-06 PPCE-01 PDPR-01 PPEP-01
PPIA-01 FM-02 STAG-02 SAST-01 AFDA-01 ES-01 STFA-01
RELO-01 TELE-21 MAST-01 AFPM-01 /D34 A? 228

INFO OCT-00 COPY-01 ADS-02 AID-00 INR-10 SS-10 AF-00
CIAE-00 DODE-00 H-01 NSCE-00 NSAE-00 COME-00 SSO-00
TRSE-00 PA-01 CEA-01 OMB-01 STA-14 INRE-00 JUS-01
USIE-00 SP-02 SPRC-01 /058 W

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O 280912Z OCT 82
FM AMEMBASSY KHARTOUM
TO SECSTATE WASHDC IMMEDIATE 0412

C O N F I D E N T I A L KHARTOUM 09744

PASS TO A. I. D. FOR CHAPNICK

E.O. 12356: CECL: OADR
TAGS: EAID, EFIN
SUBJECT: ECONOMIC SUPPORT FOR THE SUDAN

REF: STATE 288682

1. USAID/S HAS JUST CONCLUDED INITIAL DISCUSSIONS WITH OFFICIALS OF GOS MINISTRIES OF FINANCE AND COMMERCE RE COMPOSITION FY 1983 CIP. PREPARING DETAILED RESPONSE PARA 6 REFTEL ON BASIS THESE DISCUSSIONS.
2. IN INTERIM, WISH ADVISE THAT BACKDATING (RETROACTIVE FINANCING) OF U.S. IMPORTS ALREADY IN COUNTRY OR IN PIPE-LINE WOULD NOT BE A FEASIBLE OPTION INASMUCH AS IMPORTS TO DATE OR EXPECTED THAT WOULD BE ELIGIBLE FOR BACKDATING ARE PRACTICALLY NIL.
3. AS FOR CASH TRANSFER, WE EXPECT GOS TO REQUEST DOLS 35-50 MILLION UP FRONT FOR SIMPLE REASON THAT GOS PRESENTLY HAS NO FOREIGN EXCHANGE ON HAND TO FINANCE URGENTLY NEEDED PETROLEUM PRODUCTS, FERTILIZER AND PESTICIDES. IN PAST, GOS HAS RELIED ON CREDITS FROM SAUDI ARABIA TO FINANCE THESE IMPORTS BUT NOW OFFICIALS SAY THEY ARE HAVING VERY DIFFICULT TIME LINING UP SAUDI CREDITS THIS YEAR. GOS HAS NO ONE ELSE TO TURN TO BUT THE U.S.
4. AS ALTERNATIVE TO CASH TRANSFER, WE HAVE BEEN ASKED WHETHER PETROLEUM PRODUCTS, FERTILIZER AND PESTICIDES COULD BE FINANCED UNDER FY 1983 CIP, IF SOURCE/ORIGIN ELIGIBILITY REQUIREMENTS WERE MET. IF SO, THIS WOULD BE PRACTICALLY AS GOOD AS CASH TRANSFER FROM GOS STANDPOINT. PLEASE COMMENT.
5. OTHER ITEMS ON PRELIMINARY GOS LIST INCLUDE DOLS 30 MILLION WHEAT/WHEAT FLOUR, 12 MILLION TALLOW, 10 MILLION SPARE PARTS, 7 MILLION ROAD CONSTRUCTION EQUIPMENT, 10 MILLION AGRICULTURAL MACHINERY AND EQUIPMENT (INCLUDING JUTE AND TRACTORS), 8 MILLION INDUSTRIAL RAW MATERIALS, 8 MILLION CHEMICALS AND TINPLATE, AND 5 MILLION EACH FOR IRRIGATION PUMPS AND DRILLING EQUIPMENT, TRANSPORT VEHICLES AND PHARMACEUTICALS.
6. INCLUDING DOLS 20 MILLION PETROLEUM AND 30 MILLION FERTILIZERS AND PESTICIDES LIST TOTALS 150 MILLION. WE HAVE, OF COURSE, MADE IT CLEAR THAT APPROVED FUNDING FOR FY 1983 ESF/CIP IS ONLY 70 MILLION. QUICKEST DISBURSING ITEMS ON LIST INCLUDE PETROLEUM, TALLOW, AND JUTE. THUS, UNDER QUOTE NORMAL UNQUOTE CIP, DISBURSEMENTS OF ABOUT DOLS 20-25 MILLION COULD BE ACHIEVED IN FIRST QUARTER. WHEAT IS ALSO QUICK-DISBURSING BUT FIRST QUARTER WHEAT

*File
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E.C.F.*

Action Office BC - Sudan
 Date Received 10/29
 Date Action Due _____
 Date Action Taken _____

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STATE 301723

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DRAFTED BY AID/AFR/EA: J. WHEELER/STATE/AF/E: D. BOOTH: IW
 APPROVED BY STATE/AF: P. LYMAN
 AID/AFR/EA: B. CHAPNICK
 STATE/AF/EP: J. BLANEY
 AID/DA/AFR: A. R. LOVE
 AID/AFR/EA: T. F. CORNELL
 STATE/S/S-O: TLRANDALL, JR.

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C O N F I D E N T I A L STATE 301723

FOR AMBASSADOR KONTOS

E. O. 12356: DECL: OADR
 TAGS: EAID, EFIN
 SUBJECT: SUDAN AND THE IMF

REF: A) STATE 298682, B) STATE 299998

1. IN YESTERDAY'S STRATEGY CABLE FOR NIMEIRI TALKS (REF B), WE AUTHORIZED YOU TO TELL NIMEIRI WE WOULD BE PREPARED TO SIGN AN AGREEMENT IN CONNECTION WITH PROMULGATION OF AN AGREEMENT WITH IMF IN THE AMOUNT OF DOLS 25 MILLION IN ESF. FURTHER DISCUSSION HERE PERMITS YOU TO RAISE THIS TO DOLS 50 MILLION ALTHOUGH EXPLAINING THAT A. I. D. HAS NOT YET DECIDED ON THE EXACT MODALITIES OF SUCH AN AGREEMENT. NOTE THAT DEPENDING ON SPEED OF GOS/IMF DISCUSSIONS AND BUREAUCRATIC MECHANICS IN WASHINGTON, IT MAY NOT BE POSSIBLE TO HAVE FINAL AGREEMENT TO SIGN IN KHARTOUM ON TIME. IN THIS EVENTUALITY, YOU WILL BE AUTHORIZED TO MAKE ANNOUNCEMENT OF OUR INTENTION TO COMMIT THIS ASSISTANCE. THE PURPOSE OF THIS PROPOSAL AS WE SEE IT IS TO HELP SUDAN THROUGH THE PERIOD AFTER REFORMS ARE TAKEN BUT PRIOR TO BEGINNING OF DISBURSEMENT OF IMF FUNDS. IN OUR PREVIOUS MESSAGE (REF A) WE ASKED QUESTIONS RELEVANT TO POSSIBLE CIP MODALITIES. THE ANSWER TO THOSE QUESTIONS WILL DETERMINE OUR OPTIONS ON MODALITIES FOR THE DOLS 50 MILLION AGREEMENT.

2. YOU CAN TELL NIMEIRI WE ARE WILLING TO FIND A FORMULA WITH THE CIP FRAMEWORK WHICH WOULD PERMIT UP FRONT DISBURSEMENTS. WE HOPE THIS ADDED DEMONSTRATION OF FLEXIBILITY ON OUR SIDE WILL HELP CONVINCED SUDAN THAT IN SUPPORT OF A REFORM PROGRAM WHICH PROMISES A WAY OUT OF SUDAN'S PRESENT FINANCIAL PROBLEMS WE ARE WILLING TO WORK WITH OTHER DONORS TO ACHIEVE THE DEBT RELIEF AND AID LEVELS NECESSARY TO ITS SUCCESS. SHULTZ

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TREASURY:DTEMPLEMAN (DRAFT)
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TO AMEMBASSY KHARTOUM NIACI IMMEDIATE

C O N F I D E N T I A L STATE 299998

E.O. 12356: DECL: OADR
TAGS: MASS, EAID, EFIN, SU
SUBJECT: YOUR NEXT MEETING WITH NIMEIRI -- A STRATEGY

REF: (A) KHARTOUM 0597; (B) STATE 298682; (C) STATE 297764;
(D) STATE 295782; (E) KHARTOUM 9388

1. (C) ENTIRE TEXT.

2. WHILE WE DO NOT WISH TO OVERSIMPLIFY SUDAN'S VERY COMPLEX AND DIFFICULT SITUATION WITH THE IMF, YOUR REPORTING AND OUR DISCUSSIONS WITH THE IMF AND OTHERS LEAD US TO THE FOLLOWING TENTATIVE ASSESSMENT OF THE SITUATION:

-- WE UNDERSTAND THE FUND WILL SOON SEND OR HAS SENT A COMMUNICATION TO THE SUDANESE GOVERNMENT WHICH WILL FOCUS HEAVILY ON THE BUDGET WHICH THE FUND BELIEVES TO BE THE SOLE REMAINING ISSUE. EMBASSY'S REFTEL REPORT ON CONVERSATION WITH MANSOUR SUGGESTS THAT THE TWO SIDES ARE ON THE BRINK OF AN AGREEMENT. CONTRARY TO OUR EARLIER FEARS, THEY ARE APPARENTLY COMMUNICATING AND UNDERSTANDING EACH OTHER.

-- THE SUDANESE WERE CLEARLY UPSET BY A MISUNDERSTANDING IN TORONTO CONCERNING DISBURSEMENT OF 128 MILLION SDR UNDER THEIR OLD IMF PROGRAM WHICH THEY FELT THE FUND HAD AGREED TO. THE FUND INSISTS THAT NO SUCH GUARANTEE WAS GIVEN AND THE FUND'S MANAGING DIRECTOR WROTE THE SUDANESE GOVERNMENT IN AN APPARENTLY UNSUCCESSFUL ATTEMPT TO END THIS CONTROVERSY. IN ANY CASE, THE POSSIBILITY OF A CFF AND OF ADVANCED DISBURSEMENT OF ISF FUNDS (SEE BELOW) SHOULD ADDRESS SUDANESE CONCERNS ON THIS POINT.

-- A GREAT DEAL OF PROGRESS HAS BEEN MADE ON THE DESIGN OF THE NEW PROGRAM WITH MOST ISSUES AGREED UPON. IT WOULD OBVIOUSLY BE TRAGIC IF THE AGREEMENT UNRAVELED BECAUSE OF AN UNFORTUANTE COMBINATION OF MINOR SUBSTANTIVE DIFFERENCES AND BAD ATMOSPHERICS.

-- AS TIME PASSES WITHOUT AN AGREEMENT, CHANCES FOR A TIMELY PROGRAM DIMINISH AS PROGRAM TARGETS BECOME SOMEWHAT OBSOLETE AND INTERRELATED EFFORTS TO GENERATE SUPPORT FOR BOTH A GOOD DEBT RELIEF EXERCISE AND, AN

EARLY CONSULTATIVE GROUP MEETING STALL. THE WORLD BANK HAS FROZEN THE ISSUANCE OF CONSULTATIVE GROUP INVITATIONS UNTIL AGREEMENT ON THE IMF PROGRAM HAS BEEN REACHED. IN SHORT, TIME IS OF THE ESSENCE.

3. WE THINK WHAT IS NEEDED IS A CONFIDENCE BUILDING EXERCISE FOR NIMEIRI. MOST OF HIS RESERVATIONS ABOUT THE SPECIFICS OF THE NEW PROGRAM SEEM TO STEM LESS FROM SUBSTANTIVE OBJECTIONS ON SPECIFIC ISSUES, CENTERING MORE GENERALLY AROUND A SIMPLE AND QUITE UNDERSTANDABLE PROGRAM, COUPLED WITH AN UNCERTAINTY AS TO WHETHER OR NOT DONORS AND CREDITORS WILL COME UP WITH ENOUGH CASH AND DEBT RELIEF TO SUPPORT THE PROGRAM. THE PRESENTATION WE HAVE IN MIND FOR YOU TO MAKE WOULD SEEK BOTH TO ALLAY AS MUCH OF THAT NERVOUSNESS AS POSSIBLE AND TO REDUCE SUDAN'S EMOTIONAL BAGGAGE VIS-A-VIS THE FUND.

4. WE HAVE ALREADY MADE SOME GESTURES OF STRONG USG SUPPORT AND ARE WORKING TO COME UP WITH OTHERS. YOU HAVE THE LETTER FROM THE PRESIDENT AND ACCOMPANYING TALKING POINTS (REFTELS -C- AND -D-). ALTHOUGH THE LETTER IS NOT RESPONSIVE TO NIMEIRI'S SPECIFIC REQUEST FOR INTERVENTION WITH THE FUND, IT IS NEVERTHELESS AN EXPRESSION OF OUR DEEP CONCERN FOR SUDAN, AT THE HIGHEST LEVEL, AND A COMMITMENT TO WORK HARD TO ENSURE THAT SUDAN IS NOT ABANDONED AFTER IT HAS MADE A COMMITMENT ON A TOUGH REFORM

PACKAGE. IN DISCUSSING THIS LETTER WITH PRESIDENT NIMEIRI, YOU MAY TELL HIM THAT THE U.S. HAS DECIDED THAT IF, AND WHEN, SUDAN SIGNS THE IMF LETTER OF INTENT, WE WILL MAKE EVERY EFFORT TO HELP SUDAN TO CLOSE ITS FINANCING GAP IN 1983 WITH THE COOPERATION OF OTHER CREDITORS AND DONORS THROUGH AID AND DEBT RELIEF. THE U.S. ITSELF HAS DECIDED THAT IT WILL ACCELERATE ASSISTANCE FOR SUDAN THIS FISCAL YEAR IN DIRECT RESPONSE TO THE SEVERITY OF THE ECONOMIC SITUATION THAT HE AND HIS GOVERNMENT HAVE DESCRIBED TO US. YOU MAY ALSO CAST THIS STEP AS BEING RESPONSIVE TO SUDANESE PERCEPTIONS OF SHORTFALLS IN THIS YEAR'S ANTICIPATED LEVELS OF IMF SUPPORT FOR SUDAN. FURTHERMORE, YOU MAY SUGGEST THAT JUST PRIOR TO A DEVALUATION, THE USG AND SUDAN'S GOVERNMENT SIGN TWO AGREEMENTS TO PROVIDE ABOUT DOLS 25 MILLION IN ESF (DRAWN FROM SUDAN'S PROJECTED FY-83 PROGRAM) AND DOLS 18 MILLION IN PL48B, WHICH WOULD GIVE HIS GOVERNMENT WITH SOME ECONOMIC GOOD NEWS TO SOMEWHAT COUNTERBALANCE THE INEVITABLE NEGATIVE PUBLIC REACTION TO A DEVALUATION. WHILE ESF ALLOCATIONS UNDER THE CURRENT CR HAVE NOT BEEN DETERMINED, WE ARE CONFIDENT THESE AMOUNTS WILL BECOME AVAILABLE.

5. THIRDLY, YOU MAY ASSURE THE PRESIDENT THAT AS SUDAN'S FRIENDS, THE U.S. HAS NOT BEEN IDLE IN SUPPORTING SUDAN'S LEGITIMATE INTERESTS AT THE IMF AND ELSEWHERE. WHILE WE ARE NOT INTERVENING IN THE NEGOTIATING PROCESS, WE HAVE MET REPEATEDLY WITH THE FUND IN ORDER TO SEEK CLARIFICATION ON OUTSTANDING PROGRAM ISSUES (E.G., THE BUDGET) AND ADVISE THEM ON SUDANESE PERCEPTIONS OF THE SITUATION. YOU MIGHT CITE THE PARTICULAR OCCASION ADDRESSED REFTEL -B- AS A MOST RECENT INSTANCE. YOU SHOULD STRESS THAT THIS CAN BE NO SUBSTITUTE FOR SUDAN'S DIRECT EXCHANGES WITH THE IMF AND THAT NIMEIRI SHOULD ENSURE THAT HIS GOVERNMENT CONTINUES TO COMMUNICATE ACTIVELY AND DISPASSIONATELY WITH THE FUND WITH A VIEW TO RESOLVING QUICKLY ALL REMAINING DIFFERENCES. THE FUND IS ALSO WELL AWARE OF OUR HIGH INTEREST IN ITS CONTINUING THE NEGOTIATING PROCESS AND OUR REPEATED CONTACTS WITH FUND STAFF AND MANAGEMENT ARE REINFORCING THAT POINT.

6. YOU SHOULD FURTHER EXPLAIN TO NIMEIRI THAT THE IMF BOARD PROCEDURALLY WOULD CONSIDER ANY REQUEST MADE BY

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SUDAN FOR A TEMPORARY WAIVER OR PERFORMANCE CRITERIA DUE TO SHORTFALLS OF AID AND/OR DEBT RELIEF. HOWEVER, YOU SHOULD BE AWARE THAT THE IMF STAFF MIGHT NOT RECOMMEND, NOR THE BOARD APPROVE, A WAIVER; AND EVEN IF A WAIVER COULD BE GRANTED THE FUND MIGHT INSIST UPON ADDITIONAL MEASURES (SEE REFTEL -B-).

IT IS HOPEFUL THAT THIS STATEMENT OF EXPLANATION MIGHT SERVE TO SOMEWHAT ALLAY NIMEIRI'S FEAR THAT ALL WOULD BE LOST IF THERE WERE AN AID/DEBT RELIEF SHORTFALL. YOU SHOULD REITERATE, HOWEVER, THAT WE FIRMLY BELIEVE THAT WITH SUDAN'S AND OUR OWN STRONG EFFORTS, SUDAN'S MOST PRESSING FINANCIAL NEEDS CAN BE MET DURING THE LIFE OF THE PROGRAM. TO THAT END, WE HAVE ALREADY CONTACTED MANY OF THE CREDITORS AND DONORS TO ENCOURAGE MOBILIZATION EFFORTS, ALTHOUGH WE FEEL THAT SUDAN MUST TAKE THE LEAD, PARTICULARLY WITH ARAB DONORS AND CREDITORS (ESPECIALLY SAUDI ARABIA). MOREOVER, THE IMF AND WORLD BANK ARE ALSO PREPARING A SERIES OF CONSULTATIONS TO ENSURE A SUCCESSFUL DEBT RELIEF EXERCISE AND A SUCCESSFUL CONSULTATIVE GROUP MEETING.

7. YOU SHOULD ALSO EMPHASIZE THAT THE POSSIBILITY OF A DRAWING FROM THE FUND'S COMPENSATORY FINANCE FACILITY (FOR SHORTFALLS IN EXPORT EARNINGS) TOTALLING AROUND, SDR 25 MILLION, WHICH HAS APPARENTLY ALREADY RAISED BY FUND WITH GDS, WOULD BE AN IMPORTANT AND MEANINGFUL DEMONSTRATION BY THE IMF OF ITS COOPERATIVE ATTITUDE WHICH WILL, INTER ALIA, MEAN SUBSTANTIALLY MORE MONEY FOR SUDAN AT THE BEGINNING OF ITS STANDBY.

8. IN SUM, YOU SHOULD TRY TO LEAVE THE IMPRESSION WITH NIMEIRI THAT THE EXTRAORDINARY EFFORTS OF THE IMF AND THE USG DEPEND UPON PROMPT AND SUCCESSFUL COMPLETION OF THE IMF NEGOTIATIONS (I.E., THE BALL IS NOW IN HIS COURT).

SHULTZ

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THE PRESIDENT



Khartoum 25.9.1982

Mr. President and Dear Friend,

Last November I announced an economic reform and fiscal austerity program which included, inter alia, a significant devaluation of the Sudanese pound of 80%, removal of all subsidies on commodities, production incentives, control of public expenditure, rehabilitation of existing capital stock.. etc. This program was formulated in coordination with both World Bank and International Monetary Fund.

Some of the measures have been harsh on our people and have naturally given the disruptive elements in our country a chance for political exploitation, at a time we so much needed stability to support the peace efforts and forces in the area; and at a time our country is receiving increasing influx of refugees from six neighbouring countries.

Mr. President and Dear Friend.

At present we are conducting a further dialogue with both the World Bank and the Fund for a recovery program on which we have reached an agreement on all the basic issues. Our only difference with the Fund is on the EXTENT of another adjustment in the rate of exchange which we believe should not, at present, exceed 30%, whereas the Fund insists on 45%. Such an issue we believe should not, in the circumstances, be considered on purely technical basis, void of social and political constraints. We are therefore seeking your support.

We also seek such support in an increased level of US aid particularly in wheat imports over the next few years in addition to the present level until our current plans with the World Bank for restructuring the agricultural sector are fully implemented.

We take this opportunity to thank you personally and to express our gratitude for the members of your esteemed government and the American People for their continuous support to Sudan in the past and we look forward to more cooperation under your able leadership in the future.

With our best wishes of good health and continued happiness, please, accept, Dear Friend the assurances of our highest consideration and gratitude.

Sincerely



GAAFAR MOHAMMED NIMEIRI
PRESIDENT OF THE DEMOCRATIC
REPUBLIC OF THE SUDAN.

H.E. RONALD REAGAN
PRESIDENT OF THE UNITED
STATES OF AMERICA,
WHITE HOUSE,
WASHINGTON.

THE WHITE HOUSE

WASHINGTON

October 22, 1982

Dear Mr. President:

I read your letter of September 25 with great interest and concern. Virtually all countries, including my own, are experiencing economic difficulties but Sudan's burden has been a particularly heavy one.

Let me express my admiration for the courageous course of economic reform you have taken for the betterment of the Sudanese people. The United States Government has enthusiastically supported the efforts already undertaken, and I want to assure you that you can expect the continued full support of the United States as you work to consolidate the gains already attained and continue on the difficult and treacherous path towards a rejuvenated economy. In this regard, while it is contrary to longstanding USG policy to intervene in International Monetary Fund negotiations with member nations, the United States has been working hard to foster the sort of broad support within the creditor and donor communities that Sudan needs. If we are to succeed in this effort, however, it is crucial that Sudan and the International Monetary Fund reach agreement on an appropriate set of economic policies that will not only provide the basis for sustained economic growth, but will also serve as a focal point around which Sudan's friends can rally with the complementary debt relief and other balance of payments assistance.

Finally, mindful of Sudan's difficult times, my Administration has allocated over \$30 million in assistance this fiscal year under our Food for Peace

program, an increase in funding over previous years.
I hope this will ease some of the burden of your
people.

Sincerely,

Ronald Reagan

His Excellency
Gaafar Mohammed Nimeiri
President of the Democratic Republic
of the Sudan
Khartoum

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APPROVED BY AID/SER/COM:V C SCHMEISSER, JR
AID/COM/ALI:P HAGAN
AID/COM/CPS:V VONSPIEGELFELD (SU)
AID/COM/TS:J LOGAN (DRAFT)
AID/COM/PP:R CAHN (DRAFT)
AID/COM/SE:E CLARKE (SUBS)
AID/GC/CCH:S WHITHAM (SUBS)
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TAGS:

SUBJECT: SUDAN CIP GRANT 605-K-603: DOLS. 25.0 MILLION
DIRECT REIMBURSEMENT UNDER DA NO. 603-01

REF: (A) KHARTOUM 2473, (B) HAGAN/SHERPER MEMO DATED OCT.
6, 1982; (C) KHARTOUM 6616 DATED JULY 28, 1982; (D) STATE
198731 DATED JULY 10, 1982

1. IN RESPONSE TO PARA 4, REF (A), THE DOCUMENTATION SUBMITTED BY GOS DOES NOT MEET THE CONDITIONS DESCRIBED IN REF (B), ON WHICH THE DISBURSEMENT OF DOLLAR 25.0 MILLION WAS PREDICATED. AS CLEARLY INDICATED IN REF (D), AID/W EXPECTED SUBMISSION OF ONLY ELIGIBLE TRANSACTIONS TO SUPPORT THAT DISBURSEMENT. NOTWITHSTANDING THE POSSIBILITY EXPRESSED IN OUR OCTOBER 6, 1982 MEMO THAT IT MIGHT BE POSSIBLE TO SEEK WAIVERS FOR SOME TRANSACTIONS, WE NOW BELIEVE THAT REQUESTS FOR WAIVERS (SOME OF WHICH WOULD HAVE TO BE AUTHORIZED BY THE ADMINISTRATOR) ARE NOT WARRANTED EXCEPT AS A LAST RESORT, AND NOT UNTIL THE ALTERNATIVES HEREIN SUGGESTED HAVE BEEN EXHAUSTED. RATHER, THE GOS SHOULD BE REQUESTED TO PROVIDE DOCUMENTATION FOR OTHER, REPLACEMENT TRANSACTIONS THAT MEET ELIGIBILITY REQUIREMENTS. USAID IS REQUESTED TO TAKE APPROPRIATE STEPS IN PURSUIT OF THAT OBJECTIVE.

2. USAID SHOULD NOTE THAT ELIGIBILITY PERIOD PERMITS FINANCING OF TRANSACTIONS FROM OCTOBER 1, 1981 (BASED ON CONTRACT OR ORDER DATE) TO JULY 7, 1983 (BASED ON LETTER OF CREDIT ISSUANCE DATE). USAID IS ENCOURAGED TO WORK WITH GOS TO IDENTIFY ELIGIBLE TRANSACTIONS WITHIN THE ABOVE STATED TIME FRAME AND CAREFULLY EXAMINE SUPPORTING DOCUMENTATION TO INSURE THAT THEY ARE FREE OF PROBLEM AREAS SUCH AS THOSE IDENTIFIED IN THE MEMO OF OCTOBER 6, 1982. WE HOPE THAT THE 18 MONTHS WHICH HAS ELAPSED PLUS THE MONTHS REMAINING IN THE ABOVE TIME FRAME PROVIDES AMPLE OPPORTUNITY TO IDENTIFY SUITABLE TRANSACTIONS.

3. TRANSACTION (E) OF REF (B) IS ONE WHICH MIGHT BE MADE ELIGIBLE IF WE COULD FIND A WAY TO SATISFY 50/50 CARGO PREFERENCE REQUIREMENT. (AS USAID NO DOUBT AWARE, COMPLIANCE MUST BE MET BY CATEGORY OF VESSEL - DRY BULK CARRIERS, DRY CARGO LINERS AND TANKER) UNFORTUNATELY, WE ARE NO

IN A POSITION TO ASCERTAIN IN APRIL 1983 THAT NO U.S. FLAG TANKERS WERE AVAILABLE IN FEBRUARY 1982, ESPECIALLY CONSIDERING TANKER TRAFFIC PATTERNS IN THE AREA. THUS WE ARE UNABLE TO MAKE A DETERMINATION OF NON AVAILABILITY. HOWEVER, IF ANOTHER SIMILAR TRANSACTION COULD BE ARRANGED AND U.S. FLAG TANKERS SOLICITED, THEN BOTH TRANSACTIONS (CARGO AND TRANSPORTATION) COULD BECOME ELIGIBLE WHETHER OR NOT U.S. TANKER ACTUALLY OFFERED AGAINST LETTER SOLICITATION AND ENTIRE DOLLARS 25 MILLION ACCOUNTED FOR. ADVISE IF USAID AND GOS WISH TO PURSUE THIS OPTION.

4. ANOTHER TRANSACTION NOT PREVIOUSLY MENTIONED IN CONNECTION WITH THE DOLLARS 25 MILLION DISBURSEMENT BUT WHICH MIGHT BE APPROPRIATE IS REPRESENTED BY THE FREIGHT COSTS OF THE OCTOBER AND NOVEMBER SHIPMENTS OF WHEAT AND WHEAT FLOUR UNDER SUBJECT GRANT TOTALING DOLLARS 30.0 MILLION. CARGO PREFERENCE CONCERNS HAVE BEEN ADEQUATELY ADDRESSED, THE COMMODITIES WERE FINANCED BY AID AND ALL THE TRANSPORT COSTS WERE PAID WITH NON-U.S. FINANCIAL RESOURCES. PLEASE CONSIDER THIS AND ADVISE.

5. REGARDING PARA. 6, REF. (A), A RATED BILL OF LADING (B/L) IS A B/L SHOWING THE RATE PER FREIGHTING UNIT, I.E. COST PER APPROPRIATE QUANTITY. THE APPROPRIATE QUANTITY WOULD BE A LONG TON OR METRIC TON OR HUNDRED-WEIGHT OR NUMBER OF CUBIC FEET, ETC. SHULTZ

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copy sent to [unclear]
Date: March 10, 1983

TO: Director, Arthur W. Mudge
USAID/Sudan

FROM: Susan Gibbs, Supervisory Evaluator
U.S. General Accounting Office (USGAO)
International Division, European Branch

SUBJ: Review of AID Management of Commodity Import Program (CIP)

1. INTRODUCTION

This interim memorandum presents our observations on USAID/Sudan's management of the CIP funded with fiscal years 1980, 1981, and 1982 Economic Support Fund (ESF) appropriations. It is being issued to advise you of matters disclosed during our review, and to provide you with an opportunity to comment on them so that we may obtain any additional information including corrective actions planned.

This memorandum gives the opinion of the on-site audit staff and is not a draft report or the official position of the USGAO. Should you desire, we would be pleased to discuss the matters presented in this memorandum. However, any written comments or further clarifications after our departure should be forwarded to Mr. Val ^Karklis at the following address:

U.S. General Accounting Office
Room 138, Architect Building
1400 Wilson Blvd
Rosslyn, VA 22209

2. STATEMENT OF AUDIT FINDINGS

The Sudan CIP suffers from a serious and chronic lack of management attention to the requirements of law and AID regulations and procedures. There is a complete lack of monitoring of the arrival and disposition of AID-financed commodities, which has persisted through three full program

years. Furthermore, the Mission is in violation of section 609 of the FAA, which requires that the local currencies generated from the sale of the commodities be deposited into a special account. Moreover, most of the local currencies which have been generated have been used by the GOS for general budget support, rather than for mutually agreed upon developmental purposes.

These problems have been exacerbated, if not in fact caused, by insufficient staffing, personnel turbulence, and the adverse conditions common to Sudan. Added to these is the fact that responsibility for the CIP is fragmented among four separate offices.

We believe that this failure to properly administer the CIP is a serious problem requiring immediate attention.

3. DESCRIPTION OF THE PROGRAM

The GOS has received \$240 million in CIP assistance since FY 1980. Procurement under the programs has focused primarily on raw materials and spare parts, capital equipment, and grain.

<u>GRANT NUMBER</u>	<u>FISCAL YEAR</u>	<u>AMOUNT</u>
601	1980	\$ 40 Million
602	1981	\$ 50 "
603	1982	\$100 "
604 1)	1983	\$ 30 "
604 Supplemental	1983	\$ 20 "

The PAADs and grant agreements, as well as discussions with Mission officials, give the impression that the programs have included substantial private sector participation. For example, the FY 1980 Agreement calls for

1) GOS also received a \$ 20 million ESF cash grant in FY 1983.

The GOS to make as much as possible of the grant proceeds available to the private sector. The Agreements for FY 1981 and 1982 require a minimum percentage to be directed to the private sector -- 50 percent and 60 percent respectively. An AID memo to the Assistant Administrator for Africa states that one of the principal objectives of the FY 1982 CIP was to increase support to the private sector; 70 percent of the grant funds were to go for this purpose.

If one assumes that private sector participation means that the AID-financed commodities will be imported by private companies, the expressed intent of the Sudan CIPs has not been met. The bulk of the funds have been allocated to government and parastatal organizations. \$ 53 million of \$ 75 million (70 percent) of FY 1982 CIP funds were allocated to public entities. (The remaining \$ 25 million of the \$ 100 million grant, for retroactive financing of purchases, is still unresolved). Only \$ 22 million has been allocated to the private sector, and even part of this has been earmarked for such government-^Nowned organizations as Sudan Airways, Sudan Railways, and Khartoum University.

Mission officials agreed that the actual procurements do not conform to the expressed intent of the program. They attribute this in part to the absence of mutually agreed upon definitions of public and private sector. We were told that the GOS considers revenue-producing government organizations as private sector. (However, there are exceptions to this. The \$ 20 million allocation for the Blue Nile Grid Electrical Energy^U project^U is considered public sector, even though the National Electricity Corporation produces revenue.)

Based on the misperception that the programs have been primarily

private sector oriented, Mission officials have assumed that there is less need for extensive monitoring, since the private sector is supposed to be "self-policing." Further the lack of clear definition has raised problems in determining which procurement ~~activities~~^{TRANSACTIONS} should generate local currency.

We believe it is important for the thrust of the program to conform to AID's objectives as stated in the program documentation. In order for this to occur, the Mission needs to work with the GOS to arrive at mutually agreed upon definitions of private vs. public sector, and to insure that these are reflected in stated program objectives. The lack of clarity has contributed to Mission Monitoring Deficiencies.

4. USAID/SUDAN MONITORING OF THE CIP

Monitoring of program implementation is a Mission responsibility. It is important in order for AID to assure itself that U.S. funds are disbursed in accordance with statutory requirements, and that goods and services financed are used effectively to produce intended benefits. Monitoring requires collecting management data and maintaining records that can be used by others evaluating the impact of the program. Active monitoring involves site visits to program activities (i.e. ports, storage and distribution points) and obtaining reports so that problems can be identified in a timely manner, and action taken to resolve them. Although there are several offices involved in the Administration of the CIP at USAID/Sudan, this monitoring is not being done.

A. RESPONSIBILITIES ARE DIVIDED WITHIN THE MISSION

Within USAID/Sudan, responsibilities for managing the CIP are shared by four offices. The Program Office is responsible for preparing the

Program Assistance Approval Document (PAAD), and for helping to determine whether any special covenants or conditions precedent should be included, to enhance achievement of U.S. Objectives. The Supply Management Office is responsible for advising and assisting the GOS in the procurement of AID-financed commodities, to insure timely and effective implementation of the CIP. The SMO told us that his responsibilities for the procurement process continue up to the time that the letters of commitment/letters of credit are opened.

The Controller's Office defines its responsibilities for the CIP as:

- Maintaining information on obligations and commitments;
- Maintaining information on shipping of commodities, for use in arrival accounting reviews;
- Monitoring generation, deposits, and withdrawals of counterpart funds in the special account; and,

Reviewing, on a sample basis, arrival accounting and end-use monitoring to insure effective use of AID-financed commodities.

The responsibilities of the Project Operations Office include programming the CIP-generated local currency, and issuing implementation letters related to its uses. To the extent that the CIP is "projectized", the office participates in planning commodity procurement, and managing the projects. The office also reviews and clears PAADs as they relate to inclusion of "projects" under CIP and local currency uses.

At the time of our visit in March 1983, the Mission was in the process of writing a Mission Order concerning the division of responsibilities for the CIP, laying out the functions of each office.

In our opinion, this division of responsibilities is a management weakness. It results in no one at the Mission having complete knowledge of the status of the program.

*Who do they
summarize for
the file?*

B. COMMODITY ARRIVAL AND DISPOSITION

AID Handbook 15, Chapter 10, describes the procedures for insuring that commodities are properly accounted for and used. The Mission is required to evaluate the grantee's commodity arrival and disposition system. If the Mission determines that the grantee's system provides reasonable assurance that the requirements of Handbook 15 will be met, then the Mission is supposed to monitor the system. If the Mission determines, however, that the grantee's system does not provide adequate accounting for commodities, then it should establish and maintain its own system.

USAID/Sudan does not have on file the required approved description of the GOS arrival and disposition system, the Mission's evaluation of the system, nor the Mission's monitoring procedures. Nor has the Mission established its own system.

The PAADs for FY 1980, 1981 and 1982 contain a section titled "Arrival Accounting and End-Use Monitoring", which, on the surface, seems to indicate that the Mission has at least a familiarity with the GOS system. This is not the case. We found that no one at the Mission knows whether the GOS has ^{AN} arrival accounting system, let alone how it works. For all three years, the PAADs have contained language to the effect that, if necessary, the services of an established freight forwarder may be purchased with local currency, to monitor and report on arrivals and clearance from the port. We could find no record of any action taken in this regard.

All three PAADs also contain the following statements:

"AID will apply the standard 90 days port clearance requirements and the 12 months utilization period requirement. These, with constant follow-up and pressure on both buyers and transportation officials, may serve to expedite the movement of AID financed cargo. At present, these is an

extremely large backlog ... of GOS public sector project cargo awaiting inland transportation in holding areas outside the port."

We found no evidence that the Mission has monitored the 90 day and 12 month requirements, or followed up with either the importers or port officials on the status of arrivals.

The grant agreements between AID and the GOS contain the standard language concerning the kinds of records that are required to be kept by the GOS. No Mission official could tell us whether these records are maintained. Further, the grant agreements require GOS to provide such reports as AID may require.

The only report that has been requested by the Mission has been a quarterly grant progress report, the contents of which have been specified in implementation letters. No quarterly reports have ever been received from the GOS.

Mission officials cite several reasons for the lack of arrival accounting and end-use monitoring. Chief among these is shortage of staff. There is only one direct hire in the Supply Management Office; the SMO feels that one person cannot do an adequate job. Action is currently being taken to bring in a direct hire assistant SMO. There are only two direct hires in the Controller's Office; these individuals also feel that they are not properly staffed to perform their functions. They expect things to improve with the arrival of a new TCN employee in April 1983.

Mission officials also indicated that the need for extensive monitoring is not as great when the private sector is involved; private importers are expected to be "self-policing". However, as noted above in our description of the program, there is much less participation by the private sector than has been envisioned. The bulk of the CIP funds

are used for public sector procurements.

In our opinion, a third reason for the Mission's poor performance is the fact that responsibilities for the program had never been clearly established, and no one office has been charged with the overall Administration of the CIP.

The result is that it is not possible for the Mission to determine if the AID-financed commodities have been properly accounted for and used as required by AID Regulations.

C. PORT VISIT

We visited Port Sudan on March 5 and 6, 1983. There we met with officials of the port authority and customs, as well as with the shipping agent responsible for many of the commodities shipped from the U.S., and with a private importer representative.

These officials were unanimously of the opinion that the congestion and delays that plagued Port Sudan 3 years ago have been alleviated. This has been due in large part to the opening of the new Port Sudan to Khartoum highway. The number of trucks that now ply this route has increased greatly. We were told that goods trucked from Port Sudan to Khartoum take only 24 hours, as opposed to weeks for train shipments. The private importer said that many companies are willing to pay the higher (by 100 percent) truck rates, for the speed and efficiency it offers.

(Note: The effect of the new highway on port congestion was also noted in an April 1981 AMEMB, Khartoum cable summarizing a trip to Port Sudan by Ambassador Kontos.)

The shipping agent said that, from a transportation viewpoint, goods are moving easily into and through the port, and that there are often unused berthing spaces. He said that a larger problem is unclaimed cargo, i.e. goods not picked up by the consignee. We attempted to document this problem with the port authority, and were told that, for the public sector, there was ~~ed~~^{no} unclaimed cargo at the port. (Note: Cargo is considered unclaimed after one month.)

A cursory inspection of a warehouse and surrounding lot where unclaimed cargo was stored turned up one consignment of AID-financed commodities which had been at the port since July 1982.

During our visit, ^A problem was raised by the shipping agent that will impact on the Mission's plans for arrival accounting. We were told that the port authority's out-turn receipt of cargo is the tally of record for commodities received at the Port. This out-turn receipt, however, is only issued after the goods have been discharged and transported from the dock to port authority warehouses. We were told that the port authority accepts no responsibility for cargo until after it issues its out-turn receipt. Further, the shipping agent said that the port authority issues ~~no~~^{no} reports of damaged cargo. This could present a serious gap in the accountability for goods received at the port.

Mission officials told us that they plan to visit the port in April 1983 with a view towards documenting and evaluating the arrival accounting procedures there.

LOCAL CURRENCY MONITORING

FAA, Section 609, requires that local currency generated from the sale of CIP-financed commodities be deposited in a special account and

used for mutually agreed upon development projects. AID Handbook 4 requires that Missions monitor compliance with these requirements. Specifically, Appendix 1A states that Missions, as appropriate, check collection and use of local currency and report on the status thereof.

LOCAL CURRENCY GENERATION

The CIP grant agreements require the GOS to establish a special account and deposit therein the local currency generated from the sale or importation of the commodities. The grant agreement for the FY 1980 program does not specify when ~~the~~ the deposits are to be made. The subsequent agreements state that the deposits to the special account should be made quarterly upon advise from A.I.D.

The grant agreements do not require the GOS to inform AID when the special account is established nor to report periodically on its status. The Mission has, however, on occasion requested such information from the GOS. (letters dated 6/20/81, 5/27/82 and 8/21/82).

Mission officials do not ^{HAVE COMPLETE INFORMATION ON} ~~know~~ how and when counterpart funds are being collected from the importers and subsequently deposited in the special account. One Mission official explained that the system for collecting counterpart funds changed when the Mission began to use bank letters of commitment for a portion of the FY 1982 program funds. (He said prior to the 1982 program direct letters of commitment were used but because of the large number opened, it created an ^{UNWISELY} ~~unwisely~~ management problem for AID) Importers working through the Citibank of Sudan are currently required to deposit 100 % of the counterpart funds at the time the letter of credit is opened. Mission officials told us they are not certain when the Citibank transfers the counterpart funds to the GOS nor when the GOS

deposits them in the special account. Moreover, Mission officials were not certain when or how parastatal and private importers using direct letter of commitment remitted their counterpart funds to the GOS. The Mission has drafted ^F ^A letter to the GOS requesting information on the GOS system for local currency collection and deposit.

There is a complete lack of knowledge about counterpart funds for the FY 1980 CIP. According to Mission officials and program documentation the special account was not established by the GOS; consequently the Mission cannot ascertain what, if any, local currency was generated. A Mission official said that any counterpart funds generated were deposited directly into the GOS treasury and used for general budgetary support.

In June 1981, the Mission sent a letter to the GOS requesting information ^{ON} whether a special account had been established and, if so, the status of the account, ^{IE} deposits and withdrawals. This is the first record we could find of the Mission querying the GOS regarding the special account. This inquiry was sent 18 months after the FY 1980 agreement was signed, and one month after the Mission had signed the FY 1981 agreement.

We found no subsequent information in the files to indicate Mission attempts to resolve the local currency generation problem for the FY 1980 CIP until May 1982. In May 1982 the Mission informed the GOS that LS 20.9m (\$ 26.2m) should have been deposited in the special account as of March 31, 1982. This amount has been subsequently increased by about \$ 820,000 based on additional program disbursements.

The Mission Deputy Controller said this was the first billing for counterpart funds. We ~~none~~ ^{will} told that although the Controllers' billing stands, it is not expected that the GOS will attempt nor be required to reconstruct counterpart generations for the essentially completed program.

Also, although some program disbursements are still being made, a Mission officials said it is ^{not} ^{that} expected the GOS will begin to make the deposits, since it has already been mutually agreed by AID and the GOS to use the FY 1980 CIP counterpart funds for general budgetary support.

A special account has been established for the FY 1981 CIP (no record of date of establishment) and according to a November 1982 report from the GOS, some deposits have been made. However, there are discrepancies between what the Mission has determined should be deposited and what the GOS reports has been deposited. (GOS deposits are approximately LS 15m less) We were told that reconciling this difference will be difficult because the GOS report does not indicate which transactions the deposits relate to.

Disbursements for the FY 1982 program began during the last quarter of CY 1982. We told that about 25% of the funds had been disbursed as of December 31, 1982. The Mission has not yet submitted the quarterly billing to the GOS. No funds have been disbursed for the FY 1983 program.

Mission officials said that ~~lack of experienced staff~~ as well as ~~difficulties in obtaining information from GOS~~, have contributed to problems in monitoring local currency generation. We were also told that determining which transactions should generate counterpart funds is also a problem. When the allocations were made for the CIP programs, the Mission and GOS did not identify which procurements would generate counterpart funds.

Consequently, we were told, the Mission has had to use ^{its} ~~the~~ judgment on determining counterpart generations. In January 1983 the Mission defined its criteria for counterpart generating transactions through implementation letters to the FY 1982 and 1983 grant agreements. (Imports for the private sector and revenue producing government entities are required to generate

1) THE GOS has submitted only two incomplete reports on the status of the Special Account -- June 1982 and Jan 1983.

local currency). We noted however, in a draft letter to the GOS clarifying program implementation issues, the Mission suggests that local currency be generated for all procurements.

We believe that the Mission's failure to resolve the violation of section 609 of the FAA requiring the establishment of the special account, prior to signing the agreements for the FY 1981 and 1982 programs, reflects a lack of management attention. So too does the failure to resolve in a timely manner the issue concerning which CIP transactions should generate local currency.

- LOCAL CURRENCY USE

The grant agreements state that the funds in the special account may be used for such purposes as are mutually agreed upon by A.I.D. and the GOS. They also state that a portion of the funds, as designated by AID, shall be set aside in a trust fund for the Mission's anticipated local currency expenditures.

Mission officials said counterpart funds have been allocated to:

- trust fund account requirements. According to a May 1981 agreement trust funds can be used to finance local currency costs of (1) USAID contractors implementing U.S. assistance projects; (2) Mission operating expenses (e.g. supplies, equipment and housing); and (3) program support expenses (eg. project designs and evaluations)
- finance GOS local currency requirements associated with implementing development projects, particularly AID development assistance projects in which AID is financing the foreign exchange costs.
- general budgetary support, i.e. funds are transferred to GOS treasury.

We were told FY 1980 CIP generated counterpart funds, approximately \$ 26 million, were used for general budgetary support according to a verbal agreement given by the former Mission Director. We could not find any

documentation to support this agreement.

According to the Project Operations Officer the programming of the FY 1981 program counterpart funds was completed in December 1982.

The allocations were:

TRUST FUND	\$ 9,654,700	24 %
PROJECTS	5,124,000	15 %
BUDGET SUPPORT	<u>24,821,300</u>	<u>61 %</u>
TOTAL	\$ 39,600,000	100 %

Mission officials said programming counterpart funds to the trust fund and on-going bilateral projects facilitates Mission monitoring of the use of program funds and implementation of development projects. The Mission Controller is responsible for trust fund expenditures and Mission project officers ~~are~~ ~~responsible~~ for monitoring the various development assistance ~~and~~ ~~development~~ projects. ~~Projects also~~

~~are~~ January 1983 implementation letters to the FY 1982 and 1983 grant agreements outline the report format to be used by the GOS to report semi-annually on the development projects being financed with CIP generated local currency. (The counterpart funds for each development project are deposited into a special sub-project account, maintained by the implementing GOS ministry).

We noted that over 80% of the FY 1980 and 1981 counterpart funds were allocated to general budgetary support and were told that the Mission expects most of the FY 1982 and 1983 counterpart funds to also be used for general budget support. Mission officials said that the trust fund and development project requirements are given priority but once these needs are met they believe the remaining funds should go to general budgetary

support because of the GOS's severe budgetary deficits. The Mission Director said he did not believe that requiring "attribution" of counterpart funds to specific GOS development expenditures, as is done in Kenya & Zambia, significantly influences host governments' budgeting process. Mission officials also said they did not have ^{the} staff to adequately monitor additional projects and therefore are reluctant to use counterpart funds for ^{too many} non-bilateral development projects. The Project Operations Officer said that because of the large amount of PL 480 and CIP counterparts funds available, the local currency needs of most on-going bilateral development projects have been met.

Mission Officials said they believe that the local currency requirements for the trust fund and development project have been met and are therefore willing to let the remainder of the funds go toward general budgetary support. We believe the Mission could consider using some of the fund currently allocated to general budget support to improve its program management capabilities. For example we noted that the CIP PAADs discuss that if the need arises local currency could be used to contract for a freight forwarder to assist the Mission in its arrival accounting and ^Rpost clearances. ↗

Another use of local currency could be to improve the GOS's capability to furnish program information on U.S. assistance projects.

EVALUATION OF THE CIP

Management requires that activities are periodically evaluated, particularly when considering follow-on programs. Although AID has established no formal requirement for evaluating program activities (Chapter 9 of Handbook 4 is still in "reserve" status), a certain level

of evaluation is implied ~~case~~^{AND}, from time to time, requested. Also, in July 1982, the AID Administrator established policy guidance for the field which requires Missions to closely monitor and evaluate country performance in implementing resource transfer assistance programs and projects.

A Mission official said no formal evaluation of the CIP nor use of the counterpart funds has been conducted. The Mission Director said a major evaluation is planned ~~to~~ for this year of the entire program. The evaluation will address in such issues as macroeconomic impact and the programs' effectiveness in serving private sector needs.

DONOR COORDINATION

According to the Mission Director donor coordination in Sudan has been strong. He said the Consultive Group consisting of all donors in Sudan, held its most recent meeting in January 1983 in Paris. This group discusses and coordinates on debt rescheduling and other major economic problems affecting Sudan. He also said in addition to this group the World Bank hosts informal meetings with major donors almost monthly. We were told there is also sector coordination among the donors. For example meetings have been held to coordinate assistance in the energy and irrigated agriculture sectors.

MISCELLANEOUS

A. \$25 MILLION RETROCATIVE FINANCING

At the CIP Project Review meeting in January 1982, it was decided that the eligibility date for commodities purchased under the grant should

be October 1, 1981, rather than the date the Agreement was signed -- in May 1982. It was concluded that the GOS had a critical need for cash flow during the first two quarters of the fiscal year, and that some commodities were undoubtedly being purchased in anticipation of the new CIP.

In order to speed the transfer of funds to the GOS, AID decided to "Retroactively finance" \$25 million worth of GOS purchases for the FY 1982 CIP. AID/W required that these be eligible commodities, purchased after October 1, 1981. The \$25 million disbursement was made on July 23, 1982, based on the Mission's July 20th cable stating that the transactions had been reviewed and certified as eligible.

On July 21, 1982, USAID/Sudan forwarded the documents, referred to in its cable to AID/W. In October 1982, AID/W returned the documents to the Mission because they were found to be incomplete or covered ineligible transactions. As of March 1983, the Mission had taken no further action to resolve the matter. One problem, we were told, was the difficulty in obtaining legible photocopies from the GOS. The Acting Director told us he intends to give this matter ^{high} priority attention, and expects a report to be filed to AID/W by the end of March.

In April 1982, the SMO and Program Officer (both of whom are no longer in Khartoum), working on a list of eligible import transactions, suggested that previous GOS purchases of wheat from the U.S. would satisfy the requirement in the most expedient way. No one currently at the Mission could tell us why the wheat purchases were not used, or why the transactions that were forwarded to AID/W were not more thoroughly reviewed.

B. PROCUREMENT PRACTICES

AID Regulations (and the implementation letters to the grant agreement)

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require that public sector procurement shall be accomplished through formal competitive bidding. Exceptions are allowed, but these require AID approval. The SMO told us that he has seen little evidence of formal competitive bid procedures being followed by the GOS. Substantial numbers of waivers, for over \$30 million worth of commodities, have been granted in the last two program years alone.

The largest of these waivers was for the Blue Nile Grid Electrical Energy project. In June 1982, the USAID/Sudan Mission Director signed a determination that an emergency situation existed with respect to the Blue Nile Grid procurement activity, and authorized the use of negotiated procurement procedures. This waiver applies to approximately \$20 million provided by AID for electrical power equipment under the FY 1982 CIP. A further waiver was granted for approximately \$800,000 of this amount, for non-competitive selection of Bechtel National, INC. as procurement services contractor for the project.

For the FY 1983 CIP, an emergency procurement waiver is being readied for the GOS purchase of \$8.5 million for jute bags from Bangladesh. The GOS had originally intended to fund this procurement with their own resources. However, they did not have the money, and requested that the bags be funded under the CIP on an emergency basis.

In addition to these two, there have been many other source/origin and proprietary procurement waivers granted by the Mission. For the FY 1981 CIP, we found records of 19 waivers for over \$5 million worth of commodities. Most of these were proprietary procurement waivers for spare parts for equipment on hand. For the FY 1982 CIP, 3 waivers amounting to almost \$900,000 have been granted, and the SMO told us that there will be more.

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C. SUGAR INDUSTRY EQUIPMENT

In October 1981, USAID/Sudan sought AID/W approval for allocations to private sector importers to purchase equipment that would be used for Sudan's Sugar Industry. This approval is required by AID Policy Directive 71, which states that AID will examine proposed assistance for commodities that contribute to establishing or expanding production, processing or marketing sugar, palm oil or citrus products for export. We noted, too, that in a letter to Congressman Tauzin of Louisiana in September 1981, AID referred to certain legislative restrictions on sugar equipment. These restrictions were conveyed in the implementation letter for the FY 1981 grant agreement.

AID/W approved the recommendation for CIP funding of Sugar Industry equipment in October 1981, after finding that no potential injury to U.S. producers of sugar would result from the proposed purchases.

We noted, however, that the implementation letter for the FY 1982 CIP deleted the restriction on procurement of commodities used in the production of sugar. And in fact, Kenana Sugar Co. has received a \$3.6 million allocation for the FY 1982 CIP.

The question arises, therefore, as to whether the AID policy directive, and the legislative restrictions referred to above apply, and if so, whether a separate determination is required. We found no record of the Mission's asking for AID/W approval, nor could ^{we} ~~we~~ determine why the restriction on Sugar Industry equipment was deleted.

D. KENANA SUGAR CO.

We noted during our work at the Mission that the KSC had received an allocation of \$3.6 million for the FY 1982 CIP. In trying to determine whether this company was truly private, or government owned, we inquired into its financial backing. We were told that the company is jointly owned by GOS and several foreign governments such as Kuwait and Saudi Arabia. There is very limited private ownership. ~~We question the appropriateness of using CIP funds to provide foreign exchange to an enterprise which is predominately foreign government owned.~~

POLICY DETERMINATION: AID Financing of Palm Oil,
Citrus and Sugar Projects and Related Products

1. Because of the potential injury to US producers of similar products, AID/W will as a matter of general policy examine at the earliest possible stage proposed projects involving production, processing or marketing of sugar, palm oil, or citrus for export. Approval to proceed with project development in these cases must be made by the appropriate Regional Assistant Administrator with the concurrence of AA/PPC and AA/IIA following review by PPC/PDPR/EDD in cooperation with IIA/EA/IEA. These divisions will examine potential injury to US producers on the basis of data supplied by the Mission on the export potential of the project, likely export markets, magnitude of production resulting from the project, and the recipient country's relative share of the world market and/or US import market; and on information available in Washington about the condition of the US industry.

2. Commodities financed under non-project assistance and activities financed by subsequently generated local currencies would be given a similar review with participation by SER/COM when the Mission is aware that the commodities will contribute to establishing or expanding production, processing or marketing of these products for export. However, we do not envisage changing existing procedures governing non-project assistance to require Missions to trace all final uses of imported commodities.

3. Missions are not prohibited from developing project ideas in which these commodities are involved. Rather, they should be aware that their potential impact on US producers is a matter of concern which has resulted in restrictive legislation in the OPIC authorization bill and in the replenishment authorization for the International Financial Institutions. AID should, therefore, only finance such projects when their development rationale is strong and their likely impact on US producers is low.

RH Nooter

Robert H. Nooter
Acting Administrator

5/12/78

Date

PPC/PDPR.