Evaluation Mtg. 2/4 10:30 am 1205 NS PD-BAP-791 SUDAN PL480 Title III EVALUATION F183

Executive Summary

A joint US/GOS evaluation of the Sudan Title III Program was conducted from October 2 to the 17th, 1982. Participants in the evaluation included representatives from the GOS, USAID and Washington (AID/W, USDA and Treasury). The evaluation concluded that GOS overall progress over the past year, the third of the five-year Program, was satisfactory and warranted approval of the FY 1983 fourth year tranche. However, the evaluation also pointed up weaknesses in program implementation and management/administration, as well as weaknesses in GOS and Mission reporting which require immediate attention.

The evaluation outlines a number of positive GOS actions required by the IMF and World Bank that were taken during the past reporting period for which the PL480 program provided significant support. Chief among these were a series of policy and investment reform measures such as (a) periodically adjusting the official exchange rate in line with free market rates, (b) eliminating export taxes on most agricultural commodities, (c) eliminating direct import subsidies on major productive inputs, (d) rationalizing the tax structure and improving tax collection, (e) rationalizing production costs on irrigated schemes, and (f) merging government Ministries and streamlining accounting and reporting systems.

The policy reforms called for under Item II of Annex B have been basically met and the policy studies have either been completed, are nearing completion or have been substituted with World Bank studies. Recommendations are now being developed by the Mission for follow-on action. A number of the proposed self-help measures under the recently signed FY 1983 Title I agreement are the direct results from recommendations flowing from the Title III studies.

Progress under the individual projects varied, but in most cases major delays have been the result of slow progress in securing related, DA-funded US technical assistance, rather than the lack of GOS progress.

The evaluation team findings reflect the views of those US and GOS agencies represented and were based on a series of widely accepted documents and interviews (listed in Annex J). The expanded composition of the team itself reflects USAID's concern in making a thorough evaluation at this the midpoint of the Program.

Major conclusions of the evaluation are:

--that wheat continues to play a vital role in Sudan's political-economic fabric;

--that PL 480 wheat supply should be viewed as essential only until such time that domestic production is able to account for at least 60-70 percent of total domestic requirements, and/or exports revive enough to finance domestic wheat supply shortfalls. Thereafter, imported wheat should be viewed as a residual element of GOS planning;
--that Title III, particularly through its policy studies and local currency program, plays a vital and viable role in assisting the GOS in developing a basis for increased agricultural production, and that this role can and should be consolidated and strengthened;
--that the PL480 program should be seen as part of an overall effort by the GOS, IMF/IBRD, USG and other donors to increase agricultural production and exports which is central to reversing the Sudan's current financial crisis;
--that the policy studies have been crucial in identifying problems, constraints and directions for future program and policies concerning wheat in Sudan; and that USAID should undertake similiar policy studies in areas of agricultural production outside wheat and cotton; and
--that fundamental management improvements should be undertaken by both GOS and AID in order for the program to achieve its optimal impact.

Annex A lists twenty-five specific recommendations that are either being addressed or will be addressed by USAID and/or the GOS.

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Sudan: PL 480 Title III Evaluation #3, October 1982

I. Background and Introduction

A. Sudan's Economic and Financial Crises

Despite considerable effort in recent years to reform fundamental economic policies and structures, Sudan, already one of the world's least developed countries, continues to be plagued by a grave financial crisis.

This deteriorated economic situation is expected to continue to require difficult domestic, budgetary and foreign exchange measures for the next decade. A look at the basic economic indicators reveals the magnitude of Sudan's economic crisis:

GNP (1982 est.)	$ 8 billion	
Foreign debt (est.)	8 billion	
Imports (1982)	1.8 billion	
Exports (1982)	0.8 billion	
Debt repayment per yr:	1.2 billion	(150 percent of export earnings)

With the rise in the price of oil and manufactured goods after 1973, the resultant exodus of more than 500,000 skilled Sudanese workers to the Gulf States, ill-advised policy and program decisions and poor implementation, Sudan began to move from a balance of payments surplus to a deficit. By 1977/78, Sudan's irrigated sector, which is the basis of its foreign exchange earnings and monetized economy, began to collapse. Exacerbated by poor weather conditions, this collapse resulted in a 60% reduction in production levels for cotton, Sudan's most critical export commodity.

Wheat plays an important role in this scenario. It is a staple of the urban dwellers whose numbers increase by approximately nine percent per year. Wheat is a highly visible indicator to these urban residents of performance of both the economy and the government. The GOS has recognized the sensitivity of urban populations to wheat prices and has felt handicapped by its lack of reliable information and policy options.

The Government of Sudan (GOS), with assistance from the IMF, World Bank and bilateral donors, has been working to reverse the economic deterioration. The basic overall strategy has been to concentrate on reestablishing production levels in the irrigated sector to those levels achieved in the early 1970s, while limiting support for rehabilitation of non-irrigated agricultural production where Sudan's greatest long-term potential in food and export crop production lies. Preliminary indications are that this strategy is beginning to show positive results while Sudan with the help of the IBRD has completed work on a Three-Year Recovery Program.

Annex B elaborates on on-going GOS policy and investment reform efforts in cooperation with the IMF and IBRD, and concludes that the Title III program complements and supports these efforts.

B. Summary of PL 480 Title III Program Purpose

A.I.D.'s strategy for helping Sudan address its economic crisis encompasses three complementary approaches: first, to help the economy survive the short-term crisis, more than 75 percent of A.I.D. economic assistance finances imports (PL 480 and CIP); second, to promote the recovery and growth of the economy over the longer term through DA-funded projects and technical assistance in the area of policy reform advice; and third, to relieve some of the more critical infrastructural and institutional constraints to increased production, primarily in the rainfed agricultural sector. US dollar and PL480 assistance is used in an integrated fashion to carry out this strategy.

As the economy regains its viability and foreign exchange becomes available to meet import requirements, A.I.D. will reduce the level of balance of payments support and increase assistance for development activities with longer-term payoffs. In this effort, A.I.D. has recently been working in close collaboration with other donors, particularly major multilateral donors.

The PL 480 Title III Agreement was signed on December 22, 1979 after one year of negotiation. Under this agreement the US granted the GOS up to $100 million for the procurement of wheat on the most relatively concessional terms over a five-year period (1980-84). The program's purpose has been to assure Sudan of a basic supply of one of its sensitive commodities, wheat, while Sudan addressed simultaneously short-term economic conditions through the Stabilization Program and the fundamental task of rehabilitating and reorganizing both its irrigated and rainfed agricultural sectors.

The program was designed to assist Sudan - in a cooperative fashion on a yearly basis - with reaching the three goals presented in Annex B of the Agreement:

(A) Reducing the foreign exchange demands placed on Sudan to meet increased food needs, while efforts are underway to increase local production, by providing a long-term US credit of $100 million over the next five years to finance commercial wheat imports;

(B) Providing local currency for activities designed to assist the poor in the rural sector in the areas of agriculture, transportation, health and rural planning ; and

(C) Supporting the Sudan Stabilization Reform Program, in which the GOS has adapted the basic policies of improving the contribution of agriculture to increase local production, export earnings and rural incomes by adjusting export taxes, land and water taxes, and providing other incentives.

C. Evaluation Methodology

On October 1, 1982, GOS and USAID/Sudan, with assistance from AID/W, USDA, and the Treasury Department, undertook this major mid-term evaluation of the Title III program. This evaluation constitutes the program's third.

The purpose of this "mid-term" evaluation was to ascertain progress made in implementation of the program over the last year, and to review options and make recommendations concerning the future of the program and its implementation. The evaluation centered on four basic themes keyed to the specific objectives outlined in Annex B of the Agreement:

(1) The future need for wheat as a function of projected production, consumption and imports, based on Title III-funded policy study results and the effects of policy reforms to date;

(2) Progress and direction of macro-economic policy reforms, including institutional changes related to improved agricultural production, specifically elimination of export taxes on cotton; rationalization of production costs throughout the irrigated agriculture sector; and phasing out sorghum cultivation in irrigated agricultural areas;

(3) Progress in using local currency proceeds for projects and policy studies that support goals of the Tile III program, particularly improved agricultural production;

(4) Effectiveness of GOS and USAID management of the PL 480 Title III program.

The evaluation team followed the Agreement's benchmarks and reviewed the documents and interviewed the officials listed in Annex J. Besides a general lack of systematized records (see section IIIA) an important document not available at the time was the GOS Annual Progress Report (Annex G), which was to be completed by December. However, the Team was aware of its general content and believed it would not have a significant bearing on the outcome of the evaluation.

The evaluation is also based on preliminary policy study findings whose methodologies have yet to be fully reviewed by the Mission.

II. Dynamics of Sudan's Food Needs and US Food Assistance

Before embarking upon an assessment of the administration, management and performance under the PL 480 Title III Food for Development Program the Evaluation Team spent some time in developing a perspective on how the PL 480 Program relates to the dynamics of Sudan's evolving food needs. In particular, it was and remains essential to have an understanding of the rationale for providing food aid in the form of wheat, the impact food assistance has had on Sudan's food economy, and whether a continuation of the program is still required in light of changing domestic production patterns, price policy and world market conditions. The following brief summary of Sudan's wheat economy develops this perspective by: (1) reviewing the macro-economic policy and investment reform efforts that affect the effective functioning of all sub-sector asssistance; (2) describing the current pattern of food production and consumption in Sudan; (3) establishing the role PL 480 wheat shipments play in meeting Sudan's wheat consumption requirements; (4) explaining the logistical and financial considerations underlying the procurement, milling and distribution of wheat and wheat flour; and finally by, (5) addressing several recent and anticipated policy reforms and their resulting impact on wheat import requirements and the need for PL 480 food assistance.

A. Conclusion of IMF/IBRD/GOS Macro-economic and Investment Reform Assessment (Annex B)

As indicated above, Sudan is facing a grave economic situation. By signing the IMF Agreement and realizing the benefits of the current 1982 stand-by facility, and also by agreeing to implement IBRD's sectoral program projects the GOS has agreed to comprehensive economic, financial and sectoral reforms for the medium term. As documented in Sections II-F and III-D and Annex B of this report, the GOS has already made major strides in implementing the previously recommended policy changes and their willingness to adhere to further proposed reforms is reflected in their three-year Public Investment Program (PIP).

The thrust of the PL 480 Title III Food for Development Program reforms proposed by the evaluation team are consistent with the reform program, and the use of local currency provided for development investment and services complement the measures proposed by donors and multilateral organizations. Therefore, there is a development strategy in place guided by the Fund/IBRD which will establish an environment conducive to the overall success of A.I.D.'s projects and programs in Sudan including the PL 480 program. It was for this reason that the policy reforms and projects financed by the PL 480 program were carefully coordinated with those of the IMF and IBRD. It is further recognized that in order for the PL 480 program to have optimal success GOS compliance with the IMF should be maintained.

Recommendation: That the PL480 Agreement should include a covenant stating that US assistance is predicated on GOS compliance with the terms of subsequent IMF agreements.

B. Patterns of Food Consumption and Production

Wheat is not a major source of calories in the Sudanese diet to the extent that domestically produced sorghum (dura) has been. Moreover, one cannot expect wheat to replace sorghum as the major source of calories in the Sudanese diet on a national scale , without substantial consumer and/or producer subsidies on wheat. Nevertheless, per capita wheat consumption is increasing in urban areas, particularly Khartoum, where the time (i.e. money) saved in buying wheat bread vs. preparing dura bread has facilitated a shift toward wheat consumption despite large drops in sorghum prices (due to recent bumper harvests). It appears that this consumption pattern will continue with rising population and real income fueled by remittances, and with a continuation in the pattern of rural to urban migration. At issue is not whether Sudan should or could be self-sufficient in wheat. Rather, it is to what extent the growth rate in consumption of wheat can be reduced by following appropriate economic policies which allow domestic bread prices to reflect the import (landed) cost of wheat plus real transportation, milling and baking costs at individual distribution points in the Sudan. A second consideration is to what extent this growth in consumption can be matched by growth in domestic production thereby slowing the rate of growth in wheat imports.

Almost all of Sudan's wheat (80 percent) is grown in the Gezira, an irrigated production scheme directly south of Khartoum. In terms of total cropped area in 1980-1981, sorghum (6.8 million feddans or acres), cotton (4.0 million feddans), groundnuts (2.6 million feddans), millet (2.6 million feddans), and sesame (2.0 million feddans) utilize most of the land. Wheat (450 thousand feddans), maize (140 thousand feddans) and rice (20 thousand feddans) account for less than 3 percent of the total cropped area. Therefore, Sudan's import need for wheat is not so much a function of the absolute lack of land upon which to produce wheat, rather it is the fact that the availability of irrigation water places a technical limit on the area that can be devoted to wheat. Since there are currently no alternative crops that can be grown during the wheat growing season, the opportunity cost of land is not a critical factor in the decision to grow wheat.

C. The Role of PL 480 Wheat Imports in Meeting Sudan's Wheat Requirements

Sudan has been a net importer of wheat since 1900. Prior to World War II, roughly 20-30 thousand feddans were cultivated domestically with the needs of the urban centers being met with imported wheat flour. Although wheat production was introduced in the Gezira in 1942/1943, efforts to expand production were halted in 1946/1947 due to low yields and high production costs. Efforts were reinitiated in the Gezira in the 1960s. In addition, a new scheme to expand production at New Halfa was implemented. In 1972 the government announced a policy goal of complete self-sufficiency in wheat to be achieved by 1975/1976 through increasing wheat areas in the Gezira from about 100,000 to 450,000 feddans and effecting higher yields. Although this area target was surpassed by 1975/1976 when over 568,000 feddans were cultivated in the Gezira out of a national total of 710,000 feddans, Sudan remained a net importer of wheat.

Despite the setting of ambitious targets in GOS plans for continued expansion of wheat area and output, the area planted in wheat has steadily declined since 1975/1976 (see Table II.1 below) in response to lack of water at planting and the potential to earn higher returns on other crops. According to recent studies which take water and other technical constraints into account, the optimal area to be committed to wheat would be 300,000 feddans in the Gezira and 30,000 feddans in New Halfa regions. As can be seen in Table II.1, this implies a slight increase in the area planted in the Gezira (32,000 feddans) and a marginal decrease at the New Halfa compared to 1978/1979 levels.

Table II.1
Area planted in wheat (1,000 feddans)

Year	Total	Gezira	New Halfa	Other
1975/1976	710	568	114	28
1976/1977	639	505	78	36
1977/1978	602	466	72	64
1978/1979	577	494	36	47
1979/1980	448	363	39	46
1980/1981	446	367	52	27
1981/1982	371	268	42	61

Source: Policy Study No. 1

Thus while higher levels of wheat production could be realized by increasing the area planted, the area currently under production is consistent with existing technical constraints.

The effect on Sudanese wheat import requirements due to a steady decline in area planted in the face of rising consumption can be seen in Table II.2 below. Imports have steadily increased since 1976/1977 at a rate of 16 percent per annum, or roughly 45,000 metric tons per year.

Table II.2
Sudan's Wheat Production, Consumption and Imports (July/June 1977/78 to 1982/83

Year	Area (1000 feddans)	Yield (kg/ feddan)	Produc-ion (1000 MT)	Imports (1000 MT)	Total Consump-tion (1000 MT)
76/77	639	460	290	229	523
77/78	602	527	317	161	478
78/79	577	307	177	293	470
79/80	448	489	219	306	525
80/81	446	511	228	322	550
81/82	371	437	163	425	588
82/83*	360	486	175	602	660

*Domestic production plus imports will cover consumption through the first month of 83/84 (July 1983) and leave one month's stock on hand.

Until recently the bulk of these imports have been supplied by the United States. However, as can be seen in Tables II.3 and II.4, as a result in part of GOS delays in purchasing $5 million of wheat under a Title I FY 1981 Agreement (so that it could get a better price by combining it with purchases under the next Title III Agreement), the GOS had to make emergency imports of wheat flour from other suppliers (particularly France), to cover the shortfalls beginning to occur before the FY 1982 Title III Amendment was signed. Wheat stocks at the mills were exhausted leading to a closure of several of the flour mills for up to two months. The GOS ultimately was able to negotiate a 360-day suppliers credit to finance a commercial purchase from the U.S. (This credit will come due in December 1982.) These shipments arrived during April-June 1982. Thereupon, PL 480 wheat shipments began to arrive during July and August (153,000 MT). This was followed with a $30 million CIP allocation for wheat.

Looking forward to the July 1982-June 1983 supply period, the MCCS expects the $30 million CIP to meet their needs until the end of December. They see the FY 1983 Title I/III program of $50 million as a means of filling the gap through July 1983 with a stock of approximately 60,000 MT on hand at the end of July. Their major concern is how to meet domestic requirements during August through December, 1983, in light of their inability to arrange any further commercial purchases. Even if AID and the GOS move rapidly on the US FY 84 PL480 shipments, wheat would probably not start arriving in the Sudan until January 1984 at the earliest.

D. Administrative Considerations in Importing Wheat

The decision to import wheat rests with both the Ministry of Finance and Economic Planning (MFEP), which allocates the foreign exchange to facilitate wheat procurement, and with the Ministry of Commerce, Cooperation and Supply (MCCS), which is responsible for estimating consumption requirements, procuring the commodity and seeing that government-set wheat flour and bread prices are being adhered to. The major proportion of the wheat moving through this sytem is imported (see Part III for details).

In formulating its estimate of requirements the MCCS uses a July/June year. The MCCS estimate rests on two considerations: (1) the need for wheat to keep the ten flour mills operating, and (2) the need for wheat flour at the bakeries. Given the increase in demand for bread and the inability of the domestic flour mills to meet the resulting demand for flour for the bakeries (because of limited capacity and/or power/parts shortages), the MCCS imports wheat flour in addition to wheat. Its first priority is to guarantee that all domestic mills have at least two months of wheat on hand to assure that they're not idled. Thereupon it supplies the bakeries with wheat flour either directly from the mills or through imported flour. It does not allow the mills to sell wheat flour to anyone except licensed bakers given that the black market price for flour is generally at least a step above the sales price to the bakers.

Table II.3

Source of Sudanese Wheat Imports
(July/June) 1976/77 to 1982/83
(000 MT)

Year	Total Imports	U.S. Conc.	U.S. Comm.	U.S. Total	Other
76/77	229	59	161	220	9
77/78	161	83	70	153	8
78/79	293	44	230	274	19
79/80	306	157	108	265	41
80/81	323	278		278	45
81/82	427		286	286	141
Projected*					
82/83	602	582		582	20
FY 82 Title I/III				139	
FY 82 CIP				166	
FY 83 Title I/III				277	

*Assumes an increased FY 83 Title I allocation of $20 million to a total of $30 million Title I and $20 million Title III. Should the Title I allocation be held at $10 million, the FY 83 program will supply only 166,000 MT as compared to the 277,000 shown in the Table.

Source: International Wheat Council; USAID Mission/Khartoum; Government of Sudan, Ministry of Supply

Table II.4

Sudan's Wheat and Wheatflour Imports by Supplier
1980/81 and 1981/82 (July 1-June 30)
(Grain equivalent, MT)

Supplier	1980/81 Wheat	1980/81 Wheatflour	1981/82 Wheat	1981/82 Wheatflour
United States	157,212	121,225	234,698	51,334
France	-	-	6,806	80,553
Canada	-	5,460	-	20,481
Australia	-	20,440	-	20,440
EEC	-	14,000	-	13,273
Italy	-	4,635	-	-
TOTAL	157,212	165,760	241,504	186,081
Total Wheat/Wheatflour	322,972		427,589	

Source: Government of Sudan Ministry of Finance and Economic Planning, Comparative Study of Cost of Growing Wheat in Sudan and Importing it from Abroad, September 1982

International Wheat Council

It is easy to understand why the MCCS continually estimates requirements substantially above the previous year's domestic "disappearance". First, it is aware that consumption is growing at 8-10 percent per annum due to population growth (2.6 percent per annum), urbanization, and a steady decline in the real price of bread relative to other commodities. Second, it has been charged with the task of assuring that every Sudanese has equal access to a loaf of bread at the same price irregardless of where he/she lives in the Sudan.

This policy underlies the increasing need for wheat flour whether it is supplied by domestic wheat producers to the mills, by imported wheat to the mills, or as has been the case more recently, directly in the form of imported wheat flour. During 1982, the ten flour mills (Table II.5) currently in operation milled approximately 287,000 MT of wheat (60 percent of rated capacity). This offtake was met primarily through wheat imports (241,504 MT). Although data on the operational efficiency of the mills is sketchy, the low overall milling rate can be attributed to power outages, lack of spare parts, labor problems (strikes) and lack of wheat supplies.

E. Nature of Marketing and Distribution System

While most of the bakeries and to a lesser extent the flour millers are privately owned, their relative profitability depends almost totally on government policy. According to current policy all bakers must charge the same price for bread. The GOS sets the price of wheat flour to insure that margins at the bakeries are adequate and accords a similar margin to the millers by establishing a regionally differentitated wheat price which takes into account the cost of shipping the wheat from Port Sudan to the internal mill. For example, the landed cost of wheat at a mill in Port Sudan is 222 Lsd/metric ton, while at Kosti, the price charged the miller is slightly less, 192 Lsd/metric ton. The overall impact of this policy is that it encourages internal mills to procure imported wheat as opposed to domestically produced wheat.

Until recently the negative effects of this deferment of the transport charge was dwarfed by the overall consumer subsidy on bread. As can be seen in Table II.6, the price of bread (24 piasters/kg) prior to the 1982 increase was roughly half the real cost associated with importing, milling and baking. Following a price adjustment in April and again in July 1982, the current bread price (40 piasters/kg) more or less reflects international prices. This is true even when the anticipated change in the exchange rate is taken into account.

F. Policy Reforms and Their Impact on Sudan's Wheat Imports and Consumption Requirements

The amount of imported wheat and wheat flour Sudan will require

Table II.5

Production and Storage Capacity of Flour Mills - 1982

	Mills	Production Capacity (T)	Actual Production (T)	Expected Expansion (T)	Maximum Storage Capacity (T)
1.	Khartoum North Flour Mill Corporation	120,000	84,000	-	50,000
2.	Ahlia Flour Mills Co. Ltd.	72,000	16,800	-	15,000
3.	Gezira Flour Mills Company	60,000	42,000	-	32,000
4.	Blue Nile Flour Mills Company	45,000	31,500	45,000	22.000
5.	Gezira Cooperative Flour Mills	39,000	27,300	-	20,000
6.	New Halfa Cooperative Flour Mills	24,000	16,800	48,000	24,000
7.	Abu Rubu Flour Mills Company, Port Sudan	24,000	16,800	48,000	24,000
8.	Goz Kabaro Flour Milling Company	79,500	13,600	n.a.	36,000
9.	Atbara Flour Mills Company	28,000	20,200	n.a.	25,000
10.	Red Sea Flour Mills Company	25,200	17,600	n.a.	20,000
	TOTAL	517,500	286,600	141,000	268,000

Source: Six Year Plan, 1977
FAO, 1981
ABS, 1982

Table II.6

Marketing Margins for Bread

I. CIF Price at Port Sudan

U.S. Wheat price/MT	$160.00	$160.00
Ocean freight *	25.00	80.00
	$185.00	$240.00
Exchange rate	Ls	Ls
(a) $1.00 = .9 Ls	166.50	216.00
(b) $1.00 = 1.0 Ls	185.00	240.00
(c) $1.00 = 1.1 Ls	203.50	264.00
(d) $1.00 = 1.2 Ls	222.00	288.00
(e) $1.00 = 1.3 Ls	240.50	312.00
(f) $1.00 = 1.4 Ls	259.00	336.00

II. Marketing Margins

Item	Prior to Increase (Ls/MT)	Current Policy (Ls/MT)	Real Cost (at $1:Ls1.3) (Ls/MT)
Landed Cost (Port Sudan)	145.0	222.0	240.0
Millers margin	59.7	83.7	83.7
Flour price	204.7	305.7	323.7
Bakers margin	104.3	209.3	209.3
Bread price	309.3 (24 p/kg)	515.0 (40 p/kg)	533.0 (42 p/kg)

* Difference is due to foreign flag versus U.S. rate.

to fill the gap between domestic consumption and production will depend on the impact of three separate price and investment policies currently being planned and/or implemented:

(1) The recent increase in the announced price for bread from 24 piasters/kg to 40 piasters/kg;

(2) The planned effort to increase yields of wheat planted in the Gezira from 100,000 to 250,000 feddans; and

(3) The extent to which the production of composite flour, wheat (80 percent) and sorghum (20 percent), can be increased given current technical and economic constraints in the milling and baking industry.

1) Impact of the Recent Increase in the Price of Bread

According to analyses based on Policy Study No. 3, the recent increase in the bread price can be expected to reduce demand for bread in the short-run and depending on the extent to which this price is allowed to reflect future changes in the landed cost of wheat at Port Sudan, should slow the growth in domestic consumption. The initial impact of the recent 60 percent increase in the price of bread should be a reduction in bread consumption of approximately 12 percent (70,000 metric tons of wheat). Given that the removal of this consumer subsidy implies a reduction in real expenditures of 3.6 percent, the overall consumption growth rate can be expected to be slowed by 1.5-2.0 percent per annum. This is roughly equivalent to reducing the annual increase in consumption from 47,000 metric tons to 35,000 metric tons.

USAID and the GOS are monitoring movements of price and consumption in order to confirm the results of this study.

2) Effort to Expand Area and Yield Levels for Wheat in the Gezira

As was mentioned earlier, the area in wheat has steadily declined since 1975/76, in part due to the lack of producer incentives which was the indirect result of the consumer subsidy on bread. Current studies indicate that wheat production in the Gezira is economically viable, and will become increasingly more profitable if technically feasible higher yields are realized. This assumes an exchange rate of 1.3 Lsd equals $1.00 and a landed cost for wheat of $190.00/MT. As previously mentioned, it is currently believed that the area in wheat production can be increased from 268,000 feddans to 300,000 feddans and that yields can be increased from 350 kg/feddan in 1981/82 to 650 kg/feddan by 1985/86. If the area planted were to increase to the recommended level it would imply a production increase of 11,000 MT. Similarly if higher yields are realized as well, domestic wheat production could increase to 263,000 MT by 1985/86.

3) Move to Composite Flour

Another reform which could have a significant impact on the growth in wheat imports is a move toward blending wheat and sorghum flour in bread-making. Although only one commercial mill in Sudan has the type of equipment required to mill sorghum, additional capacity could be added if increased production were economic. Currently domestic sorghum prices (250-280 Lsd/MT) are higher than the landed cost of wheat. Nevertheless, this is a rather recent phenomenon, in part associated with the export of sorghum to Saudi Arabia. These sales are believed to have occurred at inflated prices (over 300 Lsd/MT). In addition, Policy Study #3 indicates that the wheat/sorghum cross price elasticity should cause sorghum to be substituted at elastic rates of increase with each percent increase in real bread prices.

Table II.7 illustrates the potential impact of the three reforms just discussed: (1) the July 1982 increase in the price of bread, (2) the production increases associated with expanded area and improved yields in the Gezira, and (3) a move to a composite flour which includes wheat flour (80 percent) and sorghum flour (20 percent). Scenario 1 provides a benchmark by illustrating the level of production consumption and imports which would have occurred if the real prices of bread had been allowed to continue to decline. Even with production growth in the Gezira of 90,000 MT by 1985/86, Sudan would have had to increase imports by over 100,000 MT in order to meet growing consumption (8 percent per annum). Scenario 2 illustrates the impact of the July 1982 increase in the price of bread. As mentioned earlier, the increase is expected to reduce consumption by 70,000 MT in the short-run.* This reform in conjunction with yield improvements in the Gezira should effectively hold Sudanese wheat imports in check until 1985/86.

The only way in which Sudan can be expected to significantly reduce the level of its wheat imports is by moving to composite flour. Scenario 3 indicates the impact of a blend of wheat flour (80 percent) and sorghum (20 percent) which is technically feasible. While this action is not economically feasible at the present time due to relatively high sorghum prices, it would provide a mechanism for reducing wheat imports. However, as illustrated in the table Sudan would still not be able to become self-sufficient in wheat even if all the contraints on milling capacity were removed and the relative price of wheat and sorghum were such to make such an enterprise economical.

* If this increase had been matched by an area expansion in the Gezira of 32,000 feddans to 300,000 feddans at current yields, imports could have been reduced in 1981/82 from 427,000 MT to 346,000 MT.

Table II.7

Impact on Wheat Imports on Recent Policy Reforms and Production Initiatives

SCENARIO 1 a/

PRODUCTION ADJUSTMENTS	PRIOR TO BREAD PRICE CHANGE Production (1,000 MT)	Consumption (1,000 MT)	Imports (1,000 MT)
I. Status Quo (1981/82)	162	589	427
II. Recommended Area (1981/82)	173	589	416
III. Recommended Area with Yield Increase (1985/86)	263	801	538

SCENARIO 2 b/

PRODUCTION ADJUSTMENTS	AFTER INCREASE IN BREAD PRICE Production (1,000 MT)	Consumption (1,000 MT)	Imports (1,000 MT)
I. Status Quo (1981/82)	162	589	427
II. Recommended Area (1981/82)	173	519	346
III. Recommended Area with Yield Increase (1985/86)	263	655	392

SCENARIO 3 c/

PRODUCTION ADJUSTMENTS	MOVE TO COMPOSITE FLOUR Production (1,000 MT)	Consumption (1,000 MT)	Imports (1,000 MT)
I. Status Quo (1981/82)	162	589	427
II. Recommended Area (1981/82)	173	471	298
III. Recommended Area with Yield Increase (1985/86)	263	524	261

a/ Under Scenario 1 wheat consumption is assumed to grow at 8 percent per annum which is consistent with the growth rate between 1980/81 and 1981/82.

b/ Under Scenario 2 wheat consumption in 1981/82 is reduced by 70,000 MT to reflect increase in bread price and growth rate is reduced to 6 percent per annum.

c/ Under Scenario 3 a 80 percent wheat flour 20 percent sorghum blending rate is assumed.

G. Conclusion and Recommendations

The purpose of this section was first to provide a perspective on the role PL 480 wheat and wheat flour plays in Sudan's food economy and, second, to establish whether or not this form of foreign assistance should be continued in light of changing domestic production/consumption patterns, and recent policy reforms. It illustrated that while consumer subsidies on wheat have been maintained during 1980 and 1981, they have for the most part been eliminated due to positive steps taken by the Sudanese Government to raise bread prices and due to the decline in the international wheat price. Moreover, it established the fact that while the near elimination of the consumer subsidy should reduce the rate of growth in wheat consumption in the short-run, it will not eliminate the need to import wheat. Similarly, although it appears increased domestic poduction of wheat in the Gezira is economically justifiable and could be realized over the next three years, this too will not eliminate the need to import wheat.

In light of Sudan's continuing need to import wheat the following actions are recommended as a means of improving the flow of wheat to the mills, minimizing foreign exchange outlays to finance wheat flour imports and assuring that the bread price adequately reflects the landed cost of wheat plus transportation charges and milling costs.

Recommendation: That the fourth "tranche" of the Title I/III program be approved and signed as soon as possible in order to facilitate programming of wheat and ease the pressure on GOS of having to try to import wheat commercially.

Recommendation: That USAID review again in December Sudanese import requirements once the recent increases in bread prices upon consumption can be estimated, and if appropriate, request that the FY 1983 Title I program level be increased by $20 million to fill the predicted import gap during July-September 1983.

Recommendation: As part of the 1983 Agreement, have the GOS covenant to adopt a different system of pricing for wheat delivered to the mill which accurately reflects both the real landed cost of wheat and the real cost of internal transportation to the individual mills.

Recommendation: That the GOS in cooperation with USAID submit a quarterly Foodgrain Forecast which would include an estimate of wheat flour requirements at existing bakeries, wheat stocks at each of the ten flour mills, flour production and anticipated domestic procurement and shipments of wheat and wheat flour over the next six months.

Recommendation: That the GOS covenant to allow individual mills to sell a specified part of their production outside the current allotment and pricing system.

III. The PL 480 Title III Program and Program Implementation

A. Program Management/Administration

GOS Structure

Direction and coordination of policy reform lies to a significant degree with the Ministry of Finance and Economic Planning (MFEP). Policy consultations and negotiations with multilateral and bilateral donors is the responsibility of MFEP. The MFEP is also charged with drawing up the Three-Year Public Investment Program (the PIP, also known as the current Recovery Program) and presenting the annual recurrent and development budgets.

Ultimate budget and programming decisions also rest with the MFEP, which therefore holds ultimate decisions on funding, allotment and project approval. Daily decision-making and program preparation lies with the Undersecretary for Foreign Loans and Technical Assistance. All US (including PL 480) and other bilateral assistance is coordinated by the Assistant Undersecretary for Planning. He is also responsible for most of the AID reporting requirements related to the PL480 Title III Agreement although the Director General for Supply and Internal Trade, MCCS, shares some of the reporting responsibilities. Project design and implementation rest with the various implementation agencies/Ministries.

The MFEP's chief accountant maintains records on the deposits into the Special Account and transfers from the Special Account into the implementing ministry's sub-project accounts, and provides information as required on funds disbursement accompanied by ledgers supplied by the Bank of Sudan. Audits on the Special Account are performed by the Auditor General. It is not known what the GOS sub-project auditing requirements are.

USAID/Sudan

The responsibilities for program/project coordination, approval, design, and implementation, and monitoring physical and financial progress under Title III is divided among various project and program management personnel in the Mission's Program and Project Operations offices as can be seen by the USAID Management Orders contained in Annex G.

Program and Budget Cycles

The GOS fiscal year begins July 1 which means final governmental decisions affecting the budget must be made by early June. However, DA-funded project components are not finalized under AID's OYB until four months later at the earliest. GOS preparation for the budget begins four to five months before (i.e. March/April) the targeted fiscal year. This past year the Mission and GOS began the Title III review process in April, at the same time the USAID budget was being reviewed/approved in AID/W, and recommendations for project funding were developed in June. GOS/USAID recommendations for the most recent reprogramming exercise are now on the MFEP Minister's desk for review.

Team's Observations and Recommendations

GOS: The evaluation team had numerous discussions with GOS members of the implementing ministries/agencies and the Assistant Undersecretary for Planning and Technical Assistance in the MFEP. The GOS officials were well-informed on their various projects/programs and were open in discussing all aspects of the program, including problems, issues and needed changes. There is no doubt that the GOS faces severe trained staff shortages at all levels, with very limited to almost nonexistent logistical support. The Assistant Undersecretary, who must follow up on reporting and implementation problems with all the various implementing ministries, has virtually no staff or support facilities for such responsibilities.

The Asst. Undersecretary meets periodically with program implementing personnel on issues and requires them to submit information for the Annual Report and recommendations for reprogramming. However, there is no uniform reporting format established and the report content varies among the ministries. Some of the project proposals submitted for reprogramming did not provide sufficient information or details for making decisions. No specific deadlines were issued by the Mission to the GOS on reporting requirements.

Mission: Although the Mission has established a plan for administering and managing the Title III program, the plan is not fully operational. Financial records have not been established nor procedures for forwarding details to Washington for offset purposes. Specific format, timeframes and guidance for reporting on financial and physical progress under the program have not been established for GOS and Mission personnel. In general, Mission staff expressed a lack of understanding as to how Title III works and how offset occurrs.

The above problems stem from a number of things:

(1) The Sudan Mission administers the largest program in Africa - about $160 million annually (CIP, DA, and PL480), involving 34 projects. With a very limited staff of 27 positions authorized and about 19 positions filled at any one

time, the Mission is faced with a very heavy workload at all levels. Many people commented that the past two months had been consumed with work on final FY 1982 DA obligations and there was no time to spend on monitoring or reporting on Title III. Many felt Title III required more reporting than DA assistance.

(2) Knowledge about the program is very sparce and weak. Since the Agreement was signed there has been almost a total turnover in Mission staff and it appears this turnover situation will continue. USAID/Sudan has one of the lowest "return to post" rates in the Africa Bureau. When asked why, most people spoke of the heavy workload and difficult living conditions. Partly as a result and partly compounding the situation, files are incomplete and there is no system or base for passing on information to replacement personnel.

(3) Title III responsibilities are spread throughout the Mission and require considerable effort to coordinate. The Title III Coordinator is also the Chief of Project Operations which has placed considerable constraints on the time he can devote to following the various aspects of the program.

(4) Since reporting is critical to the offset provisions under Title III, it is essential to have a clear understanding as to the type and contents of the reports required and the timeframe in which the reports are to be submitted. No guidance or timeframe has been established for either GOS or Mission personnel responsible for reporting. Due to workload and lack of adequate staff, the Controller's Office has not been able to establish the necessary financial records. Further, essential information needed by the Controller to establish his records was not being provided on a timely basis. However, the matter was being addressed during the course of the Evaluation.

The Mission indicated that verification of actual progress under the projects is carried out by the same people who monitor the dollar assistance, i.e., through visits by Mission project managers and contract personnel. On-site inspections were done for the Railway, River Transport and Abyei Projects, for which detailed reports were prepared. There is no separate system for monitoring progress under the Title III-funded projects.

Recommendation: That a full-time direct hire (USDH or TCN) be provided who will have the responsibility of managing the entire PL480 Program including working with other USAID and GOS personnel in monitoring and reporting on progress on financial and physical implementation.

Recommendation: That USAID and GOS collaboratively identify minimum logistical support needs and concommitant cost estimates, funded by Title III proceeds from the Special Account, so that the GOS Program Coordinator can maintain adequate files and records.

<u>Recommendation</u>: That a more formal system and timeframe be established for the review and evaluation of the program, with established target dates and procedures outlined for the submission of information needed for program review. The Mission and GOS in its Annual Progress Report should have completed their respective assessments before each formal Title III evaluation is begun.

B. <u>Financial Components: Special Account, Disbursements, Offset (Loan Forgiveness) and Trust Fund</u>

The PL480 Agreement provides financing for $100 million worth of US commodities to be disbursed over a five year period in five $20 million annual tranches. The local currency proceeds from the sale of these commodities are to be deposited within six months in a Special Account for use on specified development activities. Disbursements from the Special Account must be made within two years of each sum deposited.

The mechanism for generating local currencies involves the MFEP and the MCCS. Before taking possession of the commodities at Port Khartoum, private purchasers from local mills must have certification by the GOS that they have deposited to the MCCS account the local currency equivalent of the dollar value of the wheat.

The MCCS in turn deposits these local currencies into the PL480 Special Account maintained by the MFEP. (A new account is established each fiscal year to facilitate accurate record keeping.) The MFEP, after collaboration with USAID on programming decisions, deposits (allots) Sudanese pounds directly into special sub-accounts opened in the name of the individual project activities, or into the USAID-administered Trust Fund account.

Since the Agreement was signed in December 1979, the GOS, according to official GOS and USAID records, has received 171,801 metric tons of wheat grain, valued at US $30.9 million, and 33,990 metric tons of wheat flour, valued at US $9 million, totaling $39.9 million or the equivalent of Lsd 19.9

Commodity	US $ Value	Sudanese Pound
93,646 MT wheat	16,999,909	
11,359 MT flour	3,000,550	
1980/81 Total	20,000,454	Lsd 9,972,130
78,115 MT wheat	13,999,695	
22,631 MT flour	5,999,554	
1981/82 Total	19,999,249	Lsd 9,958,176
GRAND TOTAL	39,999,703	Lsd 19,930,306

million. These figures are periodically certified by the GOS Auditor General, who certified that Lsd 17.7 million had been deposited in the Special Account as of March 1982.

The amount of local currency deposited in the Special Account varies slightly from shipment to shipment due to shipping damage. In addition, the devaluation of the pound against the dollar in November 1981 will result in an increase in local currency of about Lsd 24 million over the life of the Agreement.

Disbursements from the Special Account are made in accordance with the terms of Annex B of the Agreement for projects mutually agreed to by the GOS and USAID. GOS and USAID records presently show Lsd 14 million in disbursements to sub-accounts. Lsd. 9.3 million in disbursements were certified by the GOS Auditor General in March 1982. Tables III.1 and III.2 below list disbursements to project sub-accounts for 1980/81 onward. Complete information on disbursements from the project sub-accounts, which would indicate the extent of physical implementation progress made on the development activities, was not available to the evaluation team.

GOS eligibility for offset (or loan forgiveness) is triggered when funds are transferred from the Special Account to the project sub-accounts. Funds transferred from the Special Account to the USAID Trust Fund account are also eligible for offset. All or part of GOS repayment obligations may be forgiven under the offset provisions of Item III A of the Agreement. If the GOS elects, and so informs USAID, obligations incurred under the Title I program that are due in a current fiscal year may also be forgiven.

Offset is officially accounted as the GOS verifies that funds disbursed from the Special Account have been used for the development activities stipulated in Annex B of the Agreement. It is USAID's reponsibility to certify not only the transfer of of the funds to sub-accounts but also actual physical progress on sub-projects.

No offset or forgiveness has been granted at the time of this evaluation, although GOS records show that approximately $28 million of proceeds was eligible for offset under both Title I and III Agreements. About $5 million of payments that could have been forgiven were added to the GOS official debt that is being rescheduled. Preliminary estimates are that about $2.1 million will come due in 1983 that could be offset against Title I and III debt due.

In addition it is important to note that exchange rate adjustments affect offset. Since offset amounts are calculated in dollars, when the dollar value of the pounds remaining in the Special Account after devaluation decreases, the dollar amount of forgiveness is reduced accordingly.

III.1

Planned and Actual Disbursements of
Title III Proceeds from the Special Account
to Project Accounts (000 Lsd)

	80/81	81/82	82/83	83/84	84/85	85/86	86/87	TOTAL
Proceeds Generated for S.A.	9,972.1	9,958.2	18,000	26,000	26,000	-	-	89,930.[illegible]
Proceeds Disbursed to Projects	6,338.1	7,688.9	17,825.3	17,466.4	14,631.1	7,552.5	2,428	73,930.[illegible]
Balance	3,634.0	2,269.3	174.7	8,533.6	11,368.9	(7,552.5)	(2,428)	16,000.[illegible]

Projects	80/81 Planned	80/81 Actual	80/81 Undisbursed	81/82 Planned	81/82 Actual	81/82 Undisbursed	82/83 Planned	83/84 Planned	84/85 Planned	85/86 Planned	86/87 Planned	TOTAL Planned*
On-going:												
1. Railway Rehab.	4,600	4,600	0	4,000	3,233	667	4,000	1,067				12,900
2. W. Sudan Ag. Research (Trust Fund)	2,000 -	688.1	1,311.9	2,500	2,254.4 (442.5)	245.6	2,953.3 (371)	2,453.9 (371)	1,982.5 (185.5)	423.5	-	10,755.[illegible] (1,370)
3. Rural Health Support (Trust Fund)	937 -	0	937	1,444	1,271.5 (397.5)	172.5	2,98[illegible].5 (1,07[illegible].5)	4,029 (1,347)	3,232 (879)	2,618 (982)	-	14,134 (4,861)
4. Reg. Finance & Planning (Trust Fund)	1,000	0	1,000	2,000	730 (90)	1,270	2,517.5 (182.5)	2,367.5 (332.5)	2,185 (150)	-	-	7,800 (755)
5. River Transport Corp.	750	750	0	-	-	0	3,700	4,000	1,724.6	-	-	10,174.6
6. Abyei Rural Development	300	300	0	-								300
7. Integrated Wildlife & Pest Management Research		DROPPED										
8. Policy Studies (Trust Fund)	100	0	100	-	200 (5)							200 (5)
TOTAL ON-GOING	9,687	6,338.1	3,348.9	9,944	7,688.9	2,355.1	16,154.3	13,917.4	9,124.1	3,041.5	-	56,264.3
Proposed Projects:												
1. Agricultural Production & Marketing								500	2,000	2,000	1,500	6,000
2. Southern Regional Ag. Research (Trust Fund)							300 (250)	1,200 (200)	1,950 (200)	1,950 (200)	600 (150)	6,000 (1,000)
3. Agricultural Planning & Statistics (Trust Fund)							701 (488)	901 (638)	548 (315)			2,150 (1,441)
4. Renewable Energy (Trust Fund)								318 (60)	399 (46)	431 (28)	328 (22)	1,476 (156)
5. Blue Nile I.A.D.							670	630	610	130		2,040
TOTAL NEW							2,171	5,409	5,507	4,011	928	17,666
Unprogrammed Funds								8,000	8,000			16,000
GRAND TOTAL	9,687	6,338.1	3,348.9	9,944	7,688.9	2,355.1	17,825.3	17,466.4	14,631.1	7,552.5	2,428	89,930.3

Note: The 82/83-86/87 columns reflect revised planned disbursements, which include the undisbursed funds from the first two years ('80-'82) of program-funded activities. All figures are [illegible]

* Totals for On-Going projects equal actual disbursements for '80-'82 plus planned for other years.

Table III.2
Change in Title III Project
Proceeds, FY 81 to FY 82
(000 Ls)

Projects	Total Generations FY 81	As Reprogrammed FY 82	Change*
On-Going			
Railway Rehabilitation	12,900	12,900	-0-
Western Sudan Ag. Research	11,400	10,755.66	- 644.34
Rural Health Support	10,070	14,134	+ 4,064
Regional Finance and Planning	7,500	7,800	+ 300
River Transport	750	10,174.646	+ 9,424.646
Wheat Policy Studies	200	200	-0-
Abyei Rural Development	300	300	-0-
TOTAL	43,120	56,264.306	
New Projects			
Agricultural Production and Marketing		6,000	
Southern Region Agricultural Development		6,000	
Agricultural Planning and Statistics		2,150	
Rural Renewable Energy		1,476	
Blue Nile I.A.D. (integrated [illegible]/prod.)		2,040	
TOTAL		17,666	
Unprogrammed (due to November 15, 1982 devaluation)		16,000	

*Changes are due to a variety of programming factors such as USAID/GOS development strategy considerations, recent study results and evaluations, management workloads, inflationary impacts, and unanticipated events.

Trust Fund

In May 1981 a Trust Fund account in the name of the U.S. was established by an exchange of letters between USAID and the MFEP. This implementation letter pertained to the use of local currency generated from both the USAID CIP and PL480 programs.

The agreement specified that disbursements from the Trust Fund account may be made on behalf of the GOS by USAID to cover agreed-upon local currency costs of the US assistance program in Sudan. These include:

1. Local currency costs of USAID contractors implementing the US assistance program in Sudan.

2. Local currency costs of operating the US Mission, including but not limited to purchase of supplies and equipment, the leasing of office and residential space, the cost of utilities and other services payable in local currency, and salaries and other expenses on non-US personnel of the US Mission who are residing in the Democratic Republic of the Sudan.

3. Program Support Costs: program development, design and evaluation activities eligible for funding under the Economic, Technical and Related Assistance Bilateral Agreement, including but not limited to costs associated for consultants and experts, and attendant in-country travel and per diem and pre-departure expenses for Sudanese participation in workshops, seminars, or training sponsored abroad.

Although the illustrative budget in the Agreement's Annex shows expenditures from the Title III Special Account cov ing only contractor costs (#1 above), the GOS and USAID should be aware that the Trust Fund agreement does not restrict use of PL480 proceeds for the other specified activities.

As of March 1982 the GOS had disbursed Lsd 2.5 million from Title III proceeds to the Trust Fund, which now holds Lsd 9.4 million.

1. Evaluation Team Observations and Recommendations

At the time of this evaluation the GOS was not aware that offset had not been granted and believed that the necessary reports had been submitted. USAID had, in fact, not applied for offset for the GOS because USAID was unaware that offset is not triggered automatically when funds are transferred from the Special Account to the sub-accounts/Trust Fund. The need for an official offset report and other details of the offset mechanism had not been understood.

One issue raised during the Team visit regarding the Trust Fund was whether loan foregiveness should be granted for funds which have been used primarily for American contractor expenses, including large expenditures for the construction of residential facilities. Questions were raised about the appropriateness of this usage and whether such expenses should be construed as legitimate GOS development activity usage for the purposes of offset. USAID indicated that these expenses had been deemed appropriate by the REDSO legal advisor. The team concluded that although the linkage of this usage to GOS development activities is indirect, the lack of appropriate GOS facilities made this type of expenditure understandable. Granting offset on this basis was also considered warranted since to not do so would penalize the GOS for US-imposed implementation arrangements.

Another issue relating to the Trust Fund concerned the fact that certain USAID project implementation documents (e.g., Health Project PIO/T) stipulate that the physical structures and commodities purchased with Trust Fund monies become the property of the US Government after the project activity has terminated. This PIO/T stipulation appears inconsistent with the concept that Trust Fund monies belong to the GOS.

Recommendation: That USAID familiarize itself thoroughly with the reporting requirements and details of the mechanism of offsetting debt obligations and then inform the GOS of its responsibilities.

Recommendation: That the USAID immediately provide AID/W with required offset cerification in order to permit the GOS to benefit from the provision for offsetting repayment obligations.

Recommendation: That the GOS and USAID evaluate the offset options between offsetting Title III debt only vs. Title I and III debt.

Recommendation: That the GOS upgrade its current system of record-keeping, particularly concerning maintenance of reasonably up-to-date data on disbursements and expenditures from the special Sub-Project accounts as well as the Special Account, in accordance with Annex B of the Agreement.

C. Projects and Policy Studies

1. Project Selection and Design Procedures

Annex A of the Title III Agreement stipulates that funds generated through the sale of wheat be invested in specific projects defined in Annex B as revised. These projects will include activities in agricultural research, planning and statistics, infrastructure and institutional rehabilitation aimed at maintaining and rehabilitating the rainfed, mostly traditional, agricultural sector, while Sudan concentrates the greatest portion of its scarce foreign exchange and budgetary resources on rehabilitation and maintenance of its irrigation-based export sector and fundamental government services.

The Sudan Food for Development Program is based on a somewhat flexible structure of which the essential components are outlined in the Agreement, and which mirrors the structures used in other AID programs (CIP and DA).

Policy decisions and reform are primarily the domain of the Ministry of Finance and Economic Planning. Proposals for proceeds use filter up to the Minister in a variety of ways from various institutions, the donor or GOS agencies.

At the administrative level there is a joint Steering Committee composed of members of the local currency project beneficiary agencies, USAID and chaired by the Directorate of Foreign Loans and Technical Assistance in the MFEP.

This Steering Committee has principal responsibility to approve, monitor, and evaluate implementation of the projects and to make policy recommendations to the Minister of Finance and Economic Planning. This committee also has a major role in preparation and execution of projects. The implementing agencies for projects are either Central or Regional Ministries as well as public sector corporations. It is important to note that in many cases AID has a primary role in acting as agent for the GOS agencies for contracting and implementation of their activities.

2. Title III-Funded Projects (1981/82)

Detailed project assessments are contained in Annex C. The following are brief project summaries of the team findings and recommendations.

Western Sudan Agricultural Research Project

Project objectives continue to be consistent with rural development objectives outlined in the Title III Agreement, helping to direct resources effectively to assisting rainfed farmers and pastoralists. Attainment of Annex B benchmarks is varied with some project outputs behind and some ahead of schedule. Overall the project is presently progressing satisfactorily.

Recommendations: None.

Railway Rehabilitation

As Annex C indicates physical progress is substantially behind schedule in three (the only three being monitored with official reports) out of the eight major activities, although the project objectives still remain viable and consistent with Title III objectives.

> Recommendation: Since sufficient proceeds have been readily disbursed to this account, the Team recommends that the USAID request further disbursements be withheld until (1) physical implementation catches up with disbursements to the project account; (2) the Western Agricultural Marketing Study, including an assessment of the potential economic viability of the Babanousa-Wau line vis a vis anticipated traffic freight rates and cost structures, is completed.

Rural Health Support Project

Slow implementation is due primarily to slow implementation of related DA-funded activities. In addition, recurrent cost considerations and the apparent low budget priority given this project in both USAID and GOS portfolios resulted in a need to reconfirm the original project objective and plans..

> Recommendation: That further proceeds disbursements to this sub-account be contingent on (1) Mission verification that the original project objectives and plans remain valid and consistent with Title III objectives, and (2) development of detailed, measurable annual benchmarks for the remaining life of project.

Regional Finance and Planning Project

Although project objectives remain sound and consistent with program objectives, implementation delays caused mostly by late and uncoordinated DA-funded technical assistance inputs have held up dependent local currency-funded activities.

> Recommendation: Further proceeds disbursements should be withheld until project implementation catches up.

3. Policy Studies

Study #1: Compare the real costs of growing wheat in Sudan with imported wheat including transportation costs to Khartoum.

> Status: The draft final report has been received and reviewed by USAID/Sudan. The study suffers from five fundamental problems:
>
> 1. CIF Port Sudan price projections for imported wheat are grossly overestimated;
> 2. Economic cost of domestic production is underestimated;
> 3. Technical substitution of composite flour (wheat/sorghum) for wheat flour in breadmaking and the implications for wheat imports and rural incomes are not considered;

4. Implications of wheat as a winter season crop and the opportunity costs of resources used in wheat production are ignored; and
5. Implications of price policy changes on unconstrained wheat demand and the subsequent implications for imports (foreign exchange), domestic production and wheat consumption in the Sudan are not adequately addressed.

USAID has forwarded these comments on the draft final report to the Wheat Policy Studies Technical Committee (MFEP). The final draft will address the above issues and particular attention will be given to the use of up-dated cost estimates and improving the methodology of calculating economic costs and returns. The final report is due late December/early January, 1982/83.

Study's Conclusion: The report's only significant conclusion was drawn from data and other similiar conclusions by other respected reports done by the UNDP and others, and that was that wheat production in the Gezira should not be discouraged. However, only approximately 300,000 feddans are suitable given prevailing infrastructure and crop production technology.

Study #2: Examine the impact on wheat and cotton production of rationalizing water and other charges between these crops in the Gezira.

Status: The GOS has embarked on the policy of allocating land and water charges proportionately to all crops and is in the process of reducing subsidies on those charges. The World Bank's Agriculture Rehabilitation Project Report will be addressing this issue. A copy of the IBRD study will be made available to USAID/Khartoum by late November or early December 1982. The final report is due on December 30, 1982.

Study #3: Assess the effects from the removal of wheat subsidies on the consumption of wheat and sorghum.

Status: A progress report on this study was submitted by the contractor to the USAID. However, the contract was amended to cover two additional analyses - one, to develop the Econometric Wheat Import Demand Model, and the other a supply side analysis of wheat and sorghum production on the Gezira Scheme. The draft final report was to be submitted to the USAID by Sept. 30 but had not been completed at the time of this evaluation. It is now estimated that the contractor will submit the draft final report by late December 1982.

Study's Conclusion: The main conclusion of this study was that wheat/bread price elasticity, as opposed to income and population growth-related elasticities, explained at least half of the increase in wheat consumption growth over the last decade.

Study #4: Assess the effectiveness and changes needed in the wheat research and production program of the GOS.

> Status: This study was being held up until the results of Studies 1 and 3 could be reviewed, and at that point it would be determined whether it was important to commission this study. Meanwhile, the World Bank through the Gezira Rehabilitation Project is undertaking studies similiar to #4. Therefore, it would be especially propitious to wait until the World Bank reports are made available before an updated assessment is done on the need for this study.

If a determination is made to undertake the study, then the scope of work should be developed in light of the World Bank's program, and it is further recommended that the institution selected to undertake it should be the Planning, Agriculture, Economic Administration (PAEA) of the MAI, which is presently managing the DA- and Title III-funded Agricultural Planning and Statistics Project. The Agricultural Research Council and the Sudan Gezira Board (SGB) should also be involved. The USAID and GOS may want to consider involving the International Agricultural Center for Wheat and Maize Research (CYMITT).

The study should not be undertaken before the 1983/84 winter season, giving due time for IBRD Gezira Rehabilitation Program to be defined and become operational, and also for identifying the appropiate experts.

4. Summary of Policy Study Recommendations

The issue of wheat production in the Gezira continues to interest the US in light of the fact that 75% of Sudan's total wheat consumption is met by PL480 imports while the difference is met by domestic production (8% from the Gezira scheme). In light of this it is important that the following four measures, which pertain mostly to the Gezira scheme, be the subject of USAID's on-going dialogue with the GOS under Tities I and III.

Recommendation: In order to increase production initiatives it may be advisable to permit tenants, after delivery of their wheat quotas at official prices, to sell a part of their crop through the free market. The official wheat price was raised substantially in 1981/82 to Lsd 230/MT, which reflected import parity price at the official exchange rate. However, at 1982 yields this price is not attractive to tenants since it compares poorly with groundnuts and dura where produce prices reflect free market exchange rates (Lsd 1.40:US $1.00, May 1982). This wheat price was lower than the free market price by about Lsd 40/MT. This measure should lead to correcting price distortions and rewarding efficiency.

Recommendation: USAID should coordinate Study #4 - a wheat research and baseline studies and other surveys in the Gezira scheme - with the World Bank and the Agricultural Research Council.

These two measures if implemented are expected to lead to a doubling of yields and production by 1987/88.

Recommendation: The USAID should encourage wheat production on the Gezira up to at most the 300,000 feddans that Policy Study #1 indicates as being technically and economically feasible.

Recommendation: That the Title III Agreement contains covenants in the upcoming Annex B revisions that allow individual mills to sell a specified part of their production outside official channels. In the near future PL480 and other imports will play a vital role in satisfying Sudan's wheat demand.

Recommendation: Because of the potential of reducing Sudan's dependence on imported wheat and the impact that a shift to the use of composite wheat/sorghum flour could have on foreign exchange requirements and producer incomes in the rainfed sector, the GOS and USAID should undertake a study of the economic and technical feasibility of utilizing composite flour in bread.

Recommendation: Policy reforms and measures governing the rainfed sector should be developed and included in policy dialogue upon completion of the transport and marketing studies presently being undertaken with the MAI in the southern and western regions.

D. Food/Agricultural Policy Reform Measures

Annex B of the Title III Agreement lists four food/agricultural policy measures where implementation during the life of the Food for Development Program would enhance the impact of the Title III project activities. Performance by the GOS during the second evaluation period has been as follows:

1. Elimination of Export Taxes on Cotton

Cotton prices received by parastatals and tenants have until recently been subject to severe distorting influences. The most important of which were:

a) Application of the official exchange rate to cotton exports and the parallel exchange rate to imported inputs for cotton;
b) An export tax;
c) Low price for cotton paid by CPC to the parastatal;
d) Joint account system which took 36% of net revenue; and
e) Delay in payments to tenants for up to two years.

In June 1980 the GOS effected two major reforms. The first was to announce a producer price for cotton before harvest; the second was to pay tenants their cotton incomes promptly on delivery of seed cotton through the installation of individual accounts for each crop. For 1980/81 the GOS also introduced a bonus system under which tenants achieving better than standard yields received additional compensation. The cotton prices announced in the 1981/82 season were substantially higher than 1980/81, thereby providing adequate incomes and incentives for tenants at current levels of productivity and cost recovery. The government has also eliminated the dual exchange rates, and abolished the export duty on cotton.

2. Implementation of Land and Water Charges on the Production of Wheat, Groundnuts, Rice and Vegetables in the Gezira Area

Under the previous system, land and water cost were charged only to cotton production - a considerable disincentive to cotton production as evidenced by decreasing levels of production since 1975/76. In 1981 the GOS negotiated land and water rates with tenants. These were announced in December 1981 and will apply during the 1982/83 cropping season.

Land and Water Charges
1981/82-1982/83
(Lsd/feddan)

	Gezira	
Cotton	28.5	
Wheat	18.0	
Groundnut	18.0	
Sorghum	7.0	(3.5 in 1981/82)
Vegetables	25.0	

These charges represent the full cost of supplying water by gravity at Gezira.

3. Execution of Institutional and Organizational Change in the Agricultural Sector

In November 1981 the GOS amalgamated the Ministry of Agriculture and the Ministry of Irrigation into a single Ministry for Agriculture and Irrigation (MAI). Another improvement, as part of the Export Action Program (EAP), was the establishment of a Program Procurement Committee. Administrative and personnel actions are already underway within the agriculture and irrigation sections of MAI to improve coordination in research and establish systems for optimal water management.

These changes meet and exceed in several instances those sought by the Agreement. Further changes won't be necessary until these latter have been given enough time to prove their adequacy and cost-effectiveness.

4. Phasing Out Sorghum Cultivation in the Irrigated Agricultural Areas

The reason for originally including this measure was to preserve irrigated lands for higher value crops other than sorghum, which could be grown efficiently in rainfed areas. The GOS did not implement this policy measure for a number of reasons. The tenants grow the dura crop in an extensive way, allowing them to have an adequate supply for subsistence. They are able to do so with low input costs and can get a yield which is sufficient to provide necessary food, pay hired labor, and export. The social/economic benefits appear to significantly outweigh the costs in this case.

F. Financial Reprogramming

A mechanism for reprogramming local currencies was not established by the Title III Agreement. However, Sudan's economic situation has led to a continuing need for reprogramming local currency proceeds both in terms of annual, implementation-related changes in proposed allotments, and policy-related considerations. Specifically, reprogramming is needed for three reasons: (a) additional proceeds have become available due to recent devaluations; (b) the Agreement, as ammended last year, has left $13.46 million unprogrammed; and (c) unforseen modifications of already programmed activities indicate a need for a more efficient and flexible way of allocating proceeds either as a function of progress (or lack thereof) in physical implementation of selected sub-projects, or as a function of modifications of overall emphasis in strategy necessitated by directions in the economy.

In November 1981 the GOS devalued the Sudanese pound from Lsd 1: US $2.00 to Lsd 1: US $1.14. Two years of local currencies generated by the sale of $40 million of commodities were acquired at Lsd 1: US $2.00, thereby generating Lsd 20 million. The November devaluation resulted in a increase in proceeds for the final three years of the program of Lsd 24 million. Further devaluation of the pound is a very real possibility given on-going programs with the IMF and World Bank.

Upon completion and approval of the USAID CDSS in April 1982 the USAID and GOS began negotiations on reprogramming a total of Lsd 24 million of unprogrammed proceeds at that time. The review of proposed projects followed the following set of mutually acceptable Title III criteria: (1) Conformance with USAID CDSS and the Title III objectives; (2) management implications of the proposed projects for both the GOS and the USAID given staff shortages; and (3) technical feasibility and potential for measurable returns.

Negotiations are still underway. The latest list of proposed projects (see Table III.2) conform with the CDSS and are awaiting approval by the MFEP Minister.

A difficult program issue concerns the extent to which reprogrammed projects can conform with PL 480 program goals and continue to do so given Sudan's deteriorating economic situation and need for even further policy reform. As Sudan's development budget, under its budget austerity program and recovery strategy, becomes less and less able to incorporate projects even directly related to agricultural production, should not the reprogramming strategy be redirected toward those production-oriented activities that provide more substantial, quicker returns? Further, as fewer longer-term Western and Southern development activities become available, should the reprogramming attempt to maintain the USAID focus on the South and West or opt for shorter-term "recovery" projects within the North?

Other issues involve proceed fallout from on-going program-funded projects (see above and Annex C), collaboration with other donors, especially the World Bank through the now finalized Three Year Recovery Program or Public Investment Program, and management considerations outlined in Annex D.

Recommendation: That greater attention be paid to economic analysis and integration of the program with the overall US dollar program and the GOS Three Year Recovery Program.

Recommendation: That proceeds budgeting be responsive to recent developments in the Sudanese economy, especially to increasing scarcities of GOS counterpart for project-funding.

Recommendation: That AID/Washington be notified of any major reprogramming exercises including any proposed changes in project portfolio or program budget composition.

Approval by AID/W (?) ~~USAID/KRT~~

ANNEX E

Mission Revised

TITLE III AGREEMENT
ANNEX B
REVISED
PROGRAM DESCRIPTION

ITEM I: OVERALL GOAL

The goal of this Food for Development Program is to assist the Government of the Democratic Republic of the Sudan (GOS) with its severe economic burden brought on by the stringent Sudan Stabilization Reform Program and to enhance Sudanese commitment to basic human needs by assuring that budget allocations to the needy rural traditional sector are not disproportionally reduced as a result of the Sudan Stabilization Reform Program. This will be achieved by:

A. Reducing the foreign exchange demands placed on Sudan as a result of its efforts to meet increased food needs while efforts are underway to increase local production by providing a long-term U.S. credit of $100 million over the next five years to finance commercial wheat imports.

B. Providing local currency for activities designed to assist the poor in the rural sector through activities in agriculture, transportation, health and rural planning.

C. Supporting the Economic Stabilization and Reform efforts in which the GOS has adopted policy reforms which will improve the structure of incentives in both the rainfed and irrigated sectors in order to increase agricultural production, and consequently domestic food supplies, agricultural export earnings and rural incomes.

ITEM II: PROGRAM OBJECTIVES

The approval for this five-year Title III program in Sudan is based on the analyses and justification presented in "The Government of the Democratic Republic of Sudan (GOS), Food for Development Program P.L. 480 Title III FY 1979 - FY 1983" and supplement dated April 1979.

The Title III program will provide the Sudan with approximately $100 million over a five-year period (FY 1980-1984). Hard currency that otherwise would have to be borrowed to finance commercial wheat imports will be invested in export earning and import substitution projects.

The Government of Sudan agrees that local currencies generated by the sales of Title III wheat will be used to cover the funding of policy studies and the local costs of ongoing and specifically approved new development projects in the rural areas that otherwise would suffer delay or elimination due to the austere development budget recently promulgated as part of the Sudan Stabilization Reform Program.

The following food/agricultural policy measures provide an important framework within which project activities can have their greatest impact:

1. Adjusting (a) prices of imported agricultural equipment, inputs and commodities to reflect the real value of foreign exchange and (b) the Sudanese pound prices of domestically produced agricultural commodities to reflect import parity prices at the real exchange rate in order to encourage appropiate resource allocation within agriculture and to provide improved financial incentives to farmers within the rainfed and irrigated sectors.

2. Implement other economic reforms which improve the structure of incentives for increased production and marketing of agricultural commodities in both the rainfed and irrigated sectors.

3. Design of an Agricultural Development Strategy for the rainfed sector which encourages farm innovation, increased production and improved marketing systems for those commodities in which the sector has a comparative advantage and the greatest scope to increase domestic food supplies and export earnings.

ITEM III: PROGRAM DESCRIPTION

A. Policy Activities

In addition to continuing the aforementioned agricultural policy reforms noted in Item II, various policy analyses will be completed during the life of the Title III program.

The following wheat oriented policy studies are being undertaken during this agreement

Study #1: Compare real costs of growing wheat in Sudan with imported wheat including transportation costs to Khartoum.

Study #2: Examine the impact on wheat and cotton production of rationalizing water and other charges between these crops in the Gezira.

Study #3: Assess the effects from the removal of wheat subsidies on the consumption of wheat and sorghum.

Study #4: Assess effectiveness and any changes needed in the wheat research and production program of the GOS.

Title III funds have been allocated for this activity to support the local currency costs of conducting the studies. Implementation will be the responsibility of the Ministry of National Planning with technical assistance provided by U.S. advisors.

Studies #1 - #3 were either completed or near completion as of December 1982. The need for study #4 (Wheat Research and Production Program) at the time of drawing-up this agreement was being reassessed since the IBRD and other donor funded Agricultural Rehabilitation Program intends to address the subject.

Over the remaining life of the PL 480 Title III Agreement, Agricultural Policy Studies will be conducted under the auspices of the Agricultural Planning and Statistics Project within the Planning and Agricultural Economics Administration (PAEA) of the Ministry of Agriculture. Direction and implementation of the studies will be the responsibility of the Director General of the PAEA with technical assistance provided U.S. advisors in the fields of agricultural statistics, macro-economic analysis, agricultural marketing and trade analysis and agricultural planning.

A detailed workplan for future policy studies will be developed by March 1983. Based on this workplan, by December 1983, at least four major policy studies will have been completed and presented to GOS decision-makers fir consideration.

B. Summary Project Descriptions and Evaluation Benchmarks:

The Government of Sudan agrees that local currencies generated by the sale of Title III wheat will be used to cover local costs of ongoing and specifically agreed upon new development projects that otherwise would suffer delays or diminution due to the austere development budget as part of the GOS Economic Reform Program. The projects which will be carried out by line institutions in Sudan over a six-year period, are as follows:

		Total Sudanese Pounds
1.	Wheat Policy Studies.	200,000
2.	Western Sudan Agricultural Research.	10,755,660
3.	Railway Rehabilitation.	12,900,000
4.	Rural Health Support.	14,134,000
5.	Regional Finance and Planning.	7,800,000
6.	River Transport.	10,174,646
* 7.	Agricultural Planning and Statistics.	2,150,000
* 8.	Blue Nile Integrated Agricultural Development.	2,040,000
* 9.	Southern Region Agricultural Development I.	6,000,000
*10.	Rural Renewable Energy.	1,476,000
**11.	Abyei Rural Development.	300,000
***12.	Agricultural Production and Marketing.	6,000,000
	Total	73,930,606

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* New Title III local currency projects in various stages of implementation.

** Completed project.

*** New project yet to be designed.

NOTE: Due to the November 15, 1982 devaluation of the Sudanese Pound, approximately 16,000,000 additional pounds will become available from tranche 4 and 5 proceeds. USAID and the GOS are in the process of allocating these funds.

The following sections give a brief project description, physical implementation benchmarks and financial plans for each project receiving a local currency allocation.

1. PL 480 Title III Local Currency

Policy Studies

A. Study No. 1: Draft report received and comments return firm. Final report expected 31 December ____.

B. Study No. 2: Completed.

C. Study No. 3: Draft report to be received 8 November 1982. Final report expected 31 December 1982. Seminar with GOS officials planned for late January 1983.

D. Study No. 4: To be coordinated with the planned research activities of the IBRD Gezira Rehabilitation Project.

SUDAN

ISSUES FVA FEELS SHOULD BE DISCUSSED AT WEDNESDAY'S MEETING IN THE AFRICA BUREAU TO REVIEW SUDAN TITLE III PROGRAM:

1. Has GOS performance under program been sufficient to warrant continuation of the program?

2. Should further releases from the Special Account be withheld until we are assured appropriate USAID personnel and monitoring/reporting systems are in place to assure adequate management of the program by the Mission?

3. Should offset be limited to sub-project account? At what point should performance be considered for offset purposes?

4. What is the impact of large US funded wheat imports under PL 480 and CIP on locally grown sorghum. Does it adversely affect either production or marketing of sorghum?

5. Should US continue to provide large wheat imports financed under PL 480 and CIP in the absence of removal of subsidies on bread?

6. Title III program focus is primarily on traditional agricultural sector, whereas many report recommendations on policy reforms deal with the irrigated ag sector and areas of prime concern of the IMF (i.e. wheat pricing). Is this consistent with Title III program objectives and overall US development strategy in Sudan?

7. Report does not provide any background on new projects to be funded from local currency increases resulting primarily from exchange rate adjustment. What is focus of proposed new projects, are they consistent with Title III objectives, and at what point will Washington get sufficient information to consider approval? Should Washington approve all reprogramming or can/should Mission be provided some flexibility to approve reprogramming these or future local currency generations resulting from exchange rate adjustments? Does this increased local currency pose problems for GOS and Mission absorbative capacity?

(Need to know Mission's criteria for selecting/funding LC activities)

8. The proposed ANNEX B from the USAID shows new Item II Program Objectives. These are very general. Should they be made more specific to focus on the most pressing activities that must be undertaken now?

9. The proposed ANNEX B Item III A Program Description for Policy Studies proposes new policy studies, and says four will be done by the end.of the year. Is this sufficient? Shouldn't the studies to be done in phase 2 be specified by name and subject matter, and individual targets set for their completion? There has been so much delay in the first phase studies, that without specifics for the second phase studies, mere promises lack all credibility.

10. The evaluation says Sudan will run out of wheat this fall, and until it gets more Title I/III wheat in winter 1983-84 has no assured source. If this is the case, shouldn't one conclude that the current food system is much more untenable that either the GOS, the USAID, or the evaluation admits, and that more drastic measures are needed if the Title III program is to be continued, to reduce demand for wheat within the supply that can be assured?

11. In this connection, if GOS controls on wheat and flour now lead to widespread evasion of controls, shouldn't more drastic action be taken to lift these controls, reduce demand for the subsidized wheat and flour, and lessen the present untenable rate of wheat/flour consumption?

Annex A

FINAL REPORT RECOMMENDATIONS

A. Policy and Program

1. That the fourth "tranche" of the Title I/III Program be approved and signed as soon as possible in order to facilitate programming of wheat and ease pressure on the Sudanese of having to try to import wheat commercially.

Status: The PL 480 Title III Evaluation, GOS Annual Progress Report and a revised PL 480 Title III Agreement, Annex B, will be in final form by late December. It is anticipated that the first $10 million Title I Agreement can be signed mid-January 1983 followed by the FY 83 Title III Agreement and Title I Agreement Amendment in February.

2. That the USAID review again in December/January 1982/83 Sudanese import requirements once the impact of the recent increases in bread prices upon wheat consumption can be estimated, and, if appropiate, forward to Washington justification for increasing the currently estimated program to fill the predicted import import gap during July-September 1983.

Status: USAID/Sudan is waiting for Volume II of the wheat policy study (#3), which contains the economic analysis and the basis upon which elasiticity estimates and aggregate consumption and import requirements are derived. With this information USAID and the GOS plan to reassess the supply/demand situation in February or March and make a decision at that time concerning an appropiate course of action. In the meantime USAID/Sudan has recently completed a review of the wheat supply/demand situation for Sudan for FY 82/83. In order to cover demand through July 1983, the GOS has requested an additional $20 million Title I allocation bringing the US FY 83 PL480 program to $50 million (Title I: $30 million, Title III: $20 million). The analysis indicates that the Sudan will exhaust its supply of wheat sometime around July/August 1983. Given the most optimistic of scenarios, wherein a US FY 84 Title I agreement could be signed in October 1983, wheat would not arrive in Sudan until approximately January 1984. Therefore, it currently appears that the Sudan will face a severe shortage between August and January. It should be pointed out that the GOS considers it highly unlikely that commercial credit arrangements will be possible during the upcoming months and that concessional donor programs will be the only way to satisfy the August 1983-January 1984 wheat requirements.

3. As part of the 1983 Agreement, have the GOS covenant to adopt a different system of pricing for wheat delivered to the mill which accurately reflects both the real landed cost of wheat and the real costs of internal transportation to the individual mill.

Status: Discussions are currently underway with the GOS on this issue and USAID has proposed this as a Title I self-help measure.

4. That the GOS covenant to allow individual mills to sell a specified part of their production outside the current allotment and pricing system.

Status: While it will be impossible for the GOS to indefinitely ignore leakages and production declines that appear to be resulting from its production pricing and marketing policies, the GOS may be hesitant to take this type of half-step toward rationalizing wheat consumption/production at this time given the political and administrative problems that may arise from such an inherently unequal distribution of wheat products. Until further progress, experience and results are achieved through the broad-based gradual approach that's been set up to date under covenants and self-help measures in the PL480 Titles I/III and CIP Agreements, this recommendation will remain part of the on-going policy dialogue.

5. That USAID incorporate the Policy Study #1 finding (that the area of irrigated land devoted to wheat production be limited) in the policy dialogue and self-help measures and covenants.

Status: USAID has initiated this process and continues to build on and develop results coming from the on-going DA- and proceeds-funded agricultural analyses and research, which include ways of increasing total wheat production through increasing productivity per feddan.

6. That the original proposal in the Title III Agreement to conduct a wheat research and baseline study and other surveys in the Gezira scheme (Study #4) be coordinated with the World Bank and the Agricultural Research Council.

Status: USAID is making provisions for this in its policy study contracts and policy dialogue.

7. That the Mission should consider PL480 proceeds available for funding policy studies for the rainfed sector where needed.

Status: USAID believes that most policy issues related to the CDSS rainfed strategy are sufficiently covered by projects in the DA program at this time.

8. That greater attention be paid to economic analysis and integration of the program with the overall US dollar program and the GOS Three Year Recovery Program.

Status: USAID will be incorporating specific measures for this in its future Title I/III and CIP agreements.

9. That the ability to reduce recurrent costs be made an important criteria in project selection.

Status: Besides addressing potential recurrent cost issues in all project designs the Mission has programmed proceeds on a declining scale so that an increasing share of the life of project costs are born by the GOS. In this way the GOS will bear an equal and growing responsibility in addressing the issue.

10. That GOS covenant to permit tenants of the Gezira, after procurement of established quotas, to sell the remaining part of their production to the free market (or eliminate forced procurement).

Status: This is an extremely sensitive issue. A comparison of total wheat production (based on known yields and the land area planted in wheat) compared to the amount of wheat purchased by the Gezira Board for sale to the private mills indicates that a substantial quantity of wheat is either being consumed at home by the farmers or is being sold outside the official GOS procurement system. It is unlikely that the GOS will accept such a covenant at this time, although it will remain an integral part of the on-going policy dialogue on adopting other sound and reliable alternatives to producing and distributing wheat and recovering wheat production costs.

11. That further proceeds releases from the Special Account to the Project Account for the Rural Health Support Project be contingent upon (1) a verification by the Mission that the original project objectives and plans remain valid and consistent with PL480 Title III objectives, and (2) the development of detailed, measureable annual benchmarks for the remaining life of project.

Status: The GOS through its Ministry of Health continues to accord high priority to the Rural Health Support Project. In a joint GOS/USAID evaluation of the project in 1982, the original objectives were found valid and the Mission considers the project an integral part of the overall development strategy, including the general objectives of the Title III program.

Specifically, in addition to the well-accepted link between good health and productivity, the project, by supporting the implementation of a preventive care system using community resources, is extremely relevant to Sudan's current economic situation because it should lessen a recurrent budget burden that would otherwise be created if a top-heavy, curative-oriented health system were allowed to form.

A project implementation letter has been issued to the GOS requesting that detailed annual implementation plans be developed, and annual measurable benchmarks have been included in the revised Annex B.

12. That further proceeds disbursements into the Project Account for the Regional Finance and Planning Project be delayed until physical implementation catches up.

Status: Local training programs, finance studies by local institutions and consulting firms, and local commodity purchases will all be initiated for this project in the very near future. The Mission does not anticipate that the current level of unexpended Project Account funds will be a problem.

13. That USAID and GOS refrain from further programming of local currencies for the rehabilitation of the Babanousa-Wau line until all of the following conditions exist: (1) physical implementation of the railway line catches up with disbursement to the project account; and (2) the Western Regional Agricultural Marketing Study, including an assessment of the economic viability of the Babanousa-Wau Rail Line vis a vis anticipated traffic and freight rates and cost structures, is completed.

Status: Mission is currently effecting this recommendation. However, the witholding of funds for other sections of the railroad will not be contingent on the economic viability of the Babanous-Wau link; this section will be dealt with separately since the line's feasibility study is integrated with the Marketing Study.

14. That the GOS in cooperation with USAID submit a quarterly Foodgrain Forecast which would include an estimate of wheat flour requirements at existing bakeries, wheat stocks at each of the ten flour mills, flour production and anticipated domestic procurement and shipments of wheat and wheat flour over the next six months.

Status: The GOS and USAID are currently working on the development of such a reporting system. The precise data to be included, timeframe for forecasts and reporting format are yet to be determined. The need for such a system has been recognised by all parties.

15. That the GOS and USAID should undertake a study of the economic feasibility of adopting a policy of utilizing composite flour in bread.

Status: Policy Study #1's final report will include this investigation.

16. That the PL480 Agreement should include a covenant stating that US assistance is predicated on GOS compliance with the terms of subsequent IMF agreements.

Status: Implicitly the Agreement is designed to support and complement IMF objectives. Policy dialogue generated by the Agreement is one of the few direct means USAID has of verifying and helping ensure that the GOS is on track in following those policy reforms that relieve the present financial and economic crises. Also, it is somewhat of an anomoly that the IMF predicates its extended assistance on extraordinary bilateral donor financing of Sudan's trade balance shortfalls. Given the political nature and sensitivity of the recommendation, the USAID will confine it to policy dialogue until a complete assessment of the political ramifications can be made.

B. Administration

17. That USAID familiarize itself thoroughly with the reporting requirements and details of the mechanism of offsetting debt obligations and then familiarize the GOS on its responsibilities for offset.

Status: USAID has completed the first part of this recommendation as of November 30, 1982. Based on a request by the MFEP, USAID will conduct a seminar for Ministry staff in January covering the mechanics of the PL480 Program.

18. That the USAID immediately provide AID/W with required offset certification in order to permit GOS to benefit from the provision for offsetting repayment obligations.

Status: USAID submitted a request for $23.6 million in offset in November 1982.

19. That the GOS upgrade its current system of record-keeping, particularly concerning maintenance of reasonably up-to-date data on disbursements and expenditures from the special project sub-accounts as well as the Special Account, in accordance with Annex B of the Agreement.

Status: USAID and the MFEP are currently designing an improved record-keeping system. After approval by all concerned parties, the system will be formalized through an Implementation Letter. USAID anticipates that the system will be implemented by March 1983.

20. That a full-time direct hire (USDH or TCN) be provided who will have the responsibility of managing the entire PL480 Program including working with other USAID and GOS personnel in monitoring and reporting on progress on financial and physical implementation.

Status: USAID has recently hired a professional Sudanese to do this for 50% of his time. Meanwhile, USAID awaits AID/W action on a USDH who, if and when he/she is brought on board, will spend 50% of his/her time on these activities.

21. That USAID and GOS collaboratively identify minimum logistical support needs and cost estimates for program GOS administration and monitoring of the Program, using proceeds to fund such support.

Status: Recent conversations with the GOS indicate that a request for staff assistance and a limited amount of office equipment will be forthcoming soon.

22. That a more formal system and timeframe be established for the review and evaluation of the program, with established target dates and procedures outlined for the submission of information needed for program review. The Mission and GOS in its Annual Progress Report should have completed their respective assessments before each formal Title III evaluation is begun.

Status: USAID and MFEP are developing a more formal system and negotiating a workable timeframe based on GOS, AID and PL480 budgeting cycles and considerations.

23. That proceeds budgeting be responsive to recent developments in the Sudanese economy, especially to increasing scarcities of GOS counterpart for project-funding.

Status: Proceeds-funded projects are jointly programmed with the GOS, and overall strategy represented in the CDSS is generally consistent with the Public Investment Program supported by the World Bank. Although no systematized mechanism is used beyond that of daily consultation when adjusting programs to sudden economic/financial changes, the Mission and MFEP believe that logistical and personnel constraints argue against adding another system to the ones presently being developed in response to these recommendations. However, flexibility and responsive monitoring will be built into the latter systems.

24. That the GOS and USAID evaluate the offset options between offsetting Title III debt only vs. that of Title I and III.

Status: An evaluation has been completed and a response from the GOS indicating the selection of the latter option is expected soon.

25. That AID/Washington be notified of any major reprogramming exercises including any proposed changes in project portfolio or program budget composition.

Status: Completed.

ANNEX B

IMF/IBRD/GOS Macro-economic Policy and Investment Reform

The Title III program was developed in consonance with the basic policy direction of the Sudan Stabilization Reform Program established in exchange for a three-year Extended Fund Facility (EFF) agreement with the IMF in 1979. Therefore it is important to assess the status of this agreement, follow-on IMF/IBRD agreements and programs, and GOS performance under them.

A. IMF Agreements. The three-year EFF agreement with the IMF sought to redress Sudan's economic and financial situation by pursuing, with the assistance of the IMF and the World Bank, an adjustment program, the objectives of which were to expand the pace of economic activity while containing the deficit on the balance of payments current account. The objectives were to be achieved through mutually reinforcing policies including:

--- Structural reform of the agricultural sector designed to reorient production toward Sudan's most competitive crops;

--- Rehabilitation of the physical infra-structure of the public agricultural schemes;

--- Elimination of price and cost distortions;

--- Adherence to restrained fiscal and monetary policies; and

--- Liberalization of trade and exchange transactions.

The macro-economic situation deteriorated in the first two years of the agreement. The Fund and the GOS were unable to reach agreement on the appropriate targets and policy measures for the third year of the agreement in May 1981. In particular, cotton production and exports, which had been programmed to expand by 25 percent under the agreement, fell sharply in real terms because of deteriorated capital stocks in the irrigated schemes, labor shortages, and delays in the restructuring of incentive patterns. The GOS implemented a number of policy measures during the latter part of 1981 which led to a one year stand-by program with the IMF beginning in February 1982.

1) The stand-by program. The focus of this program is on raising production potential through structural economic and institutional improvement. Therefore to raise productivity and realize greater returns from past investments the GOS is to effect the following:

a) Strengthening the industrial "reward" system in order to induce greater export;

b) Reducing cost/price distortions in order to correct the misallocation of resources;

c) Increasing competition in order to reduce cost and waste; and

d) Providing for adequate replacement of worn-out equipment and maintenance of existing capital stock.

In order to achieve the above stated goals, the immediate objectives of the program are:

(1) to reduce the underlying rate of inflation from the 35-40 percent range to about 25 percent over the period;

(2) to maintain a more rational exchange system, restrain import demands, and to promote exports;

(3) to normalize external economic relations by eliminating outstanding external arrears, as well as preventing the build up of new arrears, and working to restore the confidence of external creditors in Sudan's willingness and ability to meet external commitments.

The corrective policies pursued by the government led to some improvement especially in strengthening the economy's productive base. Reforms like the elimination of the dual exchange rate that discouraged cotton production and the improvements in profit sharing systems in the irrigated agricultural schemes, contributed to a substantial increase in cotton production during the 1981/82 cropping season. Other steps taken include increases in output prices, financial and managerial reorganization, decline in the growth of domestic liquidity and other fiscal measures.

However, in spite of these measures, the government could not make the second purchase of SDR 35 million in May 1982 under the stand-by program. Of particular concern is Sudan's total external indebtedness, including its debt to the Fund of about SDR 7 billion. Its foreign exchange situation remains precarious with a projected balance of payments deficit of nearly $400 million for 1982. With regard to the exchange rate the spread between official and free market rates has widened over the stand-by program period. The Fund and GOS at present are still in the process of resolving these and other specific issues.

B. IBRD Sector Programs

In April 1980 the World Bank group approved an Agricultural Rehabilitation Program Credit (for a total of U.S. $76 million including U.S. $11.0 million from EEC); the New Halfa Irrigation Rehabilitation Project (U.S. $40 million) in May 1980; and the Blue Nile and White Nile Pump Schemes Rehabilitation Projects (U.S. $32 million and U.S. $35 million) in March 1981. The Gezira Rehabilitation Project is a major project covering twenty-two sub-projects at a cost of $362 million. Components of the sub-projects are directed at increasing wheat yields by providing more inputs and better services. It is projected that by the end of this project period wheat production in the Gezira will increase from present production levels of 99,000 MT to 260,000 MT.

C. GOS Three-Year Investment Program

The one year stand-by program of IMF is an interim agreement to guide government financial policies during the development of a comprehensive medium-term strategy for restructuring the Sudanese economy in consultation with the World Bank and the IMF. The GOS is presently revising the Public Investment Program (PIP) for the period 1982/83-1984/85. The objective is to achieve a tentative agreement on the recovery scenario and its resource requirements that will lead into the Consultative Group meeting later on this year.

The focus of the PIP is on activities that will bring about the stabilization and recovery of the economy. In the short run, the focus is on rebuilding the productive capacity of the economy. In particular the government's stated development objectives are:

a) A four percent average growth rate of GDP over the program period.

b) Rehabilitation of productive capacity.

c) Capacity utilization and productivity.

d) Restoration of the trade balance through export growth and import substitution.

e) Infrastructure to support production.

f) Increased private sector participation.

g) Exploitation of natural resources, especially oil.

h) Completion of economically viable ongoing projects.

4. Policy Reform Measures Undertaken by GOS

a. External Balance

1) In September 1979 a dual exchange rate was introduced, the "official" rate being maintained at 50 piastres per dollar. In November 1981 the parallel rate was eliminated and the official rate moved to 90 piastres per dollar. At the same time the foreign exchange system was liberalized and currency dealers were authorized to trade in the free market.

2) An export action program was launched in 1981 by the government to boost exports and the licensing system was tightened to restrict low priority imports.

3) To maximize the repatriation of savings by Sudanese working abroad special concessions were granted.

4) To encourage exports, taxes on exports were removed or greatly reduced.

5) The government negotiated with official and commercial banks on the rescheduling of existing debt and loan obligations and concluded new repayment schedules for borrowing from private commercial banks and government organizations.

b. Fiscal Balance

1) Prices of petroleum products increased on March 1, 1981 eliminating all subsidies. Prices were again increased on November 9, 1981 in line with the new unified exchange rate.

2) The retail price of sugar was raised from 16 piastres to 26 piastres per rotle in January 1982. Although ulimately depending on the international price of sugar this should eliminate subsidies and restore sugar profits.

3) The prices of cigarettes were raised in November 1981 and again in January 1982 by increasing the excise duties.

4) Some imports are now being valued at the new official rate for import taxation, which will expand the tax base by 80 percent. An additional import tax of 10 percent of CIF value was imposed in November 1981, and the defense tax was increased from 5 percent to 10 percent at the same time.

5) Government levied sales tax on gold manufacture, imported household furniture, hotel services, international airline tickets and auctions by public agencies, the rates ranging from 2 percent to 10 percent of the selling price.

6) A tax has been levied on incomes of Sudanese working abroad.

7) A number of measures were taken to improve collection of direct taxes. Tax clearance certificates and tax identification cards were introduced in 1980/81. The Taxation Department is now carrying out surveys of properties to enforce collection of taxes on rents.

8) The government is also undertaking various measures to control the growth of current expenditures.

9) Limits have been imposed on government borrowing in order to reduce inflation through regular undertakings with the IMF.

10) Steps are being taken to eliminate subsidies to public enterprises by reforming salvagable public companies and dissolving those creating losses.

11) Tight control is being maintained on tax concessions under the Encouragement of Investment Act in order to eliminate unnecessary losses of revenue.

c. Pricing Policies

1) Producer prices of all crops have been brought into line with international prices. They are now being announced before harvest and kept under constant review to maintain incentives to growers. Also payment for cotton is now being made promptly.

2) Procedures for marketing cotton and other export commodities and the channels for their collection and distribution are being reviewed. In this connection alternative methods of marketing cotton are being seriously considered in order to ensure that Sudan realizes the best possible price for its exports.

3) Cost recovery system in irrigated agriculture has been revised to reflect actual costs of production for each crop. This has improved the net revenue for cotton growing.

4) Plans have been approved to establish a cotton stabilization fund to even out fluctuations in growers' earnings.

5) Prices of public utilities have been increased with the aim of recovering full costs. This will not only eliminate subsidies but will also generate reserves to finance new plant and equipment.

d. Administrative Reforms

1) The Ministries of Agriculture and Irrigation have been merged in order to improve the administration of the irrigated sub-sector.

2) A unit has been established in the Ministry of Agriculture and Irrigation to improve the operational efficiency of agricultural corporations.

3) The accounting and auditing systems of the agricultural corporations are being streamlined.

4) The Ministries of Finance and of National Planning have been merged into the Ministry of Finance and Economic Planning and the functions of the National Economy and Planning sections are to be integrated. This will promote the coordination of economic management and development planning.

5) Special units have been set up in the Ministry of Finance and Economic Planning to supervise debt management and to control expenditure.

Summary

As has been indicated in the report, Sudan is facing a grave economic situation. By signing the IMF Agreement and realizing the benefits of the current 1982 stand-by facility, and also by agreeing to implement IBRD's sectoral program projects the GOS has agreed to comprehensive economic, financial and sectoral reforms for the medium term. As documented in Sections II-E and III-D, the GOS has already made major strides in implementing the previously recommended policy changes and their willingness to adhere to further proposed reforms is reflected in their three-year Public Investment Program (PIP).

The thrust of the PL 480 Title III Food for Development Program reforms proposed by the evaluation team are consistent with the reform program, and the use of local currency provided for development investment and services complement the measures proposed by donors and multilateral organizations. Therefore, there is a development strategy in place guided by the Fund/IBRD which will establish an environment conducive to the overall success of A.I.D.'s projects and programs in Sudan including the PL 480 program. It was for this reason that the policy reforms and projects financed by the PL 480 program were carefully coordinated with those of the IMF and IBRD. It is further recognized that in order for the PL 480 program to have optimal success GOS compliance with the IMF should be maintained.

Recommendation

It is recommended by the team that the PL 480 Agreement should include a covenant stating that U.S. assistance is predicated on GOS compliance with the terms of subsequent IMF agreements.

ANNEX C

Status of Ongoing Title III Sub-projects

1. Western Sudan Agricultural Research Project (650-0020)

FY 1979-85
LOP DA - $26 M
LOP proceeds - Lsd 10,755,660

a. Project Outline

Historically, agricultural research has been concentrated on the irrigated (export oriented) sector. Research results from the irrigated sector were then transferred, as it were, to the rainfed sector with sub-optimal results. The GOS, recognizing the potential of the rainfed sector, both in meeting local food needs and increasing exports, and in an effort to maintain and rehabilitate its rainfed sectors, has developed a program to create research infrastructure to serve the farmers of the western part of the country.

The Western Sudan Agricultural Research project supports an applied agricultural research program for Western Sudan. The project aims to increase the capability of the Sudanese Agricultural Research Corporation (ARC) to develop and test improved production systems that conserve and rehabilitate natural resources while contributing to increases in real income and the resultant standard of living of the subsistence farmers and pastoralists of Western Sudan.

The West covers approximately 35 percent of Sudan and contains 30 percent of Sudan's population. The region already contributes 90 percent of Sudan's millet, 52 percent of the sesame, 46 percent of the groundnuts, 17 percent of the sorghum, 90 percent of the gum arabic, 45 percent of the cattle and 6 percent of the cotton.

b. Project Implementation

The Western Sudan Agricultural Research project was the subject of an in-depth GOS/IBRD/AID joint project evaluation in November 1982. Attainment of the original benchmarks outlined in Annex B is varied with some project outputs behind schedule and others ahead. The table below shows that early project implementation suffered a one year delay. Preliminary evaluation by the implementing agency and general concensus is that the project is now progressing more than satisfactorily, and in some cases, is ahead of its revised schedule.

Summary Progress

	1980/81 Planned	1980/81 Actual	1981/82 Planned	1981/82 Actual
1. Construction at Kadugli, El Obeid, El Fasher and Ghazala Gawazet Research Stations:				
a. Kadugli Rehabilitation	Complete			
b. New Construction (4 sites)	Complete			
c. Fencing	30 km	-	32 km	12
d. Boreholes (3 sites)	3	-	-	5
e. Airstrip (Gawazet)	1	-	-	1
f. Rehab Kadugli Road	4 km	-	-	1
2. Operational Support				
a. Local Salaries -scientists	17	4	27	4
-technical	44	27	76	35
-support	88	189	152	215
-vehicles	25	21	40	27
b. Fuel	Varies			
c. Project Hdqtr Rentals	1	1	1	1
d. Temporary Housing Rent	3	4	6	6

Some of the following details of project implementation demonstrate the difficulties of executing projects according to schedule under the current economic crisis as well as the difficulties of establishing realistic benchmarks.

Construction of new buildings and rehabilitation of existing buildings is complete at the Kadugli Station.

No structures were completed at the end of 1980/81 fiscal year, nor were they scheduled for completion.

By August 1982, construction of buildings, water system, sewage system and electrical system were 95 percent complete. Ten senior-staff houses, the administration building, and the water sewer and electric systems were turned over to the Western Sudan Agricultural Research project in August 1982. The rest of the work was formally turned over in October 1982.

Building rehabilitation at Kadugli was delayed because of additions to the contract amounting to about 25 percent of the total, and fuel shortages during 1982 slowed construction considerably by restricting transport of material to site and idling equipment at the site.

All work at each site will be completed at the same time. According to current plans, all work at the four sites is scheduled for completion by August 1984. Completion dates are being extended for an additional 24 weeks because of problems noted below.

A general statement from the supervising architects firm indicates that:

a. Construction is nearly complete at Shambat.
b. Construction is behind schedule at El Obeid.
c. Construction is on schedule at Ghazala Gawazet and El Fasher.

c. Recommendations

None

2. Railway Rehabilitation

FY 1979-84
LOP proceeds - Lsd 12.9 M

a. Project Outline

According to Annex B, $25.8 million (0.5 x $25.8 = 12.9 Lsd) in local currencies was to be disbursed during FY 81-FY 85 to support implementation of the Babanousa-Wau Railway Rehabilitation Project. The overall objective of this project was to increase the frequency of traffic on the line from one train per week to three per week and to increase capacity from 456,000 MT to 1,560,000 MT. This objective was to be accomplished by (1) laying ground communication cables, (2) drilling wells to provide water to railway employees, (3) replacing railway ties, (4) widening and raising tracks, (5) constructing new stations and quarters, (6) repairing the Babanousa-Wau bridge, (7) providing tools, and (8) improving the Babanousa-Wau locomotive workshop.

b. Project Implementation

Despite the transfer of almost 91 percent of the $17.2 million (8.6 Lsd) allocated for the FYs 81 and 82 project account, physical implementation has been poor. Of the eight activities only three have been monitored and their progress has been slow:

1) 8 out of 44 wells have been dug;
2) 6 km out of 450 km of communication cable has been laid; and
3) 100 km out of 160 km of ties have been replaced on the Aradeiba-Abu Zalad Line.

Further financial allocations to the project account have been delayed until there is more evidence of physical implementation. The Sudan Railway Corporation submitted a revised request on 5/30/82 for an additional 11.0 million Lsd to complete the activities. This estimate includes 9.0 million Lsd to cover new activities proposed by USAID, specifically the replacement of ties between Babanousa-Nyala, an activity which has proven to be expeditiously undertaken on the Zalad line.

c. Recommendation

That USAID and GOS continue to refrain from further programming of local currencies for the rehabilitation of the Babanousa-Wau line until all of the three following conditions exist:

1) Physical implementation of the railway project catches up with disbursements to the project account.

2) The Western Regional Agricultural Marketing Study, including an assessment of the economic viability of the Babanousa-Wau Rail Line vis a vis anticipated traffic and freight rates and cost structures, is completed.

3. Rural Health Support Project (650-0030)

FY 1979-87
LOP DA - $18.1 M
LOP proceeds - Lsd 14,134,000

a. Project Outline

The objectives of the Rural Health Project is to improve the capabilities of the Ministry of Health to deliver primary health care to the rural population of Sudan, with special emphasis on management and on Maternal and Child Health and Family Planning. A.I.D. grant DA assistance totalling $18.1 million is projected to be provided over a 5-year period (PACD: August 1987). The project will concentrate on improved delivery services through (1) upgrading training and provision of facilities; (2) provision of drugs; (3) inclusion of MCH/FP services in the Public Health Clinics through development of curriculum and institution of training programs; and (4) strengthening the planning, management and logistical support of the PHCP through provision of U.S. technical assistance, construction of warehouse facilities and training.

Under the terms of the FY 81 Title III Annex B, local currency totalling $20.1 million (10,070,000 Lsd) was to have been provided between FY 81-85 to finance 12 warehouses, 12 dispensaries, 6 training centers, 11 staff houses, logistical support for a 13-person U.S. contract technical assistance team, plus the training of about 430 Ministry of Health personnel. As a result of recent reprogramming exercises and a review of GOS budget requirements for support of this effort over the next five years, a revised budget estimate was developed by the GOS in consultation with the Mission Project Officer. The revised budget calls for local currency requirements over the life of the project of Lsd 14.1 million. This increase reflects more realistic cost estimates as a result of the GOS/Mission review of the budget. The Projects Officer is working with the Ministry of Health to adjust life of project benchmarks. At the time of the evaluation it was anticipated the staff houses and training centers would be reduced somewhat and the implementation schedule would need to be adjusted to reflect actual progress. Therefore, it is not possible to indicate benchmarks for the coming year at this time.

b. Project Implementation

Summary Progress

	1980/81		1981/82	
	Planned	Actual	Planned	Actual
Warehouses Constructed	12	-	-	-
Dispensaries	-	-	-	-
Training Centers Constructed	-	-	3	-
Staff Houses Constructed	7	-	2	-
Expansion of MOH Facility	-	-	1	-
Technical Assistance, Long Term Contract	10	-	11	-

This project is more than 24 months behind the implementation schedule included in the original Project Paper due primarily to delays in securing U.S. contract technical assistance. In the absence of required technical assistance the GOS/Mission is unable to move forward with construction or training. The contractor needs to develop training curriculum and to determine the most appropriate place and type of warehouse and training facilities to be constructed. Although the Project Agreement was signed in September 1980, and the PIO/Ts issued in October/November 1980, signature on one of the key contracts for the project with One America, will not take place until November 1982. The contract for implementing the project in the South was signed in April 1982. The contractor is Africa Medical & Research Foundation (AMREF).

These contract delays are not due to GOS actions. Most delays relate to A.I.D. source waiver problems and clarification of very complicated and all encompassing scopes of work. During the year a study of the recurrent cost problems was undertaken and the contractor is in the process of formalizing recommendations for improvements in both the North and South components of the Rural Health Support Project.

c. Recommendation

The team reviewed the project in terms of its impact on the Title III objectives and the GOS current economic situation, as well as progress against planned benchmarks.

Within the Mission and GOS development strategy, assistance to primary health services is given low priority. This is confirmed by the Mission ranking in the ABS and statements made at the Deputy Under-Secretary level of the MFEP of the GOS. Although health activities are included in the overall goal statement of Annex B of the Agreement, the primary thrust of the Title III program is to support policy reform and increased agricultural production, primarily in the rainfed areas in the south and west. It was felt the Rural Health Support project does not directly impact on the primary thrust of the Title III program.

The basic policies that the PL 480 program proposes to support are those austerity measures being proposed by the IMF, including the reduction of GOS local currency recurrent expenditures. Recurrent costs under the Health Project have already been identified (and are being examined) as a potential problem and a study has just been completed which will result in project adjustments. The team therefore questioned whether the Health Project may not be in keeping with the GOS need to contain and reduce recurrent cost expenditures.

With respect to the progress under the project, the program is at least two years behind schedule. While a total of 1.5 million Lsd have been transferred from the special account to the sub-project and Trust Fund accounts, there have been no expenditures and no physical progress. This slow progress results directly from problems in securing U.S. contract services and not the fault of the GOS.

It was noted that this mid-term evaluation offered the Mission the opportunity to redirect these local currency resources, if appropriate, to high priority objectives. The local currencies provided under the overall Title III program comprise about five percent of the GOS's total development budget on the average over the five year period. Within this context, the Team felt that it is incumbent upon the U.S. Government, as the largest bilateral donor, to support the GOS in its efforts to carefully prioritize its development projects in a way that will reduce overall costs. Consequently, scarce resources should be channelled to the highest priority sector and projects, i.e., those related to agricultural production. (See Section IV Reprogramming Issues.)

The Mission and GOS indicated during final discussions on team recommendations that the Health Project remained a priority activity in their overall development strategy and was an important element to improved agricultural production through improved health of the rural population. There was strong opposition in the Mission to the suggestion that the Mission consider terminating this activity and reprogramming the funds.

c. Recommendation

Before any further releases from the Special Account for the Rural Health Support project, the Mission and GOS should review all components of the project (1) to verify that the original project objectives and plans remain valid and consistent with GOS development strategy and priorities and (2) to develop specific annual benchmarks for the remaining life of the project.

4. Regional Finance and Planning Project (Project No. 650-0012)

FY 1979-84
LOP DA - $3.2 M
LOP proceeds - Lsd 7.8 M

a. Project Description

The project objective was to support the GOS initiative to promote decentralized development planning and strengthen the capacity of government institutions to plan for provincial development. The project Grant Agreement was signed on September 26, 1979. At that time, the total cost of the project was $1.8 million of foreign exchange and Lsd 1.8 million local currency to be provided by the GOS. Out of Lsd 1.8 million, LSd 1.4 million was to be from the GOS budget, and Lsd .4 million in project support from Title III proceeds.

On October 18, 1981, A.I.D./Washington contracted Development Alternatives Incorporated (DAI) to undertake the project.

b. Project Implementation

Summary Progress

	1981/82 Planned	1981/82 Actual
Workplans Drafted/Accepted	4	2
Selection Criteria for Training	2	1
Houses Renovated	3	2
Training Course Conducted	1	1
In-country Long-Term Training	4	9
Short-Term TA Fielded	1	1
Scope of Work for Survey	1	1
Disbursements to District Funds	7	0
Long-Term TA Fielded	4	3

This project has been suffering delays not apparent in the above Summary for various reasons including personnel problems with the field team and the GOS counterpart management. The Chief of Party and some members of his team arrived late and DAI failed to simultaneously field a full team at the project sites. As a result:

- -the Kordofan region expert arrived May 15, 1982;
- -the Juba expert arrived in July; and
- -the Rumbek expert arrived August 8, 1982.

Delays in the arrival of the team members, and their arrival in intermittent fashion, did not facilitate an effective start of the project's operations. The contract with DAI was signed on October 1981, however the whole team was not on site until mid-August 1982.

By mid-1982 the Director of Regional Development Administration of the MFEP, Sayed Abdel Mahab Abdul Razig, found the Chief of Party of DAI unsuitable and asked that he be substituted. As of September 1982 he felt Washington should participate in the selection of a new Chief of Party.

Upon an official request from the Minister of the Presidency, Dr. B. E. M. Idris, a new "Financial Planning" component was considered for incorporation. This new element would address the following areas:

- An evaluation of the problems of administrative decentralization.
- An examination of the capacity of local units to generate revenue, administer funds, and implement varied taxing schemes.
- An evaluation of the needs for training components in proposed decentralized administrative systems.
- An examination of inter-governmental fiscal relations.

As a result, the Regional Development Administration helped draft an amended agreement entitled, "Regional Finance and Planning," which was signed in September 1982. The "financial planning" attached to the amended project is only for the Kordofan (Western) Region and it is not to cover the Southern Region.

Also, a new Chief of Party has been selected to replace the previous one.

c. Recommendation

That further proceeds disbursements into the Project Account for the Regional Finance and Planning Project be delayed until physical implementation catches up.

ANNEX D

MANAGEMENT COSTS OF REPROGRAMMING TO USAID

During mid-way consultations with the evaluation team, USAID expressed concern about the potential additional management workload that would be imposed if the Mission were to follow the Team's reprogramming recommendations. The Team subsequently reviewed the additional tasks that potentially would be required.

In deciding on reprogramming, and assuming legislative requirements of additionality and reporting are met, the Mission might want to consider one, or any combination of three approaches: (1) shifting project funds within the overall local currency budget from the PL 480 account to another account (presumably the CIP local currency account) or vice versa; (2) selecting additional activities for Title III financing from the overall DA portfolio; and (3) financing the local currency costs of related on-going activities that are GOS priorities and have their FX costs born by other donors, e.g., IBRD. The potential management load would vary with the approach the Mission chooses.

Shifting relevant projects from the CIP account to the PL 480 account would involve relatively simple amendments to the appropriate DA project agreements and to Annex B of the Title III Agreement. The Team was informed that these amendments could be accomplished by USAID staff without outside assistance. Adjustments in the project accounting and benchmarks would also be required on both the USAID and GOS sides. This exercise could be appropriately incorporated into the Mission's overall effort to strengthen and formalize its PL 480 accounting procedures.

Any funding shifts would, of course, have to be discussed with, and agreed to, by the MFEP. In this regard, although there exists the possibility that the GOS would question the rationale for changes, it is unlikely that they would resist after it is explained that a mid-course tightening of the PL 480 program focus has been recommended due to the U.S. concern about the Sudan's recently deteriorated economic situation. This approach would not likely impose an unmanageable additional burden on the Mission.

A second approach would be to select agriculture-focused activities from the DA portfolio that do not presently receive local currencies from either the PL 480 or CIP accounts. Because these DA projects would already be under implementation, additional management responsibilities (i.e., the appropriate amendments, benchmarks delineation, and GOS consultations) would appear minimal. Project monitoring and evaluations of the local currency components could be integrated with those of the FX components. As in the case of the previous approach, the anticipated management additionality would be small.

A third possible approach of financing local currency costs of other-donor-financed projects (co-financing) offers an opportunity to maximize donor coordination, while retaining the flexibility to focus local currencies directly on productive and rehabilitation activities. If the U.S. contribution is limited to selected local currency costs, project management would remain the responsibility of the FX donor. Only project accounting and minimal progress reporting would be necessary.

MFEP has not yet approved the new list of projects suggested by USAID at the time of this writing. Consequently, USAID presently has the unique opportunity to withdraw this project list and open a new, refocused dialogue with the GOS. This would also be an excellent opportunity to strengthen collaboration while clarifying and formalizing the USAID/GOS reprogramming process.

If required, a full-time PL 480 program coordinator financed from local currencies could assume the additional responsibilities necessitated by the reprogramming exercise. This position could be filled expeditiously by a local professional Sudanese.

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If required, a full-time PL 480 program coordinator financed from local currencies could assume the additional responsibilities necessitated by the reprogramming exercise. This position could be filled expeditiously by a local professional Sudanese.

2. Western Sudan Agricultural Research Project

The Western Sudan Agricultural Research Project is designed to increase the capability of the Agricultural Research Corporation (ARC) to develop and test improved production systems for sedentary farmers, transhumants and nomads in Western Sudan. The project has as its objectives to strengthen the national agricultural research effort thru the development of support services at ARC Headquarters, and to establish or expand research activities in Kadugli, El Obeid, El Fasher, Ghazala Gawazat on integrated livestock crop production systems.

The use of Title III local currencies supports IBRD/AID/GOS funded Western Sudan Agricultural Research Project. Local currency disbursements will be used to finance certain local construction activities, 10% of GOS salaries, vehicle and fuel procurement and rental of housing in Khartoum. The total amount of Sudanese pounds provisionally approved for this activity is LS.10,755,660. The verifiable benchmarks against which the activity may be evaluated in FY 1981 are shown in the following table:

Western Sudan Agricultural Research Project

Implementation Targets

	FY81	FY82	FY83	FY84	FY85	Total
1. Construction at Kadugli, El Obeid, El Fasher and Ghazala Gawazat research stations.						
a. Building rehabilitation at Kadugli	vaious	completed	-	-	-	completed
b. New construction at all four sites	———	various	various	completed	-	completed
c. Fencing at all four sites	30 km.	12 km.	24 km.	completed	-	completed
d. Borewells dug at three sites	3	5	completed	-	-	completed
e. Construct airstrip at Ghazala gawazat	1	1	completed	-	-	completed
f. Repair Kadugli road	4 km	4	completed	-	-	-
2. Operational Support						
a. Local salaries	17scientists	27 scientists	35 scientists	35	35	35
	44 technical	76 technical	50 technical	76	100	100
	88 support	152 support	215 support	250	300	300
	25 vehicles	40 vehicles	40 vehicles	complete	-	40
b. Fuel	vaious	various	various	various	various	various
c. Rental of Project Headquarters	1	1	no rental	none	none	none
d. Temporary Housing rental	3 houses	6 houses	6	6	6	6

3. Railway Rehabilitation Project

Under the PL 480 Title III Agreement with Sudan, a five-year program valued at LS 12.9 million was initiated in FY 1981 with the Sudan Railway Corporation (SRC) to rehabilitate the western and southern lines. The PL 480 Title III funds are mainly concentrated in the abovementioned geographic areas since other donors are involved to some degree with the other segments of the rail system.

In FY 1981 the local currency allocation of LS 4.6 million was applied toward three activities. In FY 1982 the ongoing activities were expanded and provision of LS 4.0 million was made to SRC. The first was directed at construction of forty-seven (47) watering stations from Kosti to Babanousa, from Babanousa to Wau and from Babanousa to Nyala. Of the total, seven (7) wells have been completed. The watering stations are to provide potable water for SRC maintenance crews and station personnel. Additional funds were allocated to this activity in FY 1982 since the actual cost per site is exceeding SRC's original estimate.

The second activity started in FY 1981 was for the purchase of new wooden railroad ties to relay the line from Aradeiba to Abu Zabad located just west of Rahad. To date of the total 160 kilometers of track, 100 kilometers have been completed. In FY 1982 provision for 100 kilometers of track between Babanousa and Nyala was made. To date this section has not been started due to a shortage of ties. SRC states a secure supply of wooden ties is forthcoming. In addition to relaying track, nine (9) bridges between Babanousa and Wau will be rehabilitated.

The third activity is the installation of communications line. In FY 1981 local funding for 446 kilometers of overhead line from Babanousa to Wau was scheduled. Of the total, sixty (60) kilometers have been completed. In FY 1982 provision for communications line from Kosti to Sennar (120 kms) and portions from Kosti to El Obeid (105 kms) was made and the work has been completed.

Project Summary

Project Title	Management/ Administrative Responsibility	Project Description	Project Target	Cost Sudanese Pounds
Railway Rehabilitation	Sudan Railway Corporation (SRC)	This is an existing project which will complement the World Bank's rehabilitation project by improving railway performance and expanding its capacity in the south western regions of Sudan. This project will finance the relaying of line to permit the operation of heavy locomotives to Babanousa Junction.	1. Increase the number of scheduled freight trains from one per week to three per week. 2. Increase the annual rail freight traffic density on Rahad/Babanousa, Babanousa/Nyala and Babanousa/Wau.	12,900,000

RAILWAY REHABILITATION PROJECT
IMPLEMENTATION TARGETS

	FY 1981	FY 1982	FY 1983	FY 1984
Watering Stations			39	
Track Rehabilitation				
Wooden Sleepers for Track Relaying				
Aradeiba/Abu Zabad	50	50	60	-
Babanousa/Nyala (partial)		-	100	-
Bridge Rehabilitation Babanousa-Wau Section		-	9	-
Communications Line				
Babanousa/Wau		60	386	-
Kosti/Sennar		120	-	-
Kosti/El Obeid (partial)		105	-	-

4. Rural Health Support

The Ministry of Health will contract begining in FY 1983 for the construction of 7 warehouses in Port Sudan, Khartoum and in Darfur and Kordofan Regions, Dispensaries and staff houses in Darfur and Kordofan Regions and 2 training schools in Kordofan Region.

The Southern Region Ministry of Health, through its agent the African Medical and Research Foundation (AMREF) will contract begining in FY 1983 for the construction of 4 warehouses, 6 dispensaries and staff houses, 2 training schools and 5 staff houses. Local currency disbursements will also support the training of medical personnel, the local costs of technical assistance personnel, the establishment and equipping of 5 project implementation units and special field studies required to implement the PHCP.

Project Title	Management/ Administrative Responsibility	Project Description	Project Target	Cost Sudanese Pounds
Rural Health Support.	Ministry of Health.	This project will assist the Ministries of Health in the North and the South to overcome constraints to the implementation of Sudan's national Primary Health Care Program (PHCP) which has as one of its priority objectives increased access of the rural poor to health services.	To provide assistance to various aspects of the PHCP including: a) construction renovation of 12 dispensaries and staff houses, 11 warehouses, 4 training centers and 5 staff houses, expansion of regional MOH facility. b) establishment and equipping of 5 project implementation units. c) training of 2,865 persons in 329 in-country training programs. d) management and dogistics support of technical assistance personnel. e) especial field studies required to implement PHCP.	LS 14,134,000

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RURAL HEALTH SUPPORT

IMPLEMENTATION TARGETS

(NOS.)

	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	Total
nstruction warehouses						11
enovation):						
ort Sudan		2				
hartoum		1				
ordofan				2		
arfur and		1	1			
he South		1	2	1		
ispansaries and Staff Houses:						12
arfur			3			
ordofan			3			
outh				3	3	
aining Centers:						
ordofan				1	1	4
outh				1	1	
aff Housing - South:		3	2			5
pasion of Southern Region (MOH) cility		1				1
chnical Assistance ong term Personnel (Persons)	5	11	13	13	13	55
aining of Medical Personnel:						
rientation			1325	1325	1325	8865 (persons)
ontinuing Education			1300	1300	1300	
thers			330	330	330	
oject Implementation:						
nits established and equiped		2	1	2		5
pecial Studies		3	4	3		10

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5. Regional Finance and Planning

This project was included in the previous Annex B under the Title Rural Development Planning. The original project was designed assist the GOS promote decentralized development planning and strengthen the capacity of government institutions to plan and implement development projects. The project was amended in September 1982 to add a finance component. The new project purpose is to: (1) increase the capacity of the Kordofan and Southern Regional Governments to fund their own activities by improving their revenue generating, budgeting, financial management, and project development, capabilities and (2) support a continuing GOS effort to promote decentralized government and decentralization of services.

A total of 7,800,000 Sudanese Pounds has been programmed to cover certain local costs of the project. A regional fund for development projects is included to allow regional government officials to test skills on planned projects and will provide for applied research on planning needs and techniques. Major new activities receiving local currency allocations under the PL 480 Title III Program include (1) in-country training in finance and budgeting; (2) workshops for staff involved in planning and budgeting functions; (3) the upgrading of a local Sudanese training institute to provide a permanent, on-going capacity to conduct planning, budgeting, revenue analysis and collection, and related courses; and (4) a limited amount of equipment for GOS offices. Finally, local currency has been allocated to the USAID/GOS trust fund for contractor support.

Regional Finance and Planning Implementation Targets

	FY81	FY82	FY83	FY84	FY85	Total
Project Design Submitted	-	-	30	30	30	90
Workshop Conducted	-	-	6	3	3	12
Local Training Institute Upgraded	-	-	x	x	x	x
Finance Studies Conducted	-	-	3	5	1	9
Houses Renovated	-	2	-	-	-	x
Local Projects Implemented	-	-	5	5	5	15
GOS Personnel Trained	-	-	200	200	200	600
Equipment Purchased	-	-	x	x	x	x

6. River Transport

The River Transport purchased four cranes in FY 81 and FY 82 at a total cost L.S. 400,000. This equipment will be used to load and off-load goods at the ports of Kosti, Malakal and Juba and at various construction sites, including Malut Sugar Factory, Tung Kenaf Factory and power schemes at Juba, Malakal, Bor and Renk.

Two warehouses were constructed at Kosti under a total cost L.S. 375,000, to store goods off-loaded from railwagons and River boats. This will permit the releasing of these conveyances for other uses, rather than requiring their use as storage containers, while protecting the goods transported.

Dock and quays at Renk, Mongalla, Juba and Bor will be rehabilitated in FY 1983-85.

Warehouses will be constructed at Mongalla, Juba and Bor, using local materials in construction, in FY 1983-84.

Channel and Distance Markers will be placed between Lake No and Mongalla in FY 1983.

Dredging the channel between Juba and Mongalla will contract beginning in FY 1983.

Project Summaries

roject Title	Management/ Administrative Responsibility	Project Description	Project Target	Cost Sudanese Pounds
iver Transport	River Transport Corporation (RTC)	Activities to be supported will increase the operating efficiency of freight transport to Southern Sudan by improving the linkage between rail and river transport in the region.	1. Increase the annual river transport density at Renk, Mongalla, Juba and Bor by Port rehabilitation. 2. Construct ware houses, using local materials at Mongalla, Juba and BOr and encourage the private enterprises engaged in river transport, to get space in for storage. 3. Placing channel and distance markers between Lake No and Mongalla. 4. Dredging the river between Juba and Mongalla, which will provides excellent navigation for RTC and private enterprises.	10,474,646

River Transport

Implementation Targets

	FY 81	FY 82	FY 83	FY 84	FY 85	TOTAL
- Cranes Purchased	2	2				4
- Storage Warehouses at heads - Kosti	2					2
ock and Quays at:						
a- Renk			1			
b- Mongalla				1		
c- Juba				1		
d- Bor					1	4
- Construction of warehouses at:						
a. Mongalla			1			
b. Juba			1			
c. Bor				1		3
Channel and distance markers placed between Lake No and Mongalla			160 (Nos)			
Dredging (Juba-Mongalla)				65 (kms)		

8. Blue Nile Integrated Agricultural Development

(650-0018)

The purpose of this Project is to develop an integrated delivery system for farmers and herders which is suitable for replication in the rainfed agricultural subsector. The system will include improved agronomic inputs and practices (with and without mechanization); improved livestock practices; coopeartive systems to provide production services and savings functions; extension approaches to transfer agricultural information; and a project monitoring and planning unit to oversee project activities. The Project works in collaboration with farmers and herders in selected villages and encampments, as well as with local, regional and national level government institutions.

A total of LS.2,040,000 will be utilized in support of the program over the period 1982-85. Specifically, the funds will sustain the following areas of activity: (1) Agricultural program, including beekeeping, animal traction, verification farms in key villages, supporting services for cooperative member farms and a specialized crop system for the areas of the project bordering on the Roserires reservoir; (2) Extension program, including appropriate technology techniques, extension of improved agricultural practices, and a program designed to meet the needs of women family members; (3) Special studies, including a base-line data study of nomads, a land use survey of the project area to determine the most appropriate use of land resources and a water resources survey to locate actual and potential water points; (4) Based on the water resources survey, the construction of water wells and ponds at selected locations in the project area; (5) Organization of and support for farmer and nomad cooperatives and the establishment of a cooperative union to serve as an overall coordinating mechanism; (6) Animal resources program, including the provision of veterinary services and supplies to nomads and the construction of tanks to treat livestock for parasites; (7) Project Support Program, including the construction of metal and wood workshops to provide the project with essential items, the maintenance of offices and the continuous maintenance of roads in the project area.

Blue Nile Integrated Agricultural Development Project

Blue Nile Province

Implementation Targets

Target	FY82/83	FY83/84	FY84/85	FY85/86	Total
1. Agricultural Program					
-Beekeeping program	1	1	1	1	4
-Animal traction program	1	1	1	1	4
-Verification farms	3	-	-	-	3
-Support for Co-op farms	1	1	1	1	4
-Floodland crop system	1	1	1	1	4
2. Extension Program					
-Techniques of appropriate technology established	1	1	1	1	4
-Improved agricultural practices extended	1	1	1	1	4
-Women in development program established	1	1	1	1	4
3. Special Studies					
-Nomad study conducted	1	-	-	-	1
-Land use survey conducted	1	-	-	-	1
-Water resource survey conducted	-	1	1	-	2
4. Provision of Water					
-Water wells drilled	-	10	10	-	20
-Ponds constructed	-	1	2	-	3
5. Co-op Program					
-Cooperatives organized	1	1	1	-	3
-Cooperative union established	1	-	-	-	1
6. Animal Resources Program					
- Veterinary support for nomads	1	1	1	1	4
-Tick dips established	-	4	4	-	8
7. Project Support Program					
-Metal workshops established	1	2	1	-	4
-Wood workshops established	1	1	-	-	2
-Roads maintained	1	1	1	-	3
-Offices maintained	1	1	1	-	3

9. Southern Region Agricultural Development I

This Project will relieve key policy, production, marketing, institutional and infrastructure constraints to increasing private sector agricultural production, processing and marketing in the Southern Region of Sudan. The Project is the first phase of a proposed 10 year effort on the part of the Southern Regional Ministry of Agriculture and Natural Resources, with AID assistance to promote increased small farmer agricultural production and incomes.

LS. 5,500,000 in local currency will be used to cover local staff costs of project provided technical assistance and for specific support to activities related to project components of: (1) Agricultural Marketing, (2) Farming Systems Research, (3) Budget and Financial Planning (4) Manpower Development and Utilization, and (5) Area Development. Some of the more significant specific activities using local currency include construction of feeder roads, operating budget support and credit and infrastructure support for rural enterprise and village market development.

Southern Region Agricultural Development I

(650-0046)

PL-480 Title III Local Currency Benchmarks

Agricultural Marketing	FY83	FY84	FY85	FY86
Local costs of T.A.	1 LT(3pm)	1 LT.	1 LT.	1 LT(11pm)
Marketing information system set up		covering Yambio		
Market Surveillance system operational		covering Yambio	covering region	
Construction for market improvement			*	*
Credit for Marketing			*	*

Farming Systems Research	FY83	FY84	FY85	FY86
Local costs of T.A.	2 LT(2pm)	2 LT	2 LT	2 LT(11pm)
Construction of seed storage and screen house			completed	
Operating expenses labor covered		covered	covered	covered
Facility maintenance		covered	covered	covered
Operating expenses research covered		covered	covered	covered
50 feddans of land cleared			25	25
Office supplied for RARTC		supplied		
Limited operating costs RARTC		covered	covered	covered

Budget and Financial Planning	FY83	FY84	FY85	FY86
Local costs of L.S.		1 LT(9pm)	1 LT	1 LT(9pm)

	FY83	FY84	FY85	FY86
Manpower Development and Utilization				
Local costs of T.A.	1 LT (1pm)	1 LT	1 LT(11pm)	
Support for existing program RATC and YIA		covered		
Limited support after September 1984			covered	covered
Support of U. of Juba student field work		10	10	10
Teaching material U. of Juba			supplied	
Research fund U. of Juba operational			Operational	Operational
Construction of 5 additional "tukal" type building for farmer training			5	
Area Development				
Local costs of T.A.	1 LT(1pm)	2 LT	1 LT	1 LT(11pm)
Area Councils supported		covered	covered	
Credit program		*	*	*
On-farm storage units		10	20	10
Tukal housing units		2	2	
Feeder roads:				
Yambio/Gongora		29 km		
Yambio/Sakura/Nzara			20 km	
James Dyko			30 km	
Yambio/Bangazagini				125 km
Yambio/Sakura				20 km
Vehicle and support extension		Yambio	Yambio	Yambio

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* Still to be defined.

10. Rural Renewable Energy Project

The Renewable Energy Project (REP) is designed to assist the Government of Sudan (GOS) develop an applied research and dissemination capability in renewable energy. This is expected to result in significant useage of inexpensive renewable energy technologies thereby conserving the higher forms of energy for other purposes. During the life of the project (fiscal years 1982 - 1986) various renewable energy systems will be adapted and disseminated in Sudan.

The Energy Research Institute (ERI) under the direction of the Energy Research Council (ERC) coordinates the REP and other renewable energy activities on a nation-wide scale. The ERI staff is composed of professionals from various disciplines and numerous government agencies.

The specific work plan for the REP is now being developed by the GOS and the USAID contractor, Georgia Institute of Technology. Specific quantifiable targets and goals for the project will be presented to USAID and the GOS for review in the near future.

PROJECT SUMMARY

Project Title and Number	Management Administrative Responsibility	Project Description	Project Targets	Cost (U.S. $ Millio[n])
[Re]newable Energy Project 650-0041.	Energy Research Institute under the direction of the Energy Research Council.	This project will assist the Government of Sudan (GOS) in providing institutional support to the Energy Research Institute (ERI) and in designing, developing, testing and disseminating renewable energy systems. The Federal Republic of Germany renewable energy project will compliment this project's purpose and goals.	1. Significant useage of project tested and proven Renewable Energy Technologies (RETs) throughout Sudan. 2. Develop and improve the ERI's capability to continue adaptation and dissemination of RETs. 3. A portion of RETs tested and disseminated being fabricated within Sudan on a production basis. 4. Develop RET information system within Sudan. 5. RETs disseminated under the project allow higher forms of energy sources to be used for other purposes.	$4.6 (This excludes, L.S. 1.108 millio[n] in CIP generation[s])

11. Abyei Rural Development

This activity supported the AID/GOS funded Abyei Rural Development Project completed as planned in FY 1981. Future activities will be funded through the project development fund under Regional Finance and Planning.

oject Titel	Management/ Administrative Responsibility	Project Description	Project Target	Cost Sudanese Pou
yei Rural lopment		This project will support the research and integrated rural development activities being undertaken in Abei District	Interrelated efforts to include the following activities: 1. Training of 20 village health workers and 10 veterinary assistants. 2. Installation of 6 hand-pump wells. 3. Establishement of bee-keeping program. 4. Purchase of 5 bulls for improved livestock breeding. 5. Completion of a field studies including livestock servey.	300,000

ABYEI RURAL DEVELOPMENT

IMPLEMENTATION TARGETS

(Nos.)

	FY 1981
Agriculture Program:	
Storage facility for 1,000 sacks of sorghum	1
Tractor and other technical support for 6 farms	1
Oxen and donkeys purchased	10
Bee-keeping program established	1
Water Program:	
Handpump wells installed	6
Health Program:	
Volunteer village health workers trained	10
Traditional midwives trained	10
Medicines supplied to rural health workers	7
Workers supplies for training and service center	1
Transport and Communications:	
Truck trips Khartoum-Abyei	20
Airplane trips Khartoum-Abyei	10
Vehicle purchase	3
Construction:	
Buildings constructed	5
Animal Health:	
Veterinary volunteers trained	10
Breeding bulls purchased	5

Cont'd.../...

ABYEI RURAL DEVELOPMENT

	FY 1981
Field Studies:	
Missiriya livestock survey completed.	1

ANNEX F

THE DEMOCRATIC REPUBLIC OF THE SUDAN

MINISTRY OF FINANCE & ECONOMIC PLANNING

THIRD PROGRESS REPORT FOR THE FISCAL YEAR 81/82

AGREEMENT OF THE UNITED STATES OF AMERICA

AND

THE GOVERNMENT OF THE DEMOCRATIC REPUBLIC OF THE SUDAN

FOR SALES OF AGRICULTURAL COMMODITIES

Sudanese Fiscal year 1st. July 81 - 30th June 82.

KHARTOUM - October 1982

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<u>Annexes</u>

Annex (1) Budgetted Resource Flow and Utilization of Title III

Annex (2) PL480 Title III - Statement of Account

<u>Attachments</u>

1. Railway implementation report of the USAID/Khartoum along the Kosti-Wau line.

2. Implementation Report by; the Sudan Railway Corporation (SRC) 30 September 1982.

3. Revised five-year budget of the Rural Health Support Project.

4. Audited Reports on Special Account (4 reports).

I. Introduction:

This is the third year progress report on the implementation of a five year (1980-1984) Agreement on Sales of Agricultural Commodities which was concluded between the Government of the Democratic Republic of the Sudan (GOS) and the Government of the United States of America (USA) on December 22nd, 1979. According to its requirements, the Agreement has since been renewed annually: On August 7th. 1980, February 14, 1981, and April 29th. 1982.

The first amendment involved a change in the projects list while the subsequent two amendments added incremental funding, included additional covenants and modified the local currency projects list.

This progress report covers the year ending September 1982. By the end of which exactly half of the life span of the Agreement would have been lapsed.

II. Administration Activities:

(i) The Planning Administration of this Ministry has had several meetings with the project managers of the units which benefited from the local currency generations of title III Programme. Representatives from USAID, Khartoum, also participated in the meetings. The objectives of these beneficiary meetings was to review the implementation progress of the projects whose local currency needs was financed through the local resources generation of Title III Agreement and to consider the financial requirements of these projects for the fiscal year 82/83 and subsequent years. These projects are:

a) Sudan Railway Rehabilitation of the Kosti-Wau line.

b) Western Sudan Agricultural Research Project.

c) Rural Health Support Project.

d) Regional Finance & Planning Project.

e) Wheat Policy Studies.

f) River Transport Corporation.

g) Abyei Integrated Agricultural Project.

The reporting on the progress of implementation on each of these projects and their future financial requirements are dealt with in more detail in Sections V and VI of this report.

(ii) A series of meetings also were held between representatives of this office and the USAID, Khartoum for the purpose of reprogramming the local funds which are expected to be generated from both PL 480 III and CIPs.

For this purpose this office has forwarded to the Khartoum AID Office project profiles of ten major development projects, whose local resources needs exceeded ninety million Sudanese Pounds, to consider its financial eligibility either through PL 480 III or CIP funds. After exhaustive discussions with this office and AID Khartoum Office and the project directors, the PL 480 III funds were budgeted and programmed as in annex (1).

The reprogramming covered the years: 82/83 - 86/87. It can be seen from the aforementioned annexes that all local resources generations are directed to finance the local cost requirements of joint US-Sudanese Projects.

(iii) An evaluation team from AID/Washington, US Department of Agriculture, US Department of Tressury has visited Khartoum during the first half of October 1982. The team has met with representatives of the Ministries of Finance and Economic Planning and Co-operation, Commerce and Supply; as well as with directors of projects benefiting from PL 480 Title III local resources. The team reviewed and discussed with Sudanese officials all aspects of PL 480 III Agreement and it reviewed the progress in the implementation of all projects which benefited so far from the "Food For Development Programmes". The Team's Report is attached herewith.

Reports and Audit Requirements:

(i) The Ministry of Cooperation, Commerce and Supply (MCCS) has been forwarding to the AID Khartoum Office quarterly reports on "Usual Marketing Requirements". The latest such report has been submitted for the quarter ending September 30, 1981. The MCCS is currently finalizing the FY 82 UMR Reports which will be submitted to USAID in December.

(ii) As to the annual progress report on PL 480 Title III Agreement, two reports were submitted earlier: one in October 1980, and the other in November 1981.

(iii) This office has forwarded to Khartoum AID office three quarterly accounts certified and audited by the Sudan Auditor General. Moreover an annual audited report was submitted for the fiscal year 81/82. Copies of these accounts are enclosed herewith.

III. Wheat and Flour Shipments under PL 480 Title III During 81/82 and estimated requirements for 82/83:

Demand for wheat has been estimated to be growing at 10% annually. This relatively high growth rate is attributable to various socio-economic factors which include, inter allia:

- Fast shift from the consumption of the traditional staple food grains, basically sorghum and millet.
- Fast urban movement.
- Inflow of political refugees from various countries.

The following statistical table (1) depicts the various supply sources of wheat during the fiscal year 81/82:

Table (1)

Sources of Wheat and Flour Supplies during 1981/1982 (In 000 M. Tons)

		Wheat	Flour
1.	Stock	75.0	———
2.	Commercial Imports	206.5	108.8
	2.1 CCC	123.5	36.6
	2.2 USA	83.0	———

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		Wheat	Flour
2.3	France		72.2
3.	Concessional Imports	6.8	40.9
3.1	PL 480 I	*	*
3.2	PL 480 III	*	*
3.3	Canadian Aid	6.8	8.3
3.4	Australian Aid		14.6
3.5	EEC		18.0
4.	Local Production (Received by Mills)	60.0	
	Total	348.5	149.7
	Flour equivalent in Wheat +	210.0	
		558.5	

In view of the delay in the renewal of Title III Agreement (29th April 1982), no wheat shipments were received during fiscal year 81/82 against that Agreement. To cover the wheat shortage, the Government had to resort to import wheat on commercial terms through supplier's credits. The above statistics in table (1) reveal that 206,500 tons of wheat and 108,800 tons of flour were purchased on supplier's credit and through CCC. All of these Commercial imports were from the US markets, except 72,200 tons which were supplied from France.

On shipments against Title III were received during 81/82 because of the delay in renegotiating the Title III Agreement. However eventually in May 1982 Title III supplies have been contracted but the shipments were received during 82/83 (details of these in the next section of this Report).

The total concessional wheat imports received during 81/82 amounted to 6,800 tons of wheat plus 41,000 tons of flour. These were supplied in food aid by Canada, Australia and the EEC.

Local production supplies during 81/82 were estimated at 60,000 tons of wheat. This represents the actual quantities received by the mills and it is by far less than the amount recorded by the Agricultural Statistical Bulletin which is published by the Ministry of Agriculture (175,000 tons in 82/83). The ~~explanation~~ explanation for this variance may be attributable to the fact that the tenants offtake part of their output for their own consumption.

NOTE: 1) FY 1982 PL 480 Title I & III wheat/flour which have been contracted in May 1982 arrived during fiscal year 82/83.

2) Conversion factor from flour to wheat is approximately 1.4.

Thus total wheat supplies actually received during 81/82 amounted to 348,500 tons of grain plus about 150,000 tons of flour - a total of 558,500 tons of wheat grain. The estimated needs for the same year under review were 715,000 tons, thus there has been an absolute shortage of over 156,000 tons.

The following table (2) depicts details of the third tranche, wheat shipments against the PL 480 III Agreement which has been contracted during May 82 and received during July - September 82. Wheat grain amounting to 94,575 tons, valued at about $15 million were received against PL 480 Title III Agreement plus 21,155 tons of flour valued at about $5 million.

The shipments are not distributed yet and thus their sales proceeds ($20 millio are not reflected yet in the Special Account. We expect to have the Special Account credited with the value of the third year's tranche by early 1983.

Table (2)

Third Tranche Wheat Shipments

of PL 480 III

Date of Arrival	Quantity (M. Tons)	Price ($/Tons)	Value
I. **Wheat**			
15.7.82	32.000	167.74	5,367.680
18.7.82	32.000	154.50	4,944.000
8.8.82	11.075	154.51	1,711.199
27.8.82	19.500	152.67	2,977.065
	94.575		14,999.944
II. **Flour**			
12.8.82	2.100	237.35	492.135
	6.300	236.55	1,490.265
	2.215	236.55	523.958
31.8.82	935	236.55	221.174
	1.719	237.30	407.918
25.8.82	1.431	237.30	339.576
	3.150	237.65	748.598
	3.265	237.66	775.960
	21.155		4,999.584

IV. PL 480 Title III Special Account for the Year 81/82

Table (4) depicts deposits in and disbursements from the PL 480 Title III Account, during fiscal year 81/82 and annex (2) depicts up to date deposits and disbursements ever since the account has been opened up to end of November 1982.

The balance of the account as at the beginning of fiscal year 1981/82 stood at LS. 3,634.008; to this, an amount of LS. 9,958.176 has been added, representing the sales proceeds of 78,155 tons of wheat and 22,631 tons of flour received under PL 480 Title III during 1981/82 (Second Tranche of Title III Agreement).

~~The same~~ account in Table (4) shows that a sum of LS. 7,933,878 has been transferred to the five projects benefiting from Title III locally generated funds. Out of this a sum of LS. 6.758,878 has been transferred directly to five individual project accounts, and the remaining LS. 1,175,000 has been transferred in quarterly payments to the US Trust Fund Account.

The following statement of accounts depicts the amounts transferred to each individual project during the year under review, sub-classified with the amounts transferred to the Project Account and to the Trust Fund Account.

The PL 480 Title III Special Account stood at a credit balance of LS. 5,658.306 at the end of fiscal year 81/82.

Table (4)

Statement of the Special Account

(For Fiscal Year 1981/1982)

Date of Disbursement		Sudanese Pounds Equivalent to $2.0 Dr.	Cr.
	Balance brought forward July 1, 1981.		3,634.008
	Deposits of the wheat value of second tranche of Title III Agreement.		9,958.176
15/6/82	1. Babanousa-Wau Railway Rehabilitation (PA).	3,233.000	
	2. Western Sudan Agriculture Research.	2,626.878	
23/8/82	Project Account (PA) 1,811.878		
5/10/82	Trust Fund (TF) 815.000		
	3. Rural Health Support.	874,000	
13/1/82	PA 874.000		
	TF -		
	4. Rural Development Planning	1,000.000	
24/2/82	PA 640.000		
	TF 360.000		
	5. River Transport Project completed		
	6. Wheat Policy Studies.		
11/3/82	PA	200.000	
	7. Abyei Rural Development Project completed		

	Dr.	Cr.
Total transfers from the Special Account to the Project Account and the US Trust Fund Account.	7,933.878	
Balance as at end of fiscal year 81/82.	5,658.306	
	13,592.184	13,592.184

Source: Planning Accounting Unit, MFEP.

V) Implementation of Projects benefiting from Food for Development Programme:

The PL 480 Title III Agreement has originally singled out eight projects to benefit from the local resources generated from the sale of wheat. (Table B:1 Annex B). However, one project "Integrated Wildlife and Pest Management" has been dropped out during 1980/81 since another project of a similar nature was being implemented. The other seven projects have been under implementation and Table (5) depicts assessment of each project on financial basis.

In can be seen from the above referred to statistics that three projects were completely implemented - i.e. the allocated funds for the first two years of the Agreement (80/81-81/82) were transferred from the Special Account to the Project and Trust Fund Accounts. These completed projects are:

i) River Transport.

ii) Abyei Rural Development.

iii) Wheat Policy Studies.

In physical terms, the first two projects were completed entirely and the third wheat policy studies is expected to be completed ~~before~~ by December 1982.

Table (5)

(X) Financial Evaluation of Implementation

(In Sudanese Pounds equivalent to Dollars)
Million Pounds

Projects	Original Total Project Allocation (1) 80/81 - 84/85	Revised Annual allocation for the two years ending 81/82	Actual Disbursement from Special Account during the two years ending 81/82	Proportion of financial Implementation
1. Babanousa Wau Railway Rehabilitation.	12.9	8.6	7.8	90.7%
2. Western Sudan Agr. Research.	10.8	4.5	2.9	64.4%
3. Rural Health Support.	10.1	2.4	1.3	54.2%
4. Rural Development Planning (2).	7.5	3.0	0.7	23.0%
5. River Transport.	0.7	0.7	0.7	100 %
6. Abyei Rural Development.	0.3	0.3	0.3	100 %
7. Wheat Policy Studies.	0.2	0.2	0.2	100 %
Total	46.5	19.7	13.9	70.5%

(1) Conversion from US$ to Sudanese Pounds was at the previous exchange rate of LS 0.5 = US$ 1.

(2) New "Regional Finance and Planning" Project.

Babanousa/Wau Railway Rehabilitation:

Almost 91% of the funds allocated for 80/81 and 81/82 to the "Babanousa - Wau Railway Rehabilitation" have been transferred to the project account. The project could have absorbed all its two years allocation; however, it has been decided to hold back $0.8 million until further evidence of physical implementation has been realized.

During February 13-23, 1982 a mission from the AID Khartoum Office accompanied by officials from Sudan Railway Corporation (SRC) travelled along the Kosti-Babanousa-Wau line which is being rehabilitated. Enclosed herewith is the implementation report of the mission and a more recent report on implementation dated 30th September 1982.

Implementation of the project has been poor so far, as depicted in Table (5) below. Except for the resleepering and relaying of the Aradeiba-Abu Zabad line, the other elements of the projects have been facing practical problems. Implementation problems are dealt with in the USAID implementation report enclosed herewith. The implementation of the Project has been reviewed several times in the course of 81/82 with the (SRC) and the MFEP. The Aid evaluation mission participated in the last of such implementation review meetings (October 7th, 1982 and enclosed herewith is the latest progress report submitted by SRC (30.9.82). By that report, SRC has laid down a work-plan to rectify the poor performance so far. Also monthly progress reports had been requested and are now being received.

Table (6)

B: 3 Sudan Railway
Rehabilitation: Kosti-Wau Line
Targeted Versus Actual
Implementation
Fiscal Years 80/81-81-82

		Planned	Actual
1.	Communications Ground Cable Laid (km.)	225	
2.	Operating Deepbore wells (Nos)	17	8*
3.	Relay Aradeiba/Abu Zabad Ties (km.)	160	100
4.	Protection Works (Widening and Raising) (Nos).	160	-
5.	Station and Quarters Constructed.		
	a) Station (Nos).	9	
	b) Maintenance Staff Quarter (No)	100	
6.	Recondition Babanousa/Wau Ties (kms.)	-	
7.	Retimber and point Babanousa/Wau Bridge (No).	9	
8.	Civil Engineering Shop Machinary Tools and Survey Instruments Enclosed (Nos).	1	
9.	Babanousa/Wau Locomotives Workshops:		
	a) Watering facilities improved (Nos)	1	
	b) Wau, Wedwil and Babanousa Sheds Improved (Nos).	1	
	c) Babanousa Plat-form completed (Nos).	1	

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* One found not suitable

Western Sudan Agricultural Research Project:

The physical implementation of this project has been relatively satisfactory compared to other projects. The following Table B: 4 compares the physical implementation targets set for fiscal years 80/81 - 81/82 against actual implementation results.

~~A report on progress of implementation dated 3rd. October 1982 has been submitt to AID, Khartoum (copy enclosed).~~

It is estimated that by August 1982, about 95% of the rehabilitation and building works at Kadugli were completed. In August 1982, ten senior houses, the administration building, and the water, sewer and electrical systems were turned over to WSARP. It is expected that before the end of 1982, all work construction work at Kaduglic would be finalized.

Construction work at El Obeid, Ghazala Gawazet, El Fasher and shambat is on-going and work is expected to be completed by the first quarter of 1984. Progress has been inpeded by such constraints as shortage in fuel and water supplies.

Table (7)

B: 4 Western Sudan Agricultural Research
Targeted Versus Actual Implementation

	FISCAL YEARS 80/81 - 81/82	
	Planned	Actual
1. Construction at Kadugli, El Obeid, El Fasher and Ghazala Gawazet Research Stations.		
a. Building rehabilitation at Kadugli.		95%
b. New construction at Al Four sites.		--
c. Fencing at all four sites.	32 kms.	12 kms.
d. Borwells dug at three sites.	3 wells	5 wells
e. Construction of Airstrip at Ghazala Gawazet.	1	1
f. Repair Kadugli Road.	4 kms.	--
2. Operational Support		
a. Local salaries.	27 scientists	4 scientis
	75 technical	35 technica
	152 support	215*support
	40 vehicles	27 vehicles
b. Fuel	1	--
c. Rental of Project H.Q	1	--
d. Temporary housing rental	6	6

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* Higher than the planned target because of inclusion of permanent form labourares.

Of the fencing work scheduled to be completed by 81/82 about 38% has been implemented.

Five borewells were dug, of these two were not found to be suitable.

The airstrip at Ghazala Gawazet is active at the present time.

Repair of the Kadugli Road has not been started upon yet, and recruitment of operational staff has been on-going but at less than the level anticipated.

Rural Health Support:

This project is an important component of the country's National Primary Health Care Programme. The project account has been credited with LS. 874,000, but physical implementation is still pending AID/Washington's selection of the contractor for the Western Region. However, a contract was signed for technical assistance to the Southern Region.

A detailed work plan is being agreed upon and a revised five-year budget has been prepared (copy attached).

Regional Finance and Development Planning:

A Project Grant Agreement has been signed on September 26th. 1979 by which US $ 2.0 million has been allocated to the project, of which sum the equivalent of Sudanese Pounds 7.5 million was to be in local resources to be financed through the sales proceeds of PL 480 Title III. The project was amended in September 1982 to add an additional U.S.$ 1.2 million.

On October 18th 1981, AID/Washington contracted with Development Alternatives Incorporated (DAI) to undertake the project. However, it was not before December 81 that the chief of Party and some members of his team arrived at Khartoum. DAI has failed to send a fullfledged team to the project sites:

- Kordofan Region expert arrived on 15/5/82.
- Juba Expert arrived on July.
- Rumbek Expert arrived on 13/8/82.
- Delays in the arrival of the team members - and their arrival in an intermittent fashion did not facilitate an effective start of the project operations. The contract with DAI has been signed on October 1981, however the whole team was not on site until mid. August 1982.

By mid 1982 the Director of Regional Development Administration of the MFEP, Sayed Abdel Wahab Abdel Razig, found the chief of party of DAI not suitable and asked that he be substituted. By the end of September 1982 Sayed Abdel Razig has gone to Washington to participate in the selection of a new chief of party.

Meantime, and in view of an official request made by the Minister of the Presidency Dr. B.E.M. Idris a new "Financial Planning" component was added to the Project. The new "financial" element of the Project is to cover the following areas:

- an evaluation of the problems of administrative decentralization.
- an examination of the capacity of local units to generate revenue to administer funds and to implement various taxing schemes.
- an evaluation of the needs for a training component in any decentralized administrative system.
- the examination of inter-governmental fiscal relations.

In response of the above, USAID has forwarded an amendment of the original Rural Development Project to incorporate a "financial element". Thus, on amended agreement; "Regional Finance and Planning" project was signed on September 1982.

///

The Regional Development Administration has helped in the redrafting of the above project. It is understood that the "financial planning" attached to the new project is only for the Kordofan Region and it is not to cover the Southern Region.

~~A new chief of party has been selected to replace the previous one. It has been decided to award the finance component of the new project to a separate contr~~

River Transport Project:

On amount of LS 750,000 has been allocated to River Transport Corporation (RT(for increasing the operating efficiency of freight transport to Southern Sudan. The funds were to be utilized in the construction of two warehouses and the local procurement of four cranes. The project has been completed as planned since last year.

Abyei Rural Development Project:

The project supports research and integrated rural development activities in the Abyei district. An amount of LS 300,000 has been allocated and actually spent on the various aspects of the project as described in last year's progress report.

Wheat Policy Studies:

Study # 1: "Compare the real cost of growing wheat in Sudan with the cost of improved wheat etc.....".

Four local consulting firms have been invited to bid for the preparation of this study in March 1982. The Steering Committee has made the necessary financial and technical evaluation of the four proposals received and eventually it has been assigned. The Sudanese Consultations Bureau to undertake the study (SCB). The contract with SCB was signed on May 1982. During August the Steering Committee has received a synopsis of the study. The Steering Committee has communicated its comments on the synopsis to the consultant by the end of August. On the 21st of September the Steering Committee received the Draft Final Report of the Study (copy submitted to US AID, Khartoum). The Steering Committee reviewed the draft final report and communicated its comments to the consultant during October.

The study is scheduled to be completed by November 1982.

Study # 2: "Examine the impact on wheat and cotton production of rationalizing water and other charges between these crops in the Gezira".

The central theme of this study overlaps with the IBRDs study: "Cost Recovery Study", thus it has been decided not to undertake it. A copy of the "Cost Recovery Study" has been forwarded to USAID, Khartoum in the course of last year.

Study # 3: "Assess the effects of the removal of wheat subsidies on the consumption of wheat and sorghum".

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The mini-household budget summary which forms an integral part of this study has been undertaken by the Department of Statistics and the results of the summary were dispatched to the Research Triangle Institute of North Carolina which has been assigned by USAID, Washington to undertake the study.

A progress Report on the study has been received from the consultant and a member of the Steering Committee has been to N. Carolina to discuss the Report.

The study is planned to be finalized before end of 1982.

<u>Study # 4:</u> "Assess the effectiveness and any changes needed in the wheat research and production programmes of the GOS".

The terms of reference of this study has drafted and forwarded to USAID, Khartoum during the course of last year. USAID, Khartoum has not responded yet and it is understood that the office is collecting some basic agronomic and metrological data to make a first assessment of the suitability of wheat cultivation in the Sudan.

VI. The Reprogramming of Title III Local Funds

This office has undertaken reprogramming of Title III local resources generated from Title III wheat sales revenues. The reprogramming of the funds covered the period 1982/82 - 1986/87. A balance of $2269,298 remained undisbursed by the end of 1981/82; to this amount, $18 million is expected to be collected from the wheat sales during 1982/83 (US $20 million converted at $0.9 per dollar) and $52 million for the subsequent 83/84 and 84/85 tranches (US $20 million annually converted at $1.3 per dollar). This total local resources estimated to be made available during 82/83 - 86/87 are $72,269,298.

Annex I shows a detailed reprogramming of the local currencies generated from Title III wheat sales and its allocation amongest the old projects already incorporated in the Title III Agreemnet and new projects proposed to be incorporated in the forthcoming amendment of the same Agreement. Annex B also revises the benchmarks of the existing projects and sets benchmarks for the newly proposed projects.

A summary of the reprogrammed funds is given below on Table (8).

Summary of the Reprogrammed

Title III Funds (82/83 - 86/87)*"

Existing Projects already Incorporated in the Title III Agreement

	Sudanese Pounds
1. Railway Rehabilitation	5,067,000 ~~5,067,000~~
2. Western Sudan Agricultural Research	4,859,823
3. Rural Health Support	12,862,500
4. Agricultural Planning & Statistics	1,255,000
Total	24,044,323

Proposed New Projects

1. River Transport	9,724,646
2. Western Sudan Agric. Production & Marketing	6,000,000
3. Southern Region Agric. Development	6,000,000
4. Renewable Energy Project	1,476,000
5. Blue Nile Integrated Agric. Development Project	2,040,000
Total	26,240,646
Unprogrammed Funds	16,000,000
Grand Total	66,284,969

* Excluding actual payments during 80/81 and 81/82.

See Annex I for local currency program totals.

VII. PL 480 Title I/III Debt Relief

The GOS is processing an application to USAID for debt relief or debt offset accruing on the following PL 480 Title I and III loans:

Table (9)

PL 480 Title I and III Debt
Liability accruing during 1983
(Preliminary Estimates)

PL 480 Title III Debt Due	Amount US $
April 10, 1983	398,287.80
May 21, 1983	398,561.75
PL 480 Title I Debt Due	"
April 1, 1983	9,637.57
April 1, 1983	38,666.36
April 1, 1983	9,637.57
April 1, 1983	38,666.36
April 1, 1983	7,268.03
April 1, 1983	9,637.57
June 8, 1983	90,514.70
June 5, 1983	195,289.16
June 30, 1983	17,352.38
June 30, 1983	17,352.38
July 28, 1983	109,808.16
July 30, 1983	51,152.90
August 17, 1983	377,938.76
Sept. 26, 1983	199,615.87
October 1, 1983	38,666.36
October 4, 1983	99,619.56
	2,107,672.70

Source: USAID, Khartoum

The GOS plans to write-off both Title I and III debt obligations accruing in 1983 and amounting to an estimated US $2,107,672.70 out of which $796,849.55 represents interest obligations on Title III and the balance ($1,338,823.15) pertains to Title I Obligations.

Annex Table (2) depicts a detailed statement of deposits to and disbursements from Title III Special Account No.: 02.12.246 since its establishment in early 1980. It can be seen from the statement that the special account has been credited with $19,930,306 representing the revenues generated from the sale of the first and second tranche of Title III. This amounted converted at the official rate which prevailed at the time of deposit would be equivalent to just less than US $40 million.

The same Annex (2) depicts a detailed statement of the disbursements from the Special Account to the beneficiary project accounts and to the trust fund account. Total disbursements amounted to $18,976,337~~, which is equivalent to US $~~

Out of this sum, the GOS intends to apply $2,107,672.70 to offset debt liabilities on both Title I and III accruing in 1983.

VIII. Recent Economic and Fiscal Policy Actions

The Government of the Sudan until the late 1970s has been committed to comprehensive socio-economic planning as a means of achieving its development aspirations. The country since its political independence in 1956 has had three socio-economic development plans: a Ten Year Plan (1960/61-1969/70), a Five Year Plan (1970/71-1974/75) and a Six Year Plan (1977/78-1982/83).

However, by 1980 and in view of the emergence of internal and external economic and financial imbalances, the Government had to abandon its ambitious national development objectives envisaged in the Six Year Plan and to either postpone or phase out some of the projects which were planned to be implemented during the plan period. Instead of development plans which aimed at horizontal expansion, the Government reoriented its efforts and resources on a set of short-term economic recovery measures expressed in annually rolling Three Years Public Investment Programmes (TYPIP). In its attempt at redressing the internal and external imbalances the TYPIPs were prepared with the following objectives:

(a) Rehabilitation of existing installed capacities, particularly in irrigated agriculture and industrial sections

(b) Completion of economically viable ongoing development projects.

(c) No new projects of sizeable horizontal expansion are expected to be implemented except those of an infrastructure nature.

(d) Consolidation and expansion of infra-structure projects, particularly in transport, power, storage and water supply.

(e) Adjustment of existing cost-price distortion and other structural imbalances that adversely affect the balance of trade.

(f) Promoting capacity utilization and improving productivity in all sectors.

(g) Enhancing exports and speeding up import substitution.

(h) Promotion of greater participation by the private sector in economic development.

(i) Speeding up the exploitation of natural resources, especially oil.

With a view to realizing the above objectives, two three-year public investment programes were implemented and a third one for the period 1982/83-1984/85 is now ready for implementation.

The Export Action Programme (EAP) is an integral element of the TYPIPs spelling out in greater detail the strategy which the Government intends to pursu in its economic recovery programme while implementing the TYPIPs. The following is a description of the recent policy measures adopted by the Government to achieve the objectives of economic recovery.

I/ External Balance

In order to curb imports, encourage exports and to improve returns to domestic producers of export goods, Government introduced the following series of measures.

A) Exchange Rate Adjustment

(a) In June 1978, the Sudanese Pound was devalued by 12.9%, from U.S.$2.87 to a pound to U.S.$2.50. The effective rate of devaluation, however, was 20% as the Pound moved down from an effective rate of $2.50 to a pound to U.S. $2.00 as exchange tax on imports and subsidy on exports was raised from 15% to 25%.

(b) In September 1979, the Pound was further devalued by 20% to 50%, through a dual exchange rate regime, establishing parallel and official markets at $1.25 and $2.0 respectively. The exchange tax/subsidy system was abolished. The official rate applied to all major exports including cotton, groundnuts, sesame etc. and to essential imports such as wheat, sugar, medicines, petroleum, etc. The parallel rate was applied to minor exports amounting to 6% of total exports and to non-essential imports amounting to about 48% of total imports.

(c) In September 1980, most exports, except cotton, were moved to the parallel market rate. Several of the imports previously in the official market e.g. tea, coffee, textiles, rice, etc. were moved to the parallel market; by March 1981, nearly 55% of the imports had been put on the parallel rate. In June, 1981, even cotton was moved to the parallel rate.

(d) In November 1981, the process of moving more and more imports and exports to the more depreciated parallel rate was completed by abolition of the parallel rate and unification of exchange rate at $1.1 to the Pound.

(e) In June, 1981, private trading in foreign exchange through foreign exchange dealers was legalized.

B) Exports:

(a) To enhance exports, on Export Action Programme (EAP) was launched in 1980/81. This programme includes three basic elements which were all incorporated in the TYPIP. The elements are:

(i) Irrigated Agricultural Sub-sector
(ii) Rainfed Agricultural Sub-sector
(iii) Adjustment in Government economic policies which were planned to have a positive impact on Sudan's balance of payments.

The objective of the EAP as far as the irrigated sub-sector is concerned is to increase the production of cotton and groundnuts to an extent which will enable an annual 7% increase in their exports in real terms. This increase has been designed to be achieved through rehabilitation of existing capacities insstalled in the irrigated schemes.

Through a $76 million credit supplied by IDA ($65 m.) and the EEC ($11.0 m.) plus $15 million in local resources financed by GOS, a large rehabilitation programme has been undertaken to replace worn-out capital goods in irrigated schemes of Gezira, New Halfa, Rahad, the Blue Nile and/White Nile schemes. It has been planned that all increase in cotton up to 1985 and groundnuts exports would be through substantial improvements in yields. No horizontal expansion in cropped areas is envisaged in the irrigated sub-sector prior to 1985.

(b) The above measures were supplemented with the following policy action which would give adequate incentive to producers to increase production of exportables.

- In June 1979, export duty on cotton was abolished
- In November 1981, export duties on groundnuts, sesame, edible oil, karkade and dehydrated onions were abolished. Also export duties on sheep, cattles meat, dura, cotton gorn and mineral ores have been removed.

(c) Prior to 1980/81, returns to tenants on the principal irrigated schemes were governed by the joint account system. Under this system the total net proceeds from sales of cotton were divided between Government, the managing corporation, and the tenants. However, the joint account was made to bear the costs of non-cotton crops, implying that the costs of groundnuts and wheat were deductible from the tenants share of cotton proceeds. In view of the disincentives of the joint account system, the tenant shifted from cotton production to other crops, mainly groundnuts and wheat. To rectify the above distortion which was biased against cotton production, the Government switched from the joint account system to individual account whereby each crop and each tenant was charged with production costs only of the crop concerned.

(d) The ex-farm minimum prices of the exportables were raised sharply in alignment with international prices. Minimum prices were announced before harvest and are kept under constant surveillance. The following are the producers prices compared with the average FOB value per ton and the international prices as equated by the IBRD.

	DURA (Sorghum)			GROUNDNUTS			WHEAT
	Producer's Price	FOB Value	IBRD	Producer's Price*	FOB Value**	IBRD **	Producer's Price
1976/77	49 LS./Ton	132$/Ton	105$/Ton	60 LS./Ton	414$/Ton	424$/Ton	80LS./Ton
1977/78	80	119	88	70	462	551	80
1978/79	84	148	94	131	493	621	90
1979/80	180	158	108	78	640	565	123.5
1980/81	175	202	129	263	675	493	157.5
1981/82	240						222.0
1982/83	130						280.0

(e) The prices of cotton seed were left to be determined by the market, whereas in the past these were fixed by the Government.

(f) Marketing procedures and channels of export produce are being reviewed with a view to allowing the private sector to compete with public corporations. Already the private sector can export oil seeds and gum Arabic, the marketing of which was monopolized by public corporations previously.

(g) Arrangements like the cotton stabilization fund are being seriously considered for other crops to protect the farmers from world price fluctuations and to ensure them a steady income.

* Groundnuts in shell
** Shelled

C) Imports:

(a) In June 1979, a 5% defence tax was imposed on CIF value imports, which was increased to 10% in March 1981.

(b) In September 1979, the customs valuation base was changed from LS.=U.S. $2.50 to LS. 1=U.S.$2.0, but simultanously the 5% additional duty and 5% developme-- tax on imports were removed and nil value license imports were abolished.

(c) In November 1981, an additional duty of 10% of CIF value was imposed on imports.

(d) In November 1981, the customs valuation base was changed from LS. 1=U.S. $2.0 to LS. 1= U.S. $1.11 for selected imports. In July 1982, the valuation base for all imports was changed to LS. 1.0 = U.S. $1.11.

D) Debt Management

(a) A Debt Management Unit was set up in the Ministry of Finance in 1978. Authority for all external borrowing abroad was vested in the Minister of Finance. A Debt Rescheduling Section was opened in the Bank of Sudan.

(b) Rescheduling of official and commercial debt was negotiated and agreements signed in mid 1981 and December 1981.

II/ Internal Balance

To reduce the internal imbalance, and to mobilize adquate domestic resources which in turn would reduce dependence on defecit financing, the following fixed and monetary measures were applied in recent years:

(A) Removal of Consumer Subsidies:

The Government is committed to removing all consumer subsidies on all commodities; towards this end the following measures were applied:

(a) Prices of petroleum products were raised on March 1, 1981 by an average of 22% to eliminate a total subsidy of LS. 48.5 million. Again in November 1981, prices of petroleum products were raised by an average of 39% in view of the devaluation of the Sudanese Pound, which raised the costs of such products.

(b) The retail price of sugar was raised in January 1982 from 16 P.T. per rottle to 26 P.T. per rottle to eliminate the subsidy on sugar consumption estimated to be over LS. 30 million in 1980/81.

(c) The ex-mill price of wheat has been increased and the prices of bread were adjusted several times during the past two years with the objective of removing subsidies entirely. The following were the evaluation in the prices of bread during 1982:

Prior to March 31, 1982	24 P.T.
March 31, 1982	32 P.T.
July 8, 1982	40 P.T.

By July 8, 1982, all subsidies on bread were removed.

(B) Tax Measures:

(a) Prior to July 1982, most imports were valued for customs purposes on the old exchange rate of $2.0 to the Pound. Since these, however, all imports are valued at the existing exchange rate of $1.11 to the Pound. This has the effect of increasing the proceeds from import duties by 80%, thus substantially increasing domestic revenue mobilization.

(b) In November 1981, all imports were charged an additional 10% tax on their CIF value. Defence tax on imports was increased from 5 to 10% at the same time.

(c) Rates of imports duties on liquor, cigarattes and tobacco were increased in March 1981 and again in November 1981.

(d) The Government introduced sales tax ranging from 2% to 10% on the selling price of a wide range of commodities (gold manufacture, household furniture etc.) and services (hotel, restaurant and catering services as well as international air travel).

(e) Capital gains taxation was amended in June 1980 with a view to increasing tax yield.

(f) On September 29, 1981, the Government has levied income taxes on Sudanese Nationals Working Abroad (SNWA) for the first time. The levied rate was fixed at 10% of the annual earned incomes.

However, on March 9, 1982 the income tax rate was amended according to the following:

Labourers are taxed the equivalent of LS. 200 p.a.
Employees are taxed the equivalent of LS. 400 p.a.
Professional are taxed the equivalent of LS. 600 p.a.
Business men are taxed the equivalent of LS. 2000 p.a.

(g) On March 12, 1982 a law has been passed by which to regulate the financial transfers and concessions given to Sudanese nationals working abroad. The concessions include, enter allia the following:

i) To compete for the ownership of residential piece of land.

ii) Concession of customs duties on personal effects and household goods up to 25% of the transferred foreign currencies through the Bank of Sudan.

(h) The Government has formed a Committee to examine the structure and perforance of direct taxes with a view to rationalizing it and increasing domestic revenue mobilization.

i) Tax indentity cards and tax clearance certificates were introduced in 1980/81 with a view to checking tax evasion and improving collection.

C) Non-Tax Measures

(a) Prices of cigarettes were increased by 80% in March 1981 and by 40% in November 1981 and by 20% in October 1982 by amendment in the rates of stabilization fund.

(b) In June 1981, postage and telecommunication charges were raised together with fees and charges for various other government services.

(c) In June 1981, Government decided to issue bonds to be sold to savings and other financial institutions with a view to mobilizing real resources for development and to minimize resort to the banking system.

(d) In November 1981, public corporations were prohibited from using surpluses and reserves except with the approval of the Ministry of Finance and were ordered to deposit annual profits in the Government treasury.

(e) Government imposed road tolls on Khartoum/Port Sudan highway in 1981.

D) Expenditure Control

The Government has taken several measures designed to restrict public expenditures both current and development.

(a) In November 1981, Government decided to cut current expenditure budgeted in 1981/82 budget by LS. 2 million.

(b) An Expediture Control Unit has been set up in the Ministry of Finance in cooperation with the IMF to look into the ways and means of controlling and reducing government expenditures.

(c) The Government has taken steps to eliminate subsidies to parastatals through various measures which would make them self-financing in the medium-run. These measures would eventually either privatize the running operations of these corporations (e.g. River Transport) or would change the role of these corporations from direct production to extension of services (Mechanized Farming Corporation). Those parastatals allowed to continue as public entities would be reformed to allow them to operate commercially in direct competition with the private sector.

(d) Development expenditure has declined in recent years both as a percentage of total Government expenditure and as percentage of GDP due to new measures adopted by the Government including restrictions on new development projects and limits on deficit finance.

3. Institutional and Administrative Framework

(a) The Government applied during 80/81 a system of regional administration whereby a wide latitudue of jursidication in local development administration has been delegated to the regional governments. The objective behind this decentralization process is to expedite the exploitation and development of resources and to enable popular participation in the development process. Likewise, it is believed that regionalization would result in greater mobilization in the medium and long runs.

(b) The Government has undertaken positive measures to encourage the private sector to play a more active and effective role in the development process. The latest action in this respect was the introduction of "Encouragement of Investment Act, 1980". The administration of this Act is under a special committee under the chairmanship of the Minister of Finance and Economic Planning. The acts allows generous concession including:

- Concessional duty (which may be zero) on capital goods and raw materials.
- Exemption from direct taxation during the first several years of the enterprise.

(c) The Government has taken serious measures in either liquidating or changing the role of public corporations which were incurring heavy financial losses. Towards this end the Government is considering leasing the navigation operations of the River Transport Corporation to the private sector.

Another action in the same direction is changing the role of the Mechanized Farming Corporation from direct production operations to provision of extension services.

(d) The Ministries of Agriculture and Irrigation have been merged in order to improve co-ordination between the two functions.

(e) A unit has been established in the Ministry of Agriculture and Irrigation to improve the efficiency of operations of agricultural corporations.

(f) The accounting and auditing systems of the agricultural corporations are being streamlined.

(g) The Ministries of Finance and National Economy and of National Planning have been merged into the Ministry of Finance and Economic Planning and the functions of the National Economy and Planning sections are to be integrated

(h) Special units have been set up in the Ministry of Finance and Economic Planning to supervise debt management and to control expenditure.

(i) PEWC was reorganized into separate corporations for power and for water in November 1981 to improve the performance of the parent corporation.

ANNEX I

UNITED STATES GOVERNMENT

memorandum

DATE: December 24, 1982

REPLY TO ATTN OF: Arthur W. Mudge, ~~Director~~, USAID/Sudan

SUBJECT: Sudan: PL 480 Title III Third Annual Progress Report (APR), Revisions to Annex B, and Mid-Term Evaluation.

TO: Development Coordination Committee
Food Aid Subcommittee

Transmitted with this memorandum are three separate documents related to Sudan's PL 480 Title III Program: (i) The Government of Sudan's Third Annual Progress Report (APR); (ii) suggested revisions to Annex B of the Title III Agreement; and (iii) a comprehensive mid-term evaluation of the entire program. We request that these materials be reviewed as a package by the DCC's Food Aid Subcommittee to: (i) assess progress to date with the overall program; (ii) agree to our request for immediate authorization to proceed with the fourth tranche under the five-year Title III Program for the purchase of $20 million of wheat and wheat flour; and (iii) concur with revisions proposed to Annex B of the PL 480 Title III Agreement.

The Government of Sudan's Third Annual Progress Report was initially drafted in early October 1982 and covers the reporting period beginning October 1, 1981 and ending September 30, 1982. It was reviewed in draft by the Washington team which produced the mid-term evaluation, also transmitted herewith. The final version of the APR was submitted to USAID/Sudan by the end of November 1982 and it reflects changes suggested by both the Washington evaluation team and USAID/Sudan. We believe it to be a comprehensive document, which is clearly superior to last year's Second APR, and which addresses many of the issues which Washington felt to be deficient with the Second APR.

The second major document submitted is a revised Annex B, Program Description. Changes have been suggested regarding the overall goals, program objectives and policy activities to better reflect current USAID development strategy in the Sudan as reflected in our CDSS and program/project portfolio. Furthermore physical and financial benchmarks have been revised for ongoing PL 480 Title III development projects to reflect the realities of project implementation at this period in time. And finally new projects have been added as Title III local currency recipients with the excess local currencies available from both the reserve found in the existing Annex B Food for Development Program and the November 1981 devaluation of the Sudanese Pound which generated additional Title III local currencies.

USAID/Sudan and the GOS generally agree with the findings, conclusions and recommendations in the evaluation report. While the evaluation process included the extensive participation of GOS and USAID/S staff, the written document is primarily the product of an evaluation team that consisted of personnel from AID/Washington, the U.S. Department of Agriculture and the U.S. Department of the Treasury.

The following response to the evaluation report is divided into two sections: (1) a general reaction to the substance of the report with particular emphasis on recent developments since the evaluation team's visit to the Sudan as well as clarification of some factual errors in the report; and (2) a specific response to each of the 31 recommendations contained in the report (Annex A).

A. General Comments

As stated above, the GOS and USAID/S generally support the findings and recommendations of the evaluation. However, the following points of clarification and updated information are offered for those who review the evaluation report:

1. The recent evaluation report argues that recent price increases for bread will reduce bread consumption by approximately 12 percent in the short-run. Although wheat policy study #3, which deals with price elasticity of demand for wheat has not been finalized, the Draft Final Report (Volume I, Summary and Conclusions) indicates that the price elasticity of demand is relatively inelastic (-0.40). The study concludes that "through a policy of maintaining the real price of bread at import parity, the Sudan could reduce domestic consumption significantly and its import requirements substantially, even if no increases in domestic production are achieved." The GOS and USAID/S are awaiting the receipt of Volume II of this study which contains the economic analysis and the basis upon which (a) the elasticity estimates, and (b) the aggregate consumption and import requirement estimates are derived. Until the analysis has been received and studied it is not appropriate for us to judge the estimates and conclusions. However, USAID and the GOS estimate that there is suppressed demand for wheat and that it would take considerable price increases to reduce aggregate demand in the short-run.

2. Prices given in the report for sorghum and wheat are now out of date. The GOS recently announced a farmgate price of Sudanese Pounds (LS) 280 per metric ton for wheat as compared to LS 222/mt at the time of the evaluation. The higher price will apply to the 1983 harvest. Due to the 1982 bumper sorghum crop (40 percent increase over the previous year) sorghum prices dropped to around LS 110 - 130/mt compared to LS 240/mt the previous year.

3. The evaluation correctly pointed out that all budgetary subsidies were eliminated in July 1982. However, on November 15, 1982 the Sudanese Pound was devalued from LS 0.90 = US 1.00 to LS 1.3 = U.S. $1.0. The GOS has made the decision to hold certain commodity prices, including bread, to the pre devaluation level for the time being. It is currently unknown when appropriate price adjustments will be made but the issue is being thoroughly discussed by the GOS and international donor agencies.

4. Due to the November 15 devaluation, an additional LS 16.0 million will be generated from PL 480 Title III sales. USAID/S and the GOS will immediately begin a reprogramming exercise to determine how the additional funds will be used. USAID has requested a list (and brief description) of projects for possible local currency funding as a first step in this process. The local currency requirements of on-going projects will be reviewed to determine the inflationary impact of the devaluation and the need for additional local currency allocations on a project-by-project basis.

5. The GOS and the U.S. Mission are currently negotiating the initial $10.0 million Title I Agreement. The following self-help measures are being proposed by USAID as part of the Agreement:

1) For wheat and wheat flour imported under this Agreement, the Government of Sudan will establish and maintain prices for wheat and wheat products (flour bread) at levels that reflect the prevailing official rate of exchange and domestic transport costs.

2) The Government of Sudan will permit private sector imports of wheat/wheat flour under this Agreement.

3) Pursuant to Government policy, the Government of Sudan will complete by June 30, 1983 its review of the structure, operations and financial performance of public and parastatal corporations engaged in agricultural production and marketing. By December 31, 1983 the GOS will develop a plan for shifting selected public enterprises and functions to private sector management or ownership over the short-and longer-term. For public corporations/functions not transferred to the private sector, the plan will include policy measures to substantially reduce operating losses and/or budget subsidies and operate on an economic or cost recovery basis.

4) The Government of Sudan will place increased emphasis on the development of management and technical training programs and will reform compensation systems to encourage the retention of technically qualified personnel in agriculture and related industries.

5) The Government of Sudan will review annually the structure of incentives for domestically produced agricultural commodities and will announce at least 3 months before planting, producer prices for farmers in the rainfed and irrigated sectors that are at parity with comparable import prices discounted for the cost of budgetary subsidies. The GOS will review the budgetary costs, equity or distributional impact of input subsidies, as well as the rational of input subsidies with the view to substantially reducing subsidies and moving toward incentive prices at parity with comparable import prices.

6) The Government of Sudan will initiate a study to determine the economic feasibility of private sector investment in sorghum milling capacity and the blending of composite wheat/sorghum flour, in order to reduce Sudan's dependence on imported wheat.

6. Finally, given current supply and demand projections, the GOS and USAID fully endorse the evaluation team's finding that an additional PL 480 Title I allocation will be required if the Sudan is to meet its fiscal year 82/83 (July 1, 1982 - June 30, 1983) consumption needs. We estimated that in addition to the $20.0 million Title III and $10.0 Title I levels in our current FY 83 OYB, an additional $20.0 Title I allocation will be necessary to meet demand through July 1983 with one months stock on hand at the end of July. In February, we plan to update our supply and demand projections to determine the Sudan's wheat import needs for the August 1983 - January 1984 period. Assuming an expeditious signing of the U.S. FY 84 Title I Agreement in October 1983, wheat would begin arriving in December 1983/January 1984. Therefore, in the absence of purchases financed on commercial terms, which is very unlikely, Sudan will face a severe wheat shortage for the last 5 months of Calendar Year 1983. USAID and the GOS plan to monitor the situation closely over the upcoming months.

B. <u>USAID Reponse to Evaluation Recommendations</u>

1. USAID/Sudan and the GOS have recently completed a review of the wheat supply/demand situation for GOS FY 82/83. In order to cover demand through July 1983, the GOS has requested an additional $20 million Title I allocation bringing the U.S. FY 83 PL 480 program to $50.0 million (Title I: $30.0 million, Title III: $20 million). Our analysis indicates that the Sudan will exhaust its supply of wheat sometime around July 1983. Given the most optimistic of scenarios, wherein a U.S. FY 84 Title I agreement could be signed in October 1983, wheat would not arrive in the Sudan until approximately January 1984. Therefore, it currently appears that the Sudan will face a severe shortage between August and January.

USAID and the GOS plan to reassess the supply/demand situation in February or March and make a decision at that time concerning an appropriate course of action. It should be pointed out that the GOS considers it highly unlikely that commercial credit arrangements will be possible during the upcoming months and that concessional donor programs will be the only way to satisfy the August 1983-January 1984 wheat requirements.

2. USAID concurs. The PL 480 Title III Evaluation, GOS Annual Progress Report and a revised PL 480 Title III Agreement Annex B were in final form and delivered to AID/W during December. It is anticipated that the first 10.0 million Title I Agreement can be signed by mid January followed by the FY 3 Title III Agreement and Title I Agreement Amendment in February 1983.

3. USAID agrees with this recommendation (wheat pricing system) in principle. Discussions are currently underway with the GOS on this issue and USAID has proposed this as a Title I self-help measure.

4. Neither the GOS nor USAID concur in this recommendation. Given the current GOS wheat pricing policy and control system, it is not practical to implement a partial free market pricing system. Currently, price controls are easily monitored since all wheat is sold at the set price. To allow differential pricing would put an unwarranted administrative burden on the GOS. Additionally, USAID believes that the other covenants and self-help measures in the PL 480 Titles I and III Agreements plus those in the CIP Agreement will gradually and more effectively encourage a movement toward a free market system.

5. USAID has completed this task as of November 30, 1982. Based on a request by the Ministry of Finance and Economic Planning, USAID will conduct a day-long seminar for Ministry staff in January covering the mechanics of the PL 480 Program.

6. USAID/Sudan submitted a request for $23.6 million in off-set in November, 1982.

7. The "integrity" of the concept that PL 480 Trust Fund local currency is owned by the GOS was accepted by USAID, AID/W, the GOS and AFR/General Counsel at the time the Trust Fund Agreement was signed. USAID considers the concept still valid. USAID will exercise care that any capital assets financed from the Trust Fund are titled to GOS.

8. USAID and the Ministry of Economic Planning and Finance are currently designing an improved record-keeping system. After approval by all concerned parties, the system will be formalized through an Implementation Letter. USAID anticipates that the system will be implemented by March 1983.

9. USAID is involved in a continuing analysis of Sudan's agriculture sector, including wheat production, and maintains a continuing dialogue with the GOS on agricultural policy and program implementation. Based on recent surveys, it appears that the maximum land area that can be planted in wheat (without precipitous declines in yields due to technical constraints) is approximately 300,000 feddans. USAID's policy, given the anticipated growth in wheat demand plus technical production constraints, should be to encourage a limit to the area of land devoted to wheat production, not to limited wheat production itself. On the contrary, we plan to assist the GOS in efforts to increase total wheat production by supporting research and extension efforts to increase productivity per unit of land.

10. Concur.

11. Although the IBRD will be involved with wheat research and extension in order to increase yields, production and the economic profitability of wheat production through the Gezira Rehabilitation Scheme, the USAID and the GOS through the Agricultural Planning and Statistics Project will consider undertaking a study, in early 1983, of the present wheat research program and production strategy. The overall purpose of the study will be to determine if there are readily available improved practices and/or policy changes which if implemented for the 1983/84 crop season could have a measurable impact on wheat production before the Rehabilitation Program is implemented. The current wheat research program will also be assessed.

12. The suggestions in this recommendation are already an integral part of our on-going agricultural program strategy for the Sudan. Four of our major bilateral projects include the analyses of constraints to increasing agricultural production and marketing in the rainfed sector. In response to these analyses, the projects include the implementation of policy reforms, improved marketing and transport infrastructure, manpower development, research, and other activities focused specifically on increasing rainfed agricultural production. These projects, which are based on the USAID/Sudan CDSS, substantially satisfy this recommendation and we request that it be dropped from the evaluation report. We agree in the utility of the Title III Program and the next Title III evaluation as a means to reinforce emphasis on policy reform and implementation thereof.

13. Concur.

14. Currently, as in any USAID, the primary responsibility for overall program formulation and budgetting rests with the Program Office, the USAID Director/Deputy Director and the GOS with technical advice from other staff members. All USAID/Sudan offices, Program, Technical, Controller, Project Operations and Senior Management, take part in the decision making process regarding the allocation of local currencies. The same applies to the GOS, with the result being a local currency program developed at the staff level and approved by the USAID Director and the Minister of Finance and Economic Planning. USAID/Sudan's current staffing situation dictates that the management of the PL 480 program be shared by several offices, with each office working on those program components which are closely related to that office's projects and expertise.

Accordingly, the issue presented here is which office should have primary responsibility for managing the PL 480 Title III program at its present stage. The Program Office would be a logical choice for USAID/Sudan, if as in some countries, the Title III Program activities constituted a substantially separate and distinct portfolio of projects from the USAIDs Development Assistance dollar financed projects. In the Sudan, however, the converse is true; with but few exceptions the Title III projects are also DA financed projects. At the time of such original programming decisions the USAID Program Office played the principal role in defining and managing the Title III program. Now that the program is defined and the emphasis shifted to implementation we believe it is reasonable to have the Project Operations Office primarily responsible for program management. This is subject of course to continued deep involvement of the Program Office in policy analysis and in any reprogramming.

15. Concur.

16. USAID/Sudan has recently hired a professional Sudanese to work in the Project Operations Office. This employee will spend at least 50 percent of his time on the PL 480 program. We are actively seeking an additional U.S.

direct hire for Project Operations who would also spend up to 50 percent of his/her time on the PL 480 Program. USAID has been trying to fill this position since early in calendar year 1982. We fully concur that additional staff is needed and that this recommendation is more appropriately directed at AID/W.

17 and 20. These recommendations should be combined. On the USAID side, the comments on #16 above should suffice. In the GOS side, we have received a letter of request for staff assistance and a limited amount of office equipment. USAID accepts the concept of using local currency to provide staff and logistical support to the GOS Ministry responsible for managing the PL 480 program.

18 and 19. USAID and MFEP are currently working at the staff level to develop a more formal system and timeframe for the review and evaluation of the program. However, we cannot concur now with the dates suggested in these recommendations at this time. Deadlines for completing future Annual Progress Reports and Evaluations will be set on the basis of our discussions with the MFEP.

21. The GOS and USAID/S are currently designing a reporting system to satisfy this recommendation. An Implementation Letter will be issued by March, 1983 that will provide specific reporting guidance to the Ministry of Finance and Economic Planning as well as the sub-project beneficiaries.

22. Concur.

23. USAID/S and the GOS concur in principle but consider this recommendation unnecessary. Projects receiving local currency are programmed jointly by USAID and the GOS and are reviewed for consistency with the GOS Public Investment Program and the USAID CDSS. The projects included plus the yearly budgetary allocations are approved by the USAID Director and the Minister of Finance and Economic Planning.

24. Concur. Given the Sudan's current financial situation, the recurrent budget implications of all AID supported activities are of foremost concern. This applies to bilateral projects as well as program assistance. Specific to the PL 480 Title III Program, local currency designated for recurrent costs is programmed on a declining scale so that an increasing share of the costs are born by the GOS over the life of the projects from their routine budget. In this way, we hope to ensure that the GOS is capable of fully maintaining the projects when PL 480 local currency is no longer available.

25. As noted in the text of the evaluation, the final list of local currency projects, including life of project funding and yearly expenditure allocation estimates, was transmitted to the Minister of Finance and Economic Planning. He subsequently approved the listing. The proposed listing and allocations of local currency are contained in the attached proposed revisions to Annex B of the Title III Agreement. The strategy, criteria and constraints used to determine this list were as follows: PL 480 Title III local currencies were allocated towards the objective of promoting production and rural development in the traditional rainfed agricultural sector of Western and Southern Sudan. This is consistent with and fully supportive of the Mission's approved Country Development Strategy Statement (CDSS) and Sudan's own development objectives. The criteria for selection of projects, aside from conformance with our CDSS, were as follows: (a) First priority was given to projects receiving foreign exchange from our Development Assistance Program (All proposed projects except

two fit this criteria); (b) Second priority was given to other GOS initiatives which supported traditional rainfed agriculture development in the Western and Southern Regions. The constraint which was foremost on our minds was the management/monitoring burden imposed by Title III and the need to reduce the number of management units given our Mission's staffing levels: Consequently, we tended to choose fewer projects, of large scale, and those already receiving Development Assistance.

26. The GOS through its Ministry of Health (MOH) continues to accord high priority to the Rural Health Support Project (650-0030). In 1975 the Ministry of Health began an ambitious National Health Plan with emphasis on rural health delivery, three years prior to the WHO Alma Ata conference that set forth the guidelines for primary health care. Since 1975, the GOS/MOH has supported the strengthening of Rural Health Care and has trained over 3,000 community or nomadic health workers. With the assistance of several donor agencies the GOS/MOH has utilized nearly \$50 million since 1975 to support training, logistics/ supplies, new facilities and technical assistance for the strengthening of rural health services.

USAID began supporting the rural health care program in 1975 with two primary health care projects: 650-0011, and 650-0019. These projects have provided \$8.0 million for long-term technical assistance, training in the U.S. as well as in-country, construction of training facilities, provision of transport, warehousing and supplies for two of the underserved geographic areas of Sudan: The West and the South. In revising its Country Development Strategy Statement ("CDSS") during 1981, USAID/S examined its involvement in the health sector and its rationale. We concluded that by increasing emphasis on preventive medicine, on system efficiency and on mobilization of community/beneficiary resources, the program could be made relevant to the present economic difficulties of the Sudan. The Rural Health Support Project is designed to incorporate these emphases into follow-on of the above mentioned projects.

Delays in start up of the project are entirely attributable to lengthy AID contacting procedures. In late May 1982 the contract for the southern component of the project was signed. The northern component is expected to be signed in December of 1982. Since June, 1982, AMREF, the contractor for the southern component, has completed the staffing of all long-term technical assistance and has initiated the procurement of supplies and commodities in support of the rural health care program in the South. As mentioned, there is yet no contractor on site in the North; therefore, there is as yet no performance to judge.

The northern component of the Rural Health Support Project will focus attention on the two Western Regions of Sudan. By alleviating specific high prevelance diseases such as malaria there will be increased quantity and improved quality of labour available for agriculture. Studies are presently underway in the irrigated farming sector in Sudan to determine the costs of treating/preventing specific diseases and the projected economic benefits in terms of increased labor available. These studies and their findings can be utilized in the Western Regions of Sudan in determining the costs/benefits for health care in relation to agricultural production.

In a joint evaluation of the primary health care program in April - May 1982, the evaluation team stated that "the purpose and design of the primary health care program as developed by the MOH in 1975 remains valid to provide maximal coverage of rural and nomadic population with primary health care by 1984". The USAID Mission and the GOS/MOH have utilized the findings and recommendations of the evaluation to reinforce elements of the primary health care such as logistics supplies, supervision and retraining. Other elements such as construction of new facilities and training of new cadres of health workers are being closely examined and curtailed in view of their high recurrent costs.

The USAID mission has set forth detailed instructions in a PIL to the GOS/MOH requesting that annual implementation plans be developed with emphasis on health policies to increase community and beneficiary support and to minimize recurrent costs of the rural health care program. In addition specific benchmarks for progress have been developed and are contained in Annex B. The USAID Mission are reviewing the two implementation plans for the Rural Health Support Project. The plans are being matched against resources available and adjusted in view of the recommendations of the recent joint evaluation of primary health care.

27. A revised Annex B with updated financial and physical benchmarks has been submitted with the evaluation report.

28. Such an evaluation has been completed. A letter has been transmitted to the GOS outlining the options for off-set and we expect a response soon. Early indications are that the GOS will opt to off-set currently due Title I debt as well as Title III debt.

29. This is an extremely sensitive issue. A comparison of total wheat production (based on known yields and the land area planted in wheat) compared to the amount of wheat purchased by the Gezira Board for sale to the private mills indicates that a substantial quantity of wheat is either being consumed at home by the farmers or is being sold outside the official GOS procurement system. USAID and the GOS do not wish to include this recommendation as a covenant to the Agreement.

30. This recommendation is unclear. Recommendations emanating from an evaluation are properly placed in the evaluation report itself. Recommendations will be acted upon in various ways. Some are appropriate self-help provisions of the agreement, others to be reflected in Annex B. Others are better implemented by implementation letter or by USAID Mission Order, or personnel action, etc.

31. Concur.

32. Concur. However suggest that part 3 apply only to programming for Babanousa-Wau rail line.

ANNEX H

INITIAL RECOMMENDATIONS

A. Program and Policy

Recommendation 1: That the USAID review again in December Sudanese import requirements once the impact of the recent increases in bread prices upon wheat consumption can be estimated, and, if appropriate, forward to Washington justification for increase the currently estimated program to fill the predicted import gap during July-September 1983.

Recommendation 2: That the fourth "tranche" of the Title I/III Program be approved and signed prior to December 1 in order to facilitate programming of wheat and ease pressure on Sudanese of having to try to import wheat commercially.

Recommendation 3: As part of the 1983 Agreement, have GOS covenant to adopt a different system of pricing for wheat delivered to the mill, which accurately reflects both the real landed cost of wheat and the real costs of internal transportation to the individual mill.

Recommendation 4: That GOS covenant to allow individual mills to sell a specified part of their production outside the current allotment and pricing system.

B. Administration

Recommendation 5: That USAID familiarize itself thoroughly with the reporting requirements and details of the mechanism of off-setting repayment obligations and then familiarize the GOS on its responsibilities for off-set.

Recommendation 6: That the USAID immediately provide AID/W with required off-set certification in order to permit GOS to benefit from the provision for off-setting repayment obligations.

Recommendation 7: That USAID review all provisions of the PL 480 trust fund to assure integrity of the concept that these local currencies are owned by the GOS.

Recommendation 8: That GOS upgrade its current system of record-keeping, particularly concerning maintenance of reasonably up-to-date data on disbursements and expenditures from the Special Sub-Project accounts. (See Recommendation No. concerning upgrading of other record-keeping.)

Recommendation 9: That USAID adopt a policy of encouraging limited wheat production in Sudan commensurate with agreed upon results from studies of prevailing infrastructure, input availability and crop production technologies (in coordination with GOS/IBRD study results).

Recommendation 10: That the original proposal in the Title III Agreement to conduct a wheat research and baseline study and other surveys in the Gezira scheme (Study No. 4) be coordinated with World Bank.

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Recommendation 11: That the Title III Agreement provide for an overall survey of wheat research in Sudan, which would identify weaknesses and needed improvements in the current wheat research scheme, and that this be conducted within the context of the A.I.D. project Agricultural Planning and Statistics by the Division of Planning and Agricultural Economics and Administration in the Ministry of Agriculture.

Recommendation 12: That in addition to policy issues identified in the irrigated sector, policy issues in the rained sector should also be identified and that in light of the numerous PL 480 studies and major transport and marketing studies undertaken in conjunction with USAID, these policy issues be identified, reviewed and a mechanism for their implementation be devised prior to the Fourth PL 480 Title III Evaluation.

Recommendation 13: That the next evaluation and its resultant tranche approval be prepared to incorporate findings of No. 12.

Recommendation 14: That primary responsibility for Title III program, particularly the program formulation and local currency budgeting function, be transferred to the same office responsible for parellel functions of the U.S. dollar account.

Recommendation 15: That greater attention to the economic analysis of the Title III program and its integration with the overall U.S. dollar assistance program and the GOS Three Year Recovery Program.

Recommendation 16: That a full-time direct hire (USDH or TCN) be provided who will have the responsibility of managing the entire PL 480 Program including working with other USAID and GOS personnel in monitoring and reporting on progress on financial and physical implementation.

Recommendation 17: The USAID and GOS undertake a short analysis of manpower needed for administration of the Title III Program and that funds be set aside from Title III proceeds to finance up to two full-time local contract personnel. These personnel would be assigned to the USAID/Program Office and would assist both the USAID and GOS in administration of the program. Preliminary analysis by the Evaluation Team indicates that these two positions would be a full-time secretary to cover Mission and GOS typing requirements and one full-time financial/program assistant with financial and physical monitoring and reporting.

Recommendation 18: That a more formal system and timeframe be established for the review and evaluation of the program, with target dates established and procedures outlined for the submission of information needed for program review. This system and timeframe should be fitted into both the GOS budget cycle and the USG budget cycle. Preliminary examination by the Evaluation Team indicated that the GOS Annual Progress Report (APR) should be submitted in its formal version prior to May 15 at the latest in order to be useful to the budget and allotment process.

Recommendation 19: In keeping with the system and timeframe suggested in Recommendation 18, the formal Title III Evaluation should be completed by June 15 of the following years. To facilitate the formal evaluation, and especially if extra USAID manpower resources are used, the Mission should have completed its assessment of GOS progress, reviewed the financial aspects of the program and developed recommendations for program adjustments prior to beginning the formal evaluation.

Recommendation 20: That USAID and GOS collaboratively identify minimum logistical support needs and cost estimates for such support so that GOS Program Coordinator can maintain adequate files and records and prepare required reports. Funds then from Title III should be set aside from the GOS Special Account to cover these costs.

Recommendation 21: That both the reporting on physical and financial implementation be formalized and strengthened and incorporated into the GOS annual progress report and that this progress report with the USAID formal report and recommendation be then used as the basic document for the annual allotment and reprogramming exercise.

Recommendation 22: That the GOS and USAID assure compliance with the reporting requirements outlined in Annex D.

Recommendation 23: That USAID review, with an aim toward revising, its PL 480 Program sub-strategy which will take into account recent developments in the Sudanese economy. Specifically, this strategy should recognize the fact that GOS local currencies (Budget) are becoming more and more scarce and are unable to cover even programs and projects basic to its recovery effort. If USAID agrees to the Three Year Basic Recovery Program (Public Investment Program) devised with the World Bank, then USAID should assure compliance of Local Currency Projects with the Three Year Investment Program.

Recommendation 24: That the issue of reducing recurrent costs impact on both GOS budget and private individuals be one of the foremost criteria in determining acceptability of projects for the Local Currency Program.

Recommendation 25: That, prior to final submission of the Evaluation by USAID, USAID provide a final list, agreed to by GOS, of local currency projects. This list should be preceded by a short summary of the strategy criteria and constraints used to determine the list.

Recommendation No. 26: That the Government of Sudan and USAID consider elimination of the Rural Health Support Project from the Title III Program; given its low priority; lack of direct impact on the overall Title III program objectives (of increasing agricultural production in the traditional rainfed agricultural sectors of Western and Southern Sudan); and slow performance to date. Should the GOS and USAID however decide to continue the Project under the Title III program, both should review all components of the project to (1) verify that the original objectives and plans remain valid and (2) develop specific benchmarks for remaining life of the project.

Recommendation 27: That USAID and GOS determine next year's physical benchmarks for sub-project implementation and include these benchmarks in the evaluation.

Recommendation 28: That GOS and USAID evaluate collaboratively the merits of each of the two offset options, i.e., offsetting Title III debt only vs current Title I debt due and Title III, and develop and articulate a formal position in this evaluation.

Recommendation 29: That GOS covenant to permit tenants of the Gezira after procurement of established quotas, to sell the remaining part of their production to the free market (or eliminate forced procurement).

Recommendation 30: That the above recommendations be incorporated into a revised Annex B and forwarded to Washington with the Evaluation Report.

Recommendation 31: That Annex B be enumerated in Sudanese pounds with U.S. dollar equivalents provided for illustrative purposes only.

Recommendation 32: That USAID and GOS refrain from further programming of local currencies for the railroad until all of three conditions exist:

1) Physical implementation of the railway line catches up with disbursements to the project account.

2) The Western Regional Agricultural Marketing Study is completed.

3) The potential economic viability of the Babanousa-Wau Rail Line be demonstrated according to anticipated traffic and freight rates and cost structures.

SUDAN PL 480 TITLE III EVALUATION HEALTH PROGRAM ISSUES

Issue I. The RHS project does not directly impact on the primary thrust of the Title III program.

Discussion: The RHS project is consistent with the primary thrust of the Title III program in Sudan which is to:

A. Support policy reform. The RHS provides leverage for the policy reform needed to effect reduce costs and render basic health care affordable to the rural labor sector.

B. Increase agricultural production primarily in rainfed areas in the South and West of Sudan. The RHS project is focused in the South and West of the country and will affect the agricultural production process. The short-run effect will be to alter the amount of time rural laborers have available and actually use for market activities. Health services provided will prevent or ameliorate disease and disability which otherwise reduce the amount of time spent working during periods of peak labor demand.

The rainy season and time of greatest agricultural labor demand is highly associated with debilitating endemic diseases such as malaria and with injuries from accidents in the fields. The association is as follows:

Stage in Production Process	Season	Health Problem Cause	Health Problem
1. Clear and prepare land	Prior to first rains	field accidents	injuries leading to debilitation
2. Clear and prepare land	End of dry season and prior to first rains	Restricted food and water	Acute malnutrition leading to lowered resistance to infectious diseases
3. Sowing and weeding	First rains	Prolifera-tion of mosquito	weight loss, malaria, diarrhea vector

Also of note is the high incidence of acute malnutrition, diarrhea and fevers among young children during this period of peak production which detracts from the time women are able to supply labor to the agricultural production process*.

Essentially, investments in health status improve "human capital", an essential factor of production which directly affects, the growth rate of the country's output.

Secondly, the evalutation team pointed out the problem of annual increases in food consumption of 8 to 10% partially as a result of a population growth rate of 2.6%. This RHS project does incorporate family planning into the basic rural health services program as an attempt to bring consumption into line with productive capacity.

*Lukas, Theresa A., "The Contribution of Health to Productivity in the Agro-Pastoral Sectors in Niger", October 1982.

Issue II. The RHS project is or is not in keeping with the GOS need to contain and reduce recurrent cost expenditures.

Discussion: Given that health status of the labor force is a factor in determining the productive capacity of the labor force, investments in health for rural populations require consideration even in times of severe financial contraints. The issue is one of which health service components should receive continued limited levels of support, what that level of support should be and which population groups should be the beneficiaries. Also, specific types of activities can be emphasized during this period of severe financial constraint which will not significantly draw down on recurrent costs but will permit policy reform, institutional strengthening and technology transfers. While a system exists and will continue to exist in the face of crisis, existing resources can be strengthened.

A major focus of the project, for example, is on institutional strengthening by:

(a) improved data collection and analysis to provide the basis for making key cost saving resource allocation decisions, and

(b) improved management and logistical support to render existing services more efficient and reduce the cost of pharmaceuticals.

The RHS project in the South will allow the GOS to build on the gains made-to-date, especially in logistics and drug procurement and distribution. This activity, if continued, will result in a considerable reduction in the cost of pharmaceuticals.

The mission health office is currently in the process of establishing benchmarks as suggested by the evaluation team and is developing a strategy for conducting a series of economic analyses and/or studies to enable the project to identify and focus on those key policy issues that will render health service delivery more efficient and affordable, i.e., reduce the recurrent cost burden in the health sector.

Finally, it should be noted that PL480 Title III local currencies will be used to finance RHS program investment costs and will not be used to finance program recurrent costs. Most of the local currencies will be used for construction and training of personnel which are investment costs and, aside from building maintenance costs, do not generate future recurrent costs.

Issue III. Whether the RHS project meets the reprogramming criteria of of unprogrammed local currencies.

Discussion: The following chart shows RHS project conformance with the three criteria established for reprogramming unprogrammed local currencies:

Criteria	RHS Project
1. Conformance with USAID CDSS and the Title III criteria	Conformance with Part B of PL480 Title III program objectives to ..."assist the poor in the rural sector in areas of agriculture, transportation, health, and rural planning.
2. Management implications for both GOS and USAID	USAID has a strong health staff both in the complement of skills of its staff and in its numbers relative to other USAID missions. The GOS continues to provide the required complement of counterparts for program implementation and management.

3. Technical feasibility and potential for measureable returns

Aside from obvious financial constraints, the project is technically feasible as is being demonstrated in other USAID LDC PHC programs. Project proposed baseline data studies will provide the means for measuring output, health status change and/or the effect of health status on labor productivity.