CLASSIFICATION:

PDBBM525

AID 1120-1 (8-86)

PAAD

DEPARTMENT OF STATE
AGENCY FOR
INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT

AMENDMENT #2

1. PAAD NO.
Grant No. 650-K-604

2. COUNTRY
Democratic Republic of the Sudan

3. CATEGORY
Commodity Financing - Standard Procedur
650-K-604

4. DATE
Sept. 21, 1983

5. TO:
Administrator, A.I.D.

6. OYB CHANGE NO.
1

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

8. OYB INCREASE
TO BE TAKEN FROM: $12.25 million
ESF

9. APPROVAL REQUESTED FOR COMMITMENT OF:
$ $12.25 million

10. APPROPRIATION - ALLOTMENT
ESF

11. TYPE FUNDING
☐ LOAN ☒ GRANT

12. LOCAL CURRENCY ARRANGEMENT
☐ INFORMAL ☒ FORMAL ☐ NONE

13. ESTIMATED DELIVERY PERIOD
Sep. 1983 - May 1984

14. TRANSACTION ELIGIBILITY DATE
Sep. 30, 1983

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

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

16. PERMITTED SOURCE
U.S. only:
Limited F.W.: $12,250,000 (Code 941)
Free World:
Cash:

17. ESTIMATED SOURCE
U.S.: $12,250,000
Industrialized Countries:
Local:
Other:

18. SUMMARY DESCRIPTION

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

The proposed grant will provide foreign exchange for essential public and private sector imports and related technical services to be agreed upon by the GOS and A.I.D.

A grant to the Government of the Democratic Republic of the Sudan is hereby authorized in the amount of $12.25 million for financing the items described above, subject to the following terms and conditions:

1. Procurement will be restricted to A.I.D. Geographic Code 941 sources.
2. Up to $1 million of the Grant may be used to finance technical assistance activities directly related to commodity purchases and PAAD covenants, which assistance may occur both prior and subsequent to the procurement of such commodities according to A.I.D. CIP standard regulations.

BEST AVAILABLE DOCUMENT

19. CLEARANCES

	DATE
for M/FM:WMcKeel	9/28/83
GC:JMullen (Acting)	9/28/83
AA/PPC:RADerham (Acting)	9/29/83

20. ACTION
☒ APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE
DATE 9/29/83

M. Peter McPherson
Administrator
TITLE

CLASSIFICATION:

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

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

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

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

SUDAN

COMMODITY IMPORT PROGRAM FY 1983

AMENDMENT #2

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SUDAN

Program Assistance (650-K-604) Amendment #2 FY 1983

Summary and Recommendations

The accompanying analysis is presented in support of a request by the Government of Sudan (GOS) for the second amendment of $12.25 million of an Economic Support Fund (ESF) supplemental grant in FY 1983. Consistent with the original PAAD of $30 million and the first amendment of $18 million this amendment would be used to help ease Sudan's immediate foreign exchange crisis by financing essential commodity imports from Geographic Code 941 sources thereby enabling the GOS to conform to a series of difficult economic reforms. Also, any technical assistance for delivery services, in accordance with AID CIP regulations, will be provided to ensure the proper transfer and use of commodities.

Since independence, Sudan has been making a difficult transition, originally from under an Anglo-Egyptian Condominium and more recently from a Soviet-styled and supported economy. With the rise of oil and manufactured goods prices after 1973 and the exodus of more than 500,000 skilled Sudanese workers to the Gulf states--coupled with some ill-advised policy and program decisions and poor project implementation--Sudan began to move from a Balance of Payments surplus to a deficit. By 1977, Sudan's irrigated sector, which is the basis of its foreign exchange earnings and monetized sector, began to collapse. This situation has continued until the point where Sudan's total accumulation of debt currently approximates its GNP. Arrears could reach $2.4 billion, or three years of exports. Excluding rescheduling, debt service each year is expected to reach 150 percent of exports. Imports for 1982/83 are estimated at $1.8 billion while exports for the year are estimated to rise to only $675 million leaving a Balance of Payments deficit of $1125 million.

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

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

Thus, the total devaluation of the Sudanese pound since 1978 has amounted to almost a 70 percent devaluation. In addition, by late July 1983 the GOS had opened up the free market for private sector foreign exchange transactions to several large foreign and domestic banks, thereby encouraging greater rationalization of foreign exchange markets and resource use.

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

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

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

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

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

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

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

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

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

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Now, for the third successive year, Sudan is faced with a trade deficit of over $1 billion and a current account deficit of some $1125 million. Even after allowing for a continued high level of capital inflows from past loans and the successful renogotiation of current debt payments, a large financing gap remains. Sudan has virtually no foreign exchange. Some $2.2 billion of Sudan's current $7.8 billion foreign debt is in arrears, and the country's access to commercial sources of import credit is nil.

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

The USG has been providing balance of payments support to the Sudan through PL 480 Title I/III and ESF-financed commodity import programs since resumption of the AID program in FY 1978. The justification for such substantial and continued U.S. support, including the current ESF grant amendment proposed herein for FY 1983, is the belief that Sudan can attain a sustainable balance of payments position within the next several years provided that it continues to pursue vigorously its current economic stabilization and reform efforts. For this year, reform efforts will include adherence to the provisions of the latest IMF Standby Arrangement and the formulation of a rational medium-term public investment and reform program. It also will require that Sudan strengthen and broaden its capacity to manage productive enterprises efficiently and in a manner that will result in greater financial returns and marketable surpluses.

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

The commodities to be financed under this FY 1983 CIP grant amendment will be largely similar to those financed under the original FY 83 CIP, the first FY 83 CIP Amendment, and previous ESF grants in FY 1980, 1981 and 1982, which included some petroleum given Sudan's total current lack of foreign exchange and the country's urgent need to continue production in its oil-dependent irrigated agricultural sector. Also, technical assistance for delivery services will be provided where needed in accordance with present AID regulations.

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

General Considerations

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

Sudan is presently experiencing a severe and chronic foreign exchange crisis, having registered sizeable current account deficits in its balance of payments since the mid-1970's. A deficit of $1417 million occurred in 1981/82. These perennial deficits have wiped out the country's foreign exchange reserves and have led to a heavy foreign debt burden, much of which is in arrears and has had to be rescheduled twice before, and may have to be rescheduled once again. Outstanding external debt was estimated at U.S. $7.8 billion by the end of 1982. Between 1976 and 1981, external debt grew at a compounded rate of 16 percent per annum. Despite rescheduling, the debt service ratio for 1980 (principal and interest payments as a percentage of exports) was approximately 20 percent. For 1982, this debt service ratio has grown to 7y percent. Gross foreign exchange reserves currently average less than one week of imports.

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

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

A recent update of the IBRD analysis includes an "optimistic case" balance of payments projection which shows a closing of the current account gap by 1990. To achieve this objective would require that commitments of donor assistance to the Sudan be more than doubled, from the present level of $750-$850 million to $1.8-$1.9 billion annually from 1985 through to the end of the decade. While the IBRD analysis does not differentiate between balance of payments support and other forms of assistance, it clearly implies that a substantial proportion of donor assistance through 1990 will need to be commodity import grants.

Most importantly, although the latest import estimates indicate that Sudan had had immediate requirements for approximately $135 million worth of essential commodities to cover the months of December and January 1982/83, the country had no foreign exchange reserves with which to pay for the commodities. Foreign exchange receipts for last December and January are estimated at only $50 million. Even with the 1983 Standby Agreement's disbursements indications are that Sudan has continued to be faced with severe restricted, minimal levels of foreign exchange which threaten to preclude the timely import of its most essential and politically sensitive commodities.

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

The initial causes of the current crisis date back to the early 1970's, when the government undertook an overly-ambitious public sector development program and borrowed heavily from abroad to finance the program. This, coupled with unprecedented increases in petroleum import prices starting in 1973, drove the economy into a tailspin from which it has still not recovered. Lagging exports, a steadily widening trade gap, and growing budgetary deficiencies have compounded the country's economic difficulties. Cotton exports, which accounted for 60 percent of total exports and averaged $300 million annually during the 1970's, fell to $69 million and 18 percent of total exports in 1982. Non-cotton exports have taken up the slack to some degree; however, there has been virtually no increase in total exports from the mid-1970's to 1980, and a decline in exports from 1980-82. Conversely, imports, led by petroleum and sugar, rose from $1.0 billion in 1976 to $1.7 billion in 1982, an increase of 70 percent.

1. The GOS/IMF Three Year Stabilization Program

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

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

2. The 1982 Stand-By Program

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

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

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

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in agriculture, along with proper maintenance of physical capital and timely provision of management services; attempted to bring about substantial reductions in both the overall and bank-financed deficits (as ratios to GDP) of the government budget; more effective control over the expansion of domestic credit in order to bring down the underlying rate of inflation from 35-40 percent at present to about 25 percent; and maintenance of an exchange system that would encourage remittances and exports. While it was expected that the deficit in the current account of the balance of payments would continue to be large, the Stand-By Program aimed to contain the size of the deficit through demand restraint and the expansion of non-cotton exports.

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

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

C. The 1983 Standby Agreement

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

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

(a) to ensure the attainment of the monetary target a limitation on the domestic assets of the banking system from Oct. 31, 1982 to Dec. 31, 1983 through the imposition of ceiling of 26% on net domestic assets on the banking system and a sub-ceiling of only 9% on net claims on the Government;

(b) to alleviate the external payments situation pricing policies and licensing mechanisms aimed at import policy targets, which facilitate essential consumer and producer imports and import substitution;

(c) a flexible exchange rate policy incorporating periodic reviews of the US dollar rate, inflationary pressures in Sudan, the relative profitability of major exports and import substitute activities, and balance of payments developments, and studies on linking the Sudanese pound to a currency basket;

(d) to provide for the proper allocation of production costs among the various crops in the irrigated schemes a minimum level of collection from land and water charges by May 31, 1983;

(e) progress on and performance under debt restructuring, specifically progress on avoiding arrears of the most recent debt rescheduling and on payments and transfers for current international transactions other than external debt service will be reviewed by May 31, 1983;

(f) GOS refrains from concluding bilateral payments agreements inconsistent with the economic recovery program;

(g) elimination of subsidies on key public sector imports by adjusting prices according to changes in international prices during the Standby period; and

(h) GOS refrains from any new nonconcessional public or publicly guaranteed foreign borrowing with a maturity range of over one year and up to and including ten years.

The GOS has performed sufficiently well enough on these measures, according to the IMF's mid-term review in May 1983, to allow the release of the second 1983 Standby tranche. The GOS is also ahead of schedule on wheat pricing having eliminated budget subsidies including inland transport costs of imported wheat in July.

D. Other Donor Assistance

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

EEC, and others, 15 percent. Most of the funds contributed by the Arab donors were provided through loans and were used to finance oil imports.

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

Despite an expected slight narrowing in the trade gap from $1,152 million in 1980/81 to $1,417 million in 1981/82, the Sudan's current account deficit is projected to increase from $788 million in 1980/81 to $955 million in 1981/82 while 1983 is expected to bring a decrease to $669 million. The overall financing requirement for 1983 was projected at $1,580 million. Inasmuch as the maximum net support from the IMF will total about $190 million, the Sudan will have needed to cover the remaining $1,390 million gap through increased balance of payments support from donor countries and debt rescheduling.

At the Consultative Group meeting in January 1983 about $300 million in project assistance, $489 million in fast-disbursing program assistance, and $40 million in suppliers' credits were pledged. At the Paris Club meeting the following month 100% of principal and interest falling due in calendar year 1983 was agreed to be rescheduled over a 16 year period of which 6 years would be grace. The fast-disbursing assistance amounted to $69 million more than that needed, according to IBRD/IMF projections, so that the debt relief could technically close the projected balance of payments gap for 1983. However, reports from the GOS/CG monitoring group indicate that donor assistance has not been as forthcoming as pledged.

E. U.S. Contributions to Date

The U.S. has been providing balance of payments support to the Sudan since resumption of the AID program in FY 1978. Concessional sales of PL 480 Title I wheat had averaged $10 million annually since FY 1978, and were augmented in FY 1980 with the signing of a five-year, $100 million Title III program. Combined Title I/III wheat imports for FY 1983 are programmed at $50.0 million.

U.S. balance of payments assistance has also been provided since FY 1980 through annual ESF-financed commodity import programs (CIPs). ESF grants for CIP imports amounted to $40.0 million in FY 1980, $50.0 million in FY 1981, and $100.0 million in FY 1982. In addition to the FY 83 ESF-funded cash grant of $20 million and $48 million in FY 83 CIP, a grant of $12.25 million is hereby being proposed as a supplemental tranche of a total $60.25 million CIP program for FY 1983.

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III. Rationale for Continued U.S. Assistance

The justification for continued U.S. balance of payments support for the Sudan is predicated on the belief that the country can attain a sustainable balance of payments position within the next several years provided that it continues to pursue vigorously its current economic stabilization and recovery efforts. For 1983, this includes adherence to the provisions of the IMF Standby Arrangement, specifically the reduction of government expenditures and borrowing, the establishment and maintenance of a more realistic exchange rate, and the alignment of administered prices and interest rates at realistic, market-determined levels. It also includes the formulation and implementation of a rational medium-term public investment program that will lay a basis for longer-term growth, such as the three-year program being developed by the GOS in conjunction with the IBRD.

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

A. Execute to the best of its ability the economic stabilization program associated with its Stand-By Agreement with the IMF under which the government will reduce government expenditures and borrowing, establish and maintain more realistic exchange rates, and align prices and interest rates to realistic market rates.

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

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

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

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

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

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

In order to encourage GOS follow-through with regard to the foregoing, the USAID Mission incorporated in the original CIP agreement and will incorporate in this amendment, appropriate linkages between the allocation and disbursement of ESF funds and GOS progress toward improved management performance.

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

1. US Interests and Overall Assistance Strategy

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

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

2. Providing an incentive for improved economic management and reform

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

3. Contributing to private sector participation in development

The current shortage of foreign exchange in the Sudan is acutely felt by private sector firms who either obtain needed foreign exchange from unofficial sources at high cost or cut back on their operations. In either case, there is a net cost to the economy. It is estimated that privately-owned industrial firms in the Sudan are presently operating at 25-30 percent of capacity, primarily because of the lack of raw materials and spare parts. Although the initial tranche of the FY 1983 CIP concentrates on the urgent imports needed to keep the economy going in sensitive sectors, which are currently administered by the public sector, it is planned that this and future tranches of this CIP as well as any future year programs will continue U.S. emphasis on assisting in the rebuilding of and support to the Sudanese private sector.

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

4. GOS budget support

Funds will be deposited into a special account at the Bank of Sudan, and their use jointly determined by AID and the GOS. Priority in the allocation of CIP counterpart funds will be given to AID and other donor-assisted projects in the traditional rainfed farming areas of Sudan, for agricultural research, production and marketing projects, railway rehabilitation, road construction, and river transport development. An appropriate amount, as agreed by AID and the GOS, will also be channelled through the US/GOS Trust Fund established in FY 1981, to cover some of the program and administrative costs of the US Mission in the Sudan. The balance of the counterpart funds generated under the FY 1983 CIP will be used for general budget support.

The GOS' need for budget support is clearly evident from a review of the government's FY 1981 and FY 1982 budgets. Against total expenditures of Lsd 1.3 billion in FY 1981, for example, the budget shows a deficit of Lsd 545 million, or over 40 percent. More recent data indicate that the actual ratio may be closer to 50 percent. By comparison development expenditures in FY 1982 were estimated at LS 371 million. Foreign borrowings to finance budgetary expenditures were around LS 400 million. In effect, total GOS expenditures for development are now being financed by foreign borrowing. The latest 1982/83 budget estimates analyzed on page 31 also support this conclusion.

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

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

A pervasive lack of spare parts is generally considered to be one of the key constraints in the Sudan to the increased production and marketing of goods in both industry and agriculture. Shortages of replacement machinery and equipment.

industrial raw materials, agricultural inputs and transport vehicles are also major obstacles. As indicated in Section VII-A below, a substantial share of the funds provided for the FY 1983 CIP will be used to help overcome such shortages. AID is also trying to help increase agricultural output in the Sudan through project-financed technical assistance deliveries. The agricultural inputs and equipment brought in under the CIP, combined with the use of CIP-generated counterpart for local cost support, will effectively complement and considerably strengthen AID's technical assistance to the agricultural sector.

CIP imports of chemicals and tin plate will help to sustain labor-intensive local manufacturing industries. Tin plate is used mainly in food processing industries.

IV. Economic Analysis

A. Balance of Payments and Trade

Since the mid-1970's, the Sudan's balance of payments has been characterized by steadily widening trade gaps and perennial current account deficits. Increased import costs, particularly for petroleum products and sugar, together with rapidly rising debt service payments, have severely strained the Sudan's inadequate foreign exchange resources. Lagging export sales and the government's inability to attract private remittances through official channels forced the government to rely heavily on borrowings and donor grants to finance essential import commodities and related services. A summary of the Sudan's balance of payments from 1977/78 to 1983 is set forth in Table 1 below.

As indicated in Table 1, the total value of the Sudan's exports has declined in recent years from $551 million in 1977/78 to a $382 million in 1981/82. The primary reason for the lagging export trade is the decline of cotton imports. In 1977/78, cotton exports were valued at $296 million and accounted for 54 percent of total exports. By 1982, cotton exports had dropped to $69.4 million, representing only 18 percent of total exports. The poor performance of cotton in recent years has been attributed primarily to the lack of adequate price incentives for production and export, and a burdensome system for allocating production costs on the larger irrigated schemes, whereby cotton bore a disproportionate share of land preparation charges and fees. These distortions have now been corrected and a modest increase in cotton exports is projected for 1982/83. In fact the overall trade gap is expected to narrow slightly in the years ahead, decreasing from $1,152 million in 1980/81 to a projected $1,125 million in 1983. In addition to a projected 145 percent increase in cotton exports, key factors include a 15 percent increase in non-cotton exports coupled with only a 0.6 percent increase in the value of petroleum imports and a 26 percent drop in sugar imports.

Table 2 below contains a projection of the Sudan's balance of payments through 1990, taken from the IBRD's memorandum report on the Sudan's economy, published in October 1979. As indicated in the table, the Sudan is expected to continue to experience a widening trade gap and sizeable recurrent account deficits through 1990. Further, despite projected increases in private remittances and official grants and loans, the country will continue to face recurring financial gaps and arrearages on past loans throughout the decade.

A more recently completed IBRD analysis, published in February 1982 includes an "optimistic case" projection which shows a closing of the current account gap by 1990. However, this would require more rapid export expansion and slower import growth than is generally expected, and greatly increased private remittances. The "optimistic case" projection also incorporates substantial debt relief through 1985/86 and would require that commitments of donor assistance to the Sudan be more than doubled, from $850-$900 million annually in the early 1980's to $1.8 to $1.9 billion annually from 1985/86 through to the end of the decade.

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

Because of run-down irrigation facilities, the lack of foreign exchange for agricultural inputs, inadequate transport, storage and other infrastructural facilities, and price distortions, prospects for rapid increases in exports over the next several years are dim. The government is currently giving priority in the allocation of developmental resources to revitalization of

Table 1

Sudan: Balance of Payments, 1977/78-1983
(In millions of U.S. dollars)

Year Ending June 30	1977/78	1978/79	1979/80	1980/81	1981/82	Projections 1982	1983
Exports	551	527	582.5	478.9	381.6	477.0	675.0
Cotton	296	321	333.4	182.0	69.4	97.0	238.0
Other	255	206	249.1	296.9	312.2	380.0	437.0
Imports	-1,188	-1,138	−1,339.9	−1,631.4	−1,798.9	−1,816.0	−1,800.0
Petroleum	-118	-178	−254.0	−393.0	−494.8	−444.0	−469.0
Sugar	-44	-28	−122.7	−183.6	−158.5	−76.0	−60.0
Other	-1,026	-932	−963.2	−1,054.8	−1,145.6	−1,296.0	−1,271.0
Trade Balance	-637	-611	−758.4	−1,152.5	−1,417.3	−1,339.0	−1,125.0
Services	-73	-104	−82.0	−62.1	−61.2	−287.0	−244.0
Receipts	159	181	261.1	321.1	469.3	470.0	525.0
Payments	-172	-207	−272.6	−278.0	−346.3	−400.0	−450.0
Interest	-60	-78	−70.5	−105.2	−184.2	−357.0	−319.0
Transfers	244	257	293.2	426.6	523.5	683.0	700
Private	221	240	209.0	304.6	350.0	400.0	430
Official	23	17	84.2	122.0	173.5	283.0	270
Current Account	-466	-458	−547.2	−788.0	−955.0	−943.0	−669
Capital	65	348	442.1	412.8	587.7	425.0	−83
Receipts	132	405	532.2	499.0	685.0	772.0	559
Payments	-67	-57	−90.1	−86.2	−97.3	−347.0	−642.0
Allocation of SDRs	—	13	13.0	11.0	—	—	—
Errors and omissions	325	103	17.5	144.2	172.3	—	—
Monetary movements (increase −)	76	-6	74.6	220.0	195.0	—	—
*Financing gap				—	—	−518.0	−752.0
			(In per cent)				
Memorandum items:							
Growth rates							
Exports	-7	-4	10	-17	-20	25	41
Imports	20	-4	15	21	10	1	0
Current account deficit as % GDP	26	20	20	23	23	22	

Sources: Bank of Sudan, Ministry of Finance and Economic Planning, and IMF staff estimates
* Assumes increased levels of donor assistance

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Table 2: Balance of Payments Projections, 1983-1990

($ Million)

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

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

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

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

	1977/78	1978/79	1979/80	1980/81	1981/82
Cotton	295.8	320.7	333.4	182.0	69.4
Groundnuts	80.1	25.5	14.2	65.6	48.1
Sesame	55.4	27.8	40.6	32.2	41.7
Gum arabic	35.3	40.0	43.9	32.6	43.4
Dura (sorghum)	8.6	8.7	68.7	71.4	64.4
Vegetable oil and cakes	17.5	46.5	26.3	33.6	26.1
Castor seeds	3.2	3.5	--	--	0.1
Livestock products	26.7	30.0	35.6	43.7	49.6
Other	9.2	6.8	19.8	17.8	38.8
Subtotal	531.8	509.5	582.5	478.9	381.6
Re-exports 2/	19.2	17.5	--	--	--
Total	551.0	527.0	582.5	478.9	381.6

Source: Bank of Sudan.

1/ Converted from data in Sudanese pounds at the following exchange rates: for 1977/78, LSd 1.00 = US$2.87; for 1978/79, LSd 1.00 = US$2.50; for 1979/80, LSd 1.00 = US$2.50, July-September 1979; and for October 1979-September 1980, LSd 1.00 = US$2.00; October 1980-June 1981, LSd 1 = US$1.25 or US$2.00 depending on the commodity; from June 1981 to September 1981, LSd 1 = US$1.25; from October 1981 to December 1981, LSd 1 = US$1.18; and from January 1982 to June 1982 LSd 1 = US$1.11.

2/ Excludes petroleum re-exports.

the agricultural sector, which currently accounts for some 95 percent of the Sudan's exports. It could be several years, however, before this emphasis pays off in significantly increased exports.

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

The Sudan's principal imports are wheat, sugar, petroleum products, chemicals, pharmaceuticals, machinery and transport equipment, manufactured goods and textiles. Of these, petroleum products have shown the most dramatic increase during the past six years, from $124.1 million or only 10 percent of total imports in 1977/78 to a projected $420.0 million or 25 percent in 1981/82.

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

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

In view of the steady and rising demand for imports, the poor performance to date and modest prospects for increased exports, the Sudan can be expected to continue to record trade deficits over the next several years comparable to the $1.1 billion deficit estimated for 1983.

B. <u>Services and Capital Accounts</u>

In addition to its sizeable and growing trade deficits, the Sudan has also regularly been registering annual deficits in its services account. Though modest to date, these

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

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

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

Sources: Bank of Sudan and staff estimates.

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

Table 5. Sudan: Origin of Imports, 1976/77-1980/81

(In millions of U.S. dollars)

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

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

deficits could increase appreciably within the next several years because of higher interest payments, unless the government is able to continue negotiating substantial debt relief. As indicated in Table 1 above, interest payments projected for 1982-83 would represent a three-fold increase over the level paid just four years ago.

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

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

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

C. Financing Gaps

Even with considerable help from the donors, it should be noted per Tables 1 and 2 above that the Sudan continues to be faced annually with financing gaps. Halfway through FY 1981 (which ran from July 1980 to June 1981), a gap of $450 million was still being projected for the year. With one half of (Sudanese) FY 1982 gone, the GOS was still projecting a gap of some $340 million for the year. Calculations by the IMF and the Bank of Sudan indicated a $566 million financing gap in CY 1982. The Consultative Group meeting of January 1983 produced extraordinary non-project assistance of $107 million that left an unfinanced external BOP gap of $752 million for consideration at the Paris Club debt rescheduling meeting in February 1983. At that meeting 100% of all debt and arrears falling due in calender year 1983 was liberally rescheduled such that the IMF 1983 Standby was allowed to be undertaken.

Table 6 Sudan: Foreign Financing of Central Government Budget, 1975/76-1982

(In millions of Sudanese pounds)

	1975/76	1976/77	1977/78	1978/79	Prov. Actual 1979/80	Budget 1980/81	Revised Budget 1980/81 1/	Budget 1982
Grants	...	...	3.7	7.2	42.0	60.0	79.0	
Commodity	...	...	...	...	30.5	...	38.0 2/	
Project	...	...	...	...	11.5	...	41.0 3/	
Loans	...	...	46.0	162.0	266.0	399.8	321.0	
Cash	...	...	...	...	128.5)	189.9)	144.0 2/)	
Commodity	...	...	...	...	29.0)	)	)	
Project	...	...	...	...	108.5	209.9	177.0 3/	
Total	84.5	53.5	49.7	169.2	308.0	459.8	400.0	567.6 5/
Less: Repayments	-19.7	-19.7	-23.3	-22.8	-70.4	-37.2	-37.0	...
Equals: Foreign financing	64.8	33.8	26.4	146.4	237.6	422.6	363.0 4/	...

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

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

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

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

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

5/ Includes local currency generations

Table 7. Sudan: Gross Reserves and Net Foreign Assets, 1979-82
(in millions of US dollars)

End of Period	June 1979	Dec. 1979	June 1980	Dec. 1980	June 1981	Dec. 1981	June 1982	Dec. 1982
Monetary Authorities	-602	-692	-751	-964	-714	-893	-918	-874
Convertible foreign Exchange 1/	31	80	61	65	22	16	25	21
Net Bilateral Claims 2/	-37	-52	-58	-77				
Net IMF Position 3/	-145	-212	-235	-346	-513	-506	-558	-551
Bank of Sudan Short-Term Liabilities to foreign Banks	-384	-445	-456	-530				
Commercial Banks	99	121	191	291	370	162	225	167
Assets	120	194	265	435	546	309	338	289
Liabilities	-21	-73	-74	-144	-176	-147	-113	-122
Net Foreign Assets	-503	-571	-560	-673	-771	-1195	-1170	-1234

Source: Data provided by Sudanese authorities and IMF Int'l Fin. Stats.

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

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

3/ As reported by Bank of Sudan and IMF.

Table 8. Sudan: External Public Debt, 1981-82

(In millions of U.S. dollars)

	Debt Outstanding Dec. 31, 1981 1/		Debt Service Due 1982		Projected 1982			
	Total	Arrears	Principal	Interest	Debt Service Paid	Debt Disbursed	Debt Outstanding Dec. 31, 1982 Total	Debt Outstanding Dec. 31, 1982 Arrears
Bilateral	2,956.4	599.1	232.9	131.0	94.0	688.0	4,242.7	1,010.7 2/3/
OECD countries	966.8	274.5	61.9	47.9				
Paris Club I	(517.5)	(87.4)	(38.7)	(34.8)				
Paris Club II	(40.0)	(40.0)	(2.0)	(8.0)				
Other bilateral	(103.6)	(0.1)	(2.1)	(0.9)				
Other suppliers 4/	(179.6)	(55.9)	(1.2)	(0.4)				
Other financial institutions 4/	(126.1)	(91.1)	(17.9)	(3.8)				
Eastern bloc	314.5	53.8	30.2	6.9				
Oil producers	1,675.1	270.8	140.8	76.2				
Multilateral	1,415.6	77.8	95.4	71.9	103.4	169.7	992.5	--
IMF	564.2	--	39.6	54.4	94.0	84.7	609.3	--
Trust Fund	(81.9)	(--)	(--)	(0.4)	(0.4)	(--)	(81.9)	(--)
Other	(482.3)	(--)	(39.6)	(54.0)	(93.6)	(84.7)	(527.4)	(--)
IBRD	48.2	--	3.9	2.7	6.6	--	44.3	--
IDA	254.5	--	0.6	2.2	2.8	85.0	338.9	--
Other 5/	548.7	77.8	51.3	12.6	...	...	...	...
Suppliers	57.9	26.8	8.7	2.0	--	--	59.9	37.5
Financial institutions	1,173.4	188.5	50.0	152.5	52.0	--	1,273.9	339.0
Commercial banks--rescheduling agreement	554.7	--	9.0	92.9	52.0	--	595.6	49.9
Other multiple lenders	294.2	111.8	41.0	17.4	--	--	311.6	170.2
Arab financial institutions 6/	324.5	76.7	--	42.2	--	--	366.7	118.9
Short term	859.0	859.0	--	--	--	--	859.0	859.0
Financial institutions 7/	323.0	323.0	--	--	--	--	323.0	323.0
Suppliers' credit 8/	536.0	536.0	--	--	--	--	536.0	536.0
Imbalances under bilateral agreement with Egypt	88.0	--	--	--	--	--	88.0	--
Military debt	200.0	--	--	--	--	100.0	300.0	--
Total	6,750.3	1,751.2	387.0	357.4	249.4	957.7	7,816.0	2,246.2

Sources: IBRD and staff estimates.

1/ Committed by December 31, 1981; includes arrears on principal and interest. All data converted to U.S. dollars at rates prevailing December 31, 1981. Excludes interest on arrears.
2/ Bilateral includes other multilateral.
3/ US$40 million in arrears was regularized by the Paris Club rescheduling of March 1982.
4/ Some of this may not be guaranteed by creditor governments.
5/ Includes Arab Monetary Fund, Arab African Bank, Arab Fund for Economic and Social Development, Islamic Development Bank, African Development Bank, OPEC Special Fund, African Development Fund, International Fund for Agricultural Development, and European Development Fund.
6/ Assumes principal payments are rolled over and interest is paid at LIBOR.
7/ Includes Islamic Development Bank.
8/ May include overlap with the OECD and Eastern bloc suppliers' credit listed above.

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

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

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

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

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

	1976	1977	1978	1979	1980
Suppliers' credits					
Amount (US$ millions)	53.3	89.2	35.9	--	--
Interest (per cent)	7.1	5.1	7.8	--	--
Maturity (years)	11.1	13.1	15.0	--	--
Grace period (years)	3.5	3.5	3.9	--	--
Grant element (per cent)	13.2	25.2	11.8	--	--
Financial institutions					
Amount (US$ millions)	160.9	13.8	40.5	51.6	37.0
Interest (per cent)	8.3	8.8	8.7	5.9	8.0
Maturity (years)	10.2	8.8	11.2	14.8	6.0
Grace period (years)	4.5	2.9	6.0	3.4	2.5
Grant element (per cent)	7.1	4.3	5.3	22.3	5.9
International organizations					
Amount (US$ million)	83.9	86.2	140.6	266.2	281.9
Interest (per cent)	3.1	3.3	1.3	1.7	0.9
Maturity (years)	28.6	27.1	34.1	29.3	40.3
Grace period (years)	7.3	6.2	7.8	6.2	8.6
Grant element (per cent)	52.8	49.0	66.7	59.3	74.4
Government loans					
Amount (US$ millions)	310.0	379.6	504.0	645.9	79.5
Interest (per cent)	3.4	5.2	4.1	7.9	2.3
Maturity (years)	21.5	14.0	22.3	15.2	19.7
Grace period (years)	6.4	3.0	6.9	5.6	5.2
Grant element (per cent)	43.6	27.1	41.5	13.8	46.3
Total					
Amount (US$ millions)	608.1	568.8	721.0	963.7	398.4
Interest (per cent)	5.0	5.0	4.0	6.1	1.8
Maturity (years)	18.6	15.7	23.6	19.1	33.0
Grace period (years)	5.8	3.6	6.9	5.6	7.3
Grant element (per cent)	32.6	29.6	42.9	26.8	62.5

Source: IBRD—Debtor Reporting System (DRS).

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

D. Reserves Position and Net Foreign Assets

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

Gross Reserves of the Bank of Sudan
(Millions of US dollars)

	1977/78	1978/79	1979/80	1980/81	1981/82
Reserves level	21.9	27.4	40.5	24.5	25.5
Import equivalence	7 days	9 days	13 days	5 days	5 days

Source: IMF and Central Bank of Sudan

As indicated in Table 7, due mainly to a steady build-up of short-term liabilities to foreign banks and continuous drawings under various IMF credit facilities, the Sudan has been burdened with a negative position on net foreign assets over the 1979-82 period. Further deterioration of its position is expected for 1982/83.

E. External Debt and Annual Services Payments

The Sudan's total outstanding external debt amounted to $3.7 billion at the end of 1981, having nearly doubled since 1976. As shown in Table 9, about $1.9 billion of the total is owed to bilateral creditors, primarily Saudi Arabia, Kuwait, and the United Arab Emirates. Approximately $1.1 billion is owed to multilateral institutions such as the IBRD/IDA, the Arab Fund for Economic and Social Development and the Arab African Bank. The remaining $0.7 billion is owed to various private commercial banks and other financial institutions, and to suppliers.

The overall weighted average terms of the Sudan's external debt (which currently reflects an average maturity of 33 years, including a 7-year grace period, an average interest of 2%, and an overall grant element of 63 percent) are considered to be relatively concessional (see Table 10). Nevertheless, a significant portion of the outstanding debt is in the form of suppliers' credits and loans contracted at commercial terms. As a consequence, according to the IMF, debt service payments for 1980 should have amounted to around $280 million. This would have represented a ratio to total exports for that year of around 41 percent. Such a high payment ratio would have been unmanageable. Actually, as reflected in Tables 8 and 9, the annual payments were virtually cut in half as a result of the debt relief (on official loans) obtained from Paris Club donors and through the accumulation of arrears on payments due to Arab and private creditors.

F. Payments in Arrears

As of the end of 1982 the Sudan was in arrears on some $2.3 billion of its scheduled principal and interest payments. Coupled with payments coming due on existing loans, the Sudan will have no recourse over the next several years but to continue to seek refinancing of its sizeable debt burden.

V. Budget Support Requirements

A. Overall Deficit

Total GOS budgetary expenditures in 1982/83 are estimated at LS 1.5 billion with provision for LS 1.9 billion; total revenues at LS 1.3 billion, of which 95% the GOS expects to collect. Including other fiscal operations (primarily extra budgetary expenditures), the overall budgetary deficit was an estimated LS 568 million, or some 30 percent of total expenditures. A somewhat higher ratio is being projected for 1983/84; this is based on an approximate 19 percent increase in revenues as against a 29 percent increase in budgeted expenditures. The increase in expenditures is attributable primarily to increases in educational and health services, defense spending and the expansion of regional governments.

B. Development Expenditures

Development expenditures in 1982/83 are estimated at LS 502 million. An increase to LS 609 million is projected for 1983/84. In 1982/83, 100% of the overall budgetary deficit, or LS 567 million, is being financed through net foreign borrowings. This amount is roughly equivalent to total GOS development expenditures for the year. A similar situation is expected for 1983/84. In effect, during the past five years the GOS has become totally dependent on foreign sources to finance its development programs.

/I. Market Analysis

A. U.S. Share of Total Imports

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

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

Agricultural commodities: Wheat, wheat flour and tallow

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

Industrial raw materials: Tin plate, equipment for machinery, and spare parts, spinning and weaving oil, seed crushing and processing, clay brick and cement block manufacturing

Transportation equipment and spare parts: Primarily heavy trucks, aircraft parts, and material handling equipment

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

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

The official exchange rate in the Sudan is presently U.S. $1.00= LS 1.2961. The unofficial (market) rate is approximately US $1.00= LS 2.00.

B. CIP Pipeline

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

(In millions of U.S. dollars)

Program	Amount	Thru FY 81 Oblig.	Thru FY 81 Expn.	Thru FY 82 Oblig.	Thru FY 82 Expn.	Est FY 83 Oblig.	Est FY 83 Expn.
FY 1980	40.0	40.0	33.0	--	7.0	--	--
FY 1981	50.0	50.0	--	--	33.8	--	16.2
FY 1982	100.0	--	--	100.0	34.0	--	66.0
Proposed FY 1983	60.25	--	--	--	--	60.25	39.0

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

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

Following preliminary discussions with representatives of the Government of Sudan (GOS), USAID has constructed a positive list of commodities with upper limits of value from which commodities funded under both the first ($30 million), second ($18 million), and third ($12.25 million) tranches of the FY 1983 CIP are being and will be drawn. It is expected that the $12.25 million provided in this second Amendment will be allocated for the procurement of private sector inputs (up to $10 million) including spare parts, industrial chemicals, base oils for lubricants, steel products and tinplate; jute bags for crops (up to $10 million); and spare parts for US-made equipment and vehicles (up to $2 million).

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

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

B. Implementation Procedures

1. GOS

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

2. A.I.D.

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

C. Procurement and Financing Procedures

Procurement and financing procedures under this CIP will be those set forth in A.I.D. Regulation 1. A review of GOS and Sudan private sector purchasing practices indicates that procurement will include a mixture of formal competitive-bidding, negotiated solicitations and proprietary procurement. The financing of procurement will be through the use of Bank Letters of Commitment and/or Direct Letters of Commitments.

D. Eligible Commodities

Commodities eligible under the A.I.D. Commodity Eligibility Listing (1978 as revised) will be eligible for A.I.D. financing and will be included in all Commodity Procurement Instructions. However, commodities actually financed will be determined largely by the allocations made by the GOS Economic Group, headed by the Minister of MFNP, and transmitted to A.I.D. by the Ministry of Finance and National Planning. As noted above, the Ministry has already provided an indicative list of allocations for the FY 83 Commodity Import Program.

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

E. Procurement Restrictions/Limitations

This grant will be restricted to Code 941 sources and origins for commodities and related incidential services. U.S. flag vessel service to Sudan is supplied by two U S. vessel operators, one on an inducement basis and the other providing monthly Lash and Charter transportation. Because of the relatively small U.S. vessel participation in U.S.-to-Sudan ocean transportation, U.S. vessels may not always be available.

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

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

F. Commodity Eligibility Date

The Eligibility Date for Commodities and Commodity Related Services procured under this FY 83 CIP will be Sept. 30, 1983.

G. Terminal Disbursement Date

The grant's Terminal Disbursement Date (TDD) will be 24 months from the date Conditions Precedent are met. Recognizing an urgent need to provide balance of payments support, efforts will be made by the Sudanese and USAID authorities to channel A.I.D. funding into short leadtime, large value procurements. The bulk of the grant will be committed to individual purchases in the first 12 months.

H. Port Clearance and Inland Transportation

Sudan has a critical problem in both port clearance and inland transportation of all but the highest priority imports. This problem will be alleviated but not fully resolved with the recent opening of the highway to Khartoum. The past port situation is partially the result of a lack of cargo handling equipment and reliance on railroad freight cars both within the port and for inland transportation.

A.I.D. will apply the standard 90 days port clearance and the 12 months utilization period requirements. These, with constant follow-up and pressure on both buyers and transportation officials, should serve to expedite the movement of A.I.D. financed cargo. At present, the formerly large backlog of GOS public sector imports awaiting inland transportation in holding areas outside the port has been reduced significantly by the new Port Sudan to Khartoum highway.

I. Arrival Accounting and End-use Monitoring

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

There has been a need under the previous CIP grants to augment the GOS monitoring capabilities. The public sector allottees under the earlier CIP's have been greatly interested in receiving and using their A.I.D. imports in the most efficient and timely manner possible. As the volume of arriving cargo increases, there may be a need to establish a monitoring unit outside the GOS. In this respect, USAID has held discussions with two foreign freight forwarders active in the Sudan. One of these, an American corporation joint venture with a Sudanese freight forwarder, has indicated that if the need arises, an agreement funded in local currency can be established that will suit the needs of A.I.D. in the areas of arrival accounting and port clearances.

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

J. Import Controls

1. Private Sector

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

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

2. Import License Systems

There are three licensing systems currently operating.

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

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

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

K. GOS Allocation and Control of CIP Funds

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

Actual disbursement of any funds will be dependent upon the U.S. supplier providing a full set of payment documentation, including both the Form 11 (Commodity and Price Eligibility Approval), the A.I.D. Supplier's Certificate attesting to compliance with a number of A.I.D. regulatory concerns, and evidence that the cargo has actually been shipped. Concurrent follow-up by both USAID and the importer concerning arrivals will match received goods with paid shipments. This will assure that CIP-financed commodities are received and, ultimately through end-use checks, that the commodities are used as intended for the benefit of the Sudan's economy.

L. Tentative Implementation Schedule

Sept. 1983	Amendment Signed
Sept. 1983	Conditions Precedent Met
Oct. 1983	First Letter of Commitment Issued
Nov. 1983	First Shipment Made

Nov. 1983	First Shipment Arrives Sudan
Jan. 1984	Grant Fully Committed (L/COMS)
June 1984	Final Shipment
July 1984	Final Disbursement

VIII. Other Considerations

A. Impact of U.S. Balance of Payments

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

This Commodity Import Program should help to increase the market share of U.S. suppliers. Trends in Sudanese trade with the U.S. and other major suppliers are presented above in Table 5. At present the U.S. accounts for about 10 percent of the Sudan's total imports.

B. Counterpart Generations

Under GOS budgetary/financial procedures, counterpart funds will be generated by both public and private sector importers, and made available for joint programming. The Bank of Sudan will establish a separate account for the counterpart funds generated into which importers will deposit their counterpart funds when the foreign exchange is disbursed. Use of the counterpart funds will be limited to specific development activities, Trust Fund expenses, and CIP management support activities as determined by consultation between USAID and the GOS.

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

C. Trust Account Deposit

The Government will make deposits of local currency to a Trust Account in the name of the U.S. Disbursing Officer upon request of

A.I.D. and subject to approval by the Government. Deposits in this Trust Account will be in local currency and equal to 10 percent of the value of this tranche of the CIP grant. Disbursements from the Trust Account may be made by the Government of the United States to cover the program and administrative costs of the United States Assistance Program, and administrative costs of other elements of the U.S. Mission in the Sudan.

D. Internal Financial Effects

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

E. Use of U.S. Government Excess Property

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

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

The Ex-Im Bank currently has an exposure in the Sudan of about $20 million. This total includes $16 million in project loans and $4 million in guarantees and insurance. Past delinquencies of $2.7 million, which caused the suspension of further U.S. supplier credits to the Sudan were rescheduled early in 1980. Ex-Im activity toward increased exposure is to be determined subsequent to a review of the Sudanese ability to meet continuing rescheduled debt commitments amounting to about $5 million as of June, 1983.

There were two small Foreign Credit Insurance Association (FCIA) loans completed in 1980, based upon long standing past acceptances. However, there has been nothing new considered since that time. The total CIP grant for FY 1983 will complement, not conflict, with Ex-Im Bank activities.

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

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

Before 1979, OPIC had issued four insurance policies covering $12.5 million in investments in the Sudan. During the period 1979-1981, additional OPIC coverage of $20 million was issued for activities in transportation. About $11 million in loan guarantees and insurance has been provided for 1981-82 in transport and agriculture projects.

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

IX. Recommendation

It is recommended that an amended grant to the Government of the Democratic Republic of the Sudan of 12.25 million dollars ($12,250,000) authorized for financing the importation of selected commodities, and commodity related services.

A. Terms and Conditions

1. Conditions Precedent to Grant Disbursement.

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

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

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

2. Terms and Covenants of the Grant.

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

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

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

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

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

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

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

--Commodities procured under this grant may not be used in the production of palm oil or citrus products.

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

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

B. Authorities

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

3A(2) - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Security Supporting Assistance and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program.

CROSS-REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY. HAS STANDARD ITEM CHECKLIST BEEN REVIEWED? See attached.

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. App. Sec.523: FAA Sec 653(b)

(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the nonproject assistance;

Assistance identified in FY 83 Congressional Presentation.

(b) is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than $1 million over that figure plus 10%)?

No

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

None required.

3. FAA Sec. 209 Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs.

No.

No other organization has in-country capacity and knowledge of AID regulations to manage program.

Assistance will encourage all development efforts in that it provides essential inputs needed to maintain and increase production in principal sectors of economy.

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

a) Assistance provides essential imports used for export production.
b) About half of assistance will support private sector production.
c) N/A.
d) Program utilizes rational resource allocation among productive sectors thru Ministry of Commerce & Supply.
e) Imports provided would allow fuller utilization of industrial capacity.
f) N/A.

A.

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

About half of commodities will be for private sector, which includes some US companies. Where available many commodities will be purchased from US sources.

6. Approp. Sec. 507;
FAA Sec. 612(b); Sec 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.

Local currencies generated by previous CIPs are being used to support program operational costs. This program agreement will provide up to $1 million in technical assistance for these needs.

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

No.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

a. FAA Sec. 531. How will this assistance support promote economic or political stability? Is the country among the 12 countries in which Supporting Assistance may be provided in this fiscal year?

Commodities provided will promote both economic and political stability by supporting food, export and industrial production in modern sectors where majority of enfranchised population employed.

2. Nonproject Criteria for Development Assistance

N/A

a. FAA Sec. 102(c); Sec. 111; Sec. 281a. Extent to which activity will (1) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (2) help develop cooperatives, assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local government institutions?

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: [include only applicable paragraph -- e.g., a, b, etc. -- which corresponds to sources of funds used. If more than one fund source is used for assistance, include relevant paragraph for each fund source.]

B2b

(1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, is full account taken of needs of small farmers;

(2) [104] for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor; extent to which assistance gives attention to interrelationship between (A) population growth and (B) development and overall improvement in living standards in developing countries. Is activity designed to build motivation for small families in programs such as education in and out of school, maternal and child health services, agriculture production, rural development, and assistance to urban poor?

(3) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development;

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:

(a) to help alleviate energy problem;

(b) reconstruction after natural or manmade disaster;

(c) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

(d) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

(5) [107] by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries.

B2

c. FAA Sec. 207; Sec. 113. Extent to which assistance reflects appropriate emphasis on: (1) encouraging development of democratic, economic, political, and social institutions; (2) self-help in meeting the country's food needs; (3) improving availability of trained worker-power in the country; (4) programs designed to meet the country's health needs; (5) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (6) integrating women into the recipient country's national economy.

d. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

e. FAA Sec. 201(b)(2)-(4) and -(8); Sec. 201(e); Sec. 211(a)(1)-(3) and -(8). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth; or of educational or other institutions directed toward social progress? Is it related to and consistent with other development activities, and will it contribute to realizable long-range objectives?

f. FAA Sec. 201(b)(6); Sec. 211(a)(5), (6). Information and conclusion on possible effects of the assistance on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving or safeguarding the U.S. balance-of-payments position.

3. Nonproject Criteria for Development Assistance (Loans only) N/A

a. FAA Sec. 201(b)(1). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.

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b. FAA Sec. 201(b)(2); 201(d). Information and conclusion on (1) capacity of the country to repay the loan, including reasonableness of repayment prospects, and (2) reasonableness and legality (under laws of country and United States) of lending and relending terms of the loan.

c. FAA Sec. 201(e). If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds $100,000, has country submitted to AID an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?

d. FAA Sec. 202(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources?

4. Additional Criteria for Alliance for Progress

[Note: Alliance for Progress assistance should add the following two items to a nonproject checklist.]

a. FAA Sec. 251(b)(1)-(8). Does assistance take into account principles of the Act of Bogota and Charter of Punta del Este; and to what extent will the activity contribute to the economic or political integration of Latin America?

b. FAA Sec. 251(b)(8); 251(h). For loans, has there been taken into account the effort made by recipient nation to repatriate capital invested in other countries by their own citizens? Is loan consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress (now "CEPCIES," the Permanent Executive Committee of the OAS) in its annual review of national development activities?

3A(3) - STANDARD ITEM CHECKLIST

Listed below are statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by exclusion (as where certain users of funds are permitted, but other uses not).

These items are arranged under the general headings of (A) Procurement and (B) Other Restrictions.

A. PROCUREMENT

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

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

3. FAA Sec. 604(b). Will all commodities in bulk be purchased at prices no higher than the market price prevailing in the United States at time of purchase? — Yes.

4. FAA Sec. 604(c). Will all agricultural commodities available for disposition under the Agricultural Trade Development & Assistance Act of 1954, as amended, be procured in the United States unless they are not available in the United States in sufficient quantities to supply emergency requirements of recipients? — Yes

5. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will agreement require that marine insurance be placed in the United States on commodities financed? — N/A

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

7. FAA Sec. 604(f). Are there arrangements whereby a supplier will not receive payment under the commodity import program unless he/she has certified to such information as the Agency by regulation has prescribed? — Yes.

A

8. FAA Sec. 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items?	Yes.
9. MMA Sec. 901(b). (a) Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.	Yes.
10. International Air Transport. Fair Competitive Practices Act, 1974 If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available?	N/A

B. OTHER RESTRICTIONS

1. FAA Sec. 620(h). Do arrangements preclude promoting or assisting the foreign aid projects or activities of Communist-Bloc countries, contrary to the best interests of the United States?	Yes.
2. FAA Sec. 636(i). Is financing prohibited from use, without waiver, for purchase, long-term lease, exchange, or guaranty of sale of motor vehicle manufactured outside the United States?	Yes.
3. Will arrangement preclude use of financing: a. Approp. Sec. 525; FAA Sec. 104(f) to pay for performance of abortions or involuntary sterilizations or to motivate or coerce persons to practice abortions? to pay for performance of involuntary sterilizations as method of family planning or to coerce or provide any financial incentive to any person to practice sterilizations?	Yes
b. FAA Sec. 620(g). to compensate owners for expropriated nationalized property?	Yes.
c. FAA Sec. 660. to finance police training or other law enforcement assistance, except for narcotics programs?	Yes.
d. FAA Sec. 662. for CIA activities?	Yes.

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e. App. Sec. 503. to pay pensions, etc. for military personnel? — Yes.

f. App. Sec. 505 to pay U.N. assessments? — Yes.

g. App. Sec. 506. to carry out provisio of FAA Sections 209(d) (transfer to multilateral organization for lending)? — N/A

h. FY 1982 Appropriation Act, Sec. 510. the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields? — Yes

i. FY 1982 Appropriation Act, Sec. 511. for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? — es.

j. FY 1982 Appropriation Act, Sec. 515. for publicity or propaganda purposes within U.S. not authorized by Congress? — Yes

5C(1) - COUNTRY CHECKLIST

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

A. <u>GENERAL CRITERIA FOR COUNTRY ELIGIBILITY</u>

1. <u>FAA Sec. 481</u>. Has it been determined that the government of the recipient country has failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?

   No

2. <u>FAA Sec. 620(c)</u>. If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?

   No

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3. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?	No
4. FAA Sec. 532(c), 620(a), 620(f), 620D; FY 1982 Appropriation Act Secs. 512 and 513. Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Vietnam, Syria, Libya, Iraq, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver?	No
5. ISDCA of 1981 Secs. 724, 727 and 730. For specific restrictions on assistance to Nicaragua, see Sec. 724 of the ISDCA of 1981. For specific restrictions on assistance to El Salvador, see Secs. 727 and 730 of the ISDCA of 1981.	N.A.
6. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property?	No

7. FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC?

8. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters? — NO

(b) If so, has any deduction required by the Fishermen's Protective Act been made? — No

9. FAA Sec. 620(q); FY 1982 Appropriation Act Sec. 517. (a) Has the government of the recipient country been in default for more ~~than~~ six months on interest or principal of any AID loan to the country? — At present Sudan is not in arrears on loan repayments to A.I.D. (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill appropriates funds? — No

10. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking into — Yes

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

11. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

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

12. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)

Sudan was not considered to have been in arrears on payments of its U.N. obligations at the time that the A.I.D. administration approved the FY 83 OYB.

13. FAA Sec. 620A; FY 1982 Appropriation Act Sec. 520. Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism? Has the country aided or

No

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abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime? — No

14. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? — No

15. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) — No

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

Sudan was represented at this meeting and to date has not disassociated itself with the communique in question. This action on the part of Sudan has been considered by the U.S. Government (see Taking into account memo dated January 26, 1983) in approving the Agency's FY 83 OYB.

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

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

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria.

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

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest? No

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

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

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

This activity provides assistance using FY 83 ESF to Sudan

Initial Environmental Examination or Categorical Exclusion

Country: Sudan

Title: Sudan Commodity Import Program Grant

Funding: FY 83 (ESF Account) $17.25 million

Period of Assistance: The terminal date for requesting disbursement authorization is 12 months from the date of the Grant Agreement. The terminal disbursement date is 24 months from the date Conditions Precedent were met.

IEE Prepared by: Stephen J. Walworth, AFR/EA

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

Concurrence:

Bernard Chapnick
Dep. Director, AFR/EA

Bureau Environmental Officer's Decision:

Approved: Bessie L. Boyd

Disapproved: ______________

Date: 8/18/83

Clearance: AFR/PD/EAP: AReed
GC/AFR: DRobertson

Examination of Nature, Scope and Magnitude of Environment Impacts

I. Description of the Project

The project proposes to provide a second amendment of $17.25 million to an original commodity import grant of $30 million and a first amendment of $18 million to the Government of Sudan (GOS) from the Economic Support Fund on standard AID terms. The principal objective of this amendment is the same as the original grant and first amendment, to provide Sudan with urgently needed imports of the highest economic importance and political sensitivity, thereby permitting the GOS to undertake an array of difficult policy reforms. A second objective is to increase support to the private sector where feasible.

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

II. Recommended Environmental Action

In accordance with AID Regulation 16, Section 216.2(c)(2)(ix), assistance under a Commodity Import Program is eligible for categorical exclusion from environmental procedures when, "prior to approval, AID does not have knowledge, at the time the assistance is authorized, nor control, during implementation, of the commodities or their use in the host country."

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

LH

AID 1120-1 (8-66) PAAD	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT AMENDMENT	1. PAAD NO. Grant No. 650-K-604 2. COUNTRY Democratic Republic of the Sudan 3. CATEGORY Commodity Financing - Standard Procedure 605-K-604 4. DATE

5. TO: Administrator, A.I.D.	6. OYB CHANGE NO. N/A
7. FROM: AA/AFR, Alexander R. Love (Acting)	8. OYB INCREASE None TO BE TAKEN FROM: N/A
9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 18,000,000	10. APPROPRIATION - ALLOTMENT ESF

11. TYPE FUNDING	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD	14. TRANSACTION ELIGIBILITY DATE
☐ LOAN ☒ GRANT	☐ INFORMAL ☒ FORMAL ☐ NONE	Jun 15, 1983-Oct 15, 1984	April 15, 1983

15. COMMODITIES FINANCED

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

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

16. PERMITTED SOURCE		17. ESTIMATED SOURCE	
U.S. only:		U.S.:	$18,000,0000
Limited F.W.:	$18,000,000 (Code 941)	Industrialized Countries:	
Free World:		Local:	
Cash:		Other:	

18. SUMMARY DESCRIPTION

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

The proposed grant will provide foreign exchange for essential public and private sector imports and related technical services to be agreed upon by the GOS and A.I.D.

A grant to the Government of the Democratic Republic of the Sudan is hereby authorized in the amount of $18,000,000 for financing the items described above, subject to the following terms and conditions:

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

2. Up to $1,000,000 of the Grant may be used to finance technical assistance activities directly related to commodity purchases and PAAD covenants, which assistance may occur both prior and subsequent to the procurement of such commodities according to A.I.D. CIP standard regulations.

19. CLEARANCES	DATE	20. ACTION	
AA/AFR:A.R. Love (Act)	5/27/83	☒ APPROVED ☐ DISAPPROVED	
M/FM:WMcKeel	5-6-83	AUTHORIZED SIGNATURE	DATE June 9, 1983
GC:JMullen	6-6	M. Peter McPherson	
AA/PPC:JBolton	6/7/83	Administrator	
		TITLE	

CLASSIFICATION:

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

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

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

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

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SUDAN

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

AMENDMENT

COMMODITY IMPORT PROGRAM FY 1983

650-K-604

USAID/Sudan

May 1983

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SUDAN

COMMODITY IMPORT PROGRAM FY 1983

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SUDAN

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

Summary and Recommendations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Now, for the third successive year, Sudan is faced with a trade deficit of over $1.1 billion and a current account deficit of some $800 million. Even after allowing for a continued high level of capital inflows from past loans and the successful renogotiation of current debt payments, a large financing gap remains. Sudan has virtually no foreign exchange. Some $2.4 billion of Sudan's current $8 billion foreign debt is in arrears, and the country's access to commercial sources of import credit is nil.

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

The USG has been providing balance of payments support to the Sudan through PL 480 Title I/III and ESF-financed commodity import programs since resumption of the AID program in FY 1978. The justification for such substantial and continued U.S. support, including the current ESF grant amendment proposed herein for FY 1983, is the belief that Sudan can attain a sustainable balance of payments position within the next several years provided that it continues to pursue vigorously its current economic stabilization and reform efforts. For this year, reform efforts will include adherence to the provisions of the latest IMF Standby Arrangement and the formulation of a rational medium-term public investment and reform program. It also will require that Sudan strengthen and broaden its capacity to manage productive enterprises efficiently and in a manner that will result in greater financial returns and marketable surpluses.

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

The commodities to be financed under the FY 1983 CIP grant amendment will be largely similar to those financed under the original FY 83 CIP and previous ESF grants in FY 1980, 1981 and 1982, which included some petroleum given Sudan's total current lack of foreign exchange and the country's urgent need to continue production in its modern irrigated agricultural sector. Also, technical assistance for delivery services will be provided where needed in accordance with present AID regulations.

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

General Considerations

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

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

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

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

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

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

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

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

1. The GOS/IMF Three Year Stabilization Program

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

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

2. The 1982 Stand-By Program

The failure of the Sudan's economy to respond more positively and immediately to the reform measures initiated under the three-year stabilization program was due in part to unfavorable external developments, such as higher world prices for petroleum and sugar imports, and political tensions in neighboring countries, giving rise to additional security measures and inflows of refugees which necessitated increased government expenditures. But there were also prolonged delays in the implementation of the reforms. At the core of the three-year program was an anticipated large expansion of cotton production. This was to have resulted in a substantial increase in export volume, which would have improved the balance of payments, strengthened the budget, and helped in restraining credit expansion. However, delay in removing distortions in the cost structure of cotton production relative to other crops, along with labor shortages and management deficiencies, contributed to reduced acreage and declining yields. As a result, cotton production and exports in 1981 fell to their lowest levels in 25 years and were barely one-half of the levels reached four years ago. In the case of sugar, the three-year program had assumed a virtual cessation of sugar imports with the projected coming on stream of three

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new sugar mills in 1979/80. Problems with the completion of the mills prevented the expected increases in domestic output and necessitated a continued high volume of sugar imports. This was compounded by delays in the adjustment of the exchange rate and by domestic price policies which sought to insulate the prices of basic consumer commodities such as sugar from international price changes. Increases in import prices were not always passed on to the consumer, and this resulted in either an outright subsidy or a deficit in the account of the importing public agency which was financed by credit extension from the central bank.

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

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

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in agriculture, along with proper maintenance of physical capital and timely provision of management services, and attempted to bring about substantial reductions in both the overall and bank-financed deficits (as ratios to GDP) of the government budget; more effective control over the expansion of domestic credit in order to bring down the underlying rate of inflation from 35-40 percent at present to about 25 percent; and maintenance of an exchange system that would encourage remittances and exports. While it was expected that the deficit in the current account of the balance of payments would continue to be large, the Stand-By Program aimed to contain the size of the deficit through demand restraint and the expansion of non-cotton exports.

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

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

C. The 1983 Standby Agreement

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

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

(a) to ensure the attainment of the monetary target a limitation on the domestic assets of the banking system from Oct. 31, 1982 to Dec. 31, 1983 through the imposition of ceiling of 26% on net domestic assets on the banking system and a sub-ceiling of only 9% on net claims on the Government;

(b) to alleviate the external payments situation pricing policies and licensing mechanisms aimed at import policy targets, which facilitate essential consumer and producer imports and import substitution;

(c) a flexible exchange rate policy incorporating periodic reviews of the US dollar rate, inflationary pressures in Sudan, the relative profitability of major exports and import substitute activities, and balance of payments developments, and studies on linking the Sudanese pound to a currency basket;

(d) to provide for the proper allocation of production costs among the various crops in the irrigated schemes a minimum level of collection from land and water charges by May 31, 1983;

(e) progress on and performance under debt restructuring, specifically progress on avoiding arrears of the most recent debt rescheduling and on payments and transfers for current international transactions otner than external debt service will be reviewed by May 31, 1983;

(f) GOS refrains from concluding bilateral payments agreements inconsistent with the economic recovery program ;

(g) elimination of subsidies on key public sector imports by adjusting prices according to changes in international prices during the Standby period; and

(h) GOS refrains from any new nonconcessional public or publicly guaranteed foreign borrowing with a maturity range of over one year and up to and including ten years.

D. <u>Other Donor Assistance</u>

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

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

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

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

E. U.S. Contributions to Date

The U.S. has been providing balance of payments support to the Sudan since resumption of the AID program in FY 1978. Concessional sales of PL 480 Title I wheat have averaged $10 million annually since FY 1978, and were augmented in FY 1980 with the signing of a five-year, $100 million Title III program. Combined Title I/III wheat imports for FY 1983 are programmed at $45.5 million.

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

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III. Rationale for Continued U.S. Assistance

The justification for continued U.S. balance of payments support for the Sudan is predicated on the belief that the country can attain a sustainable balance of payments position within the next several years provided that it continues to pursue vigorously its current economic stabilization and recovery efforts. For 1983, this includes adherence to the provisions of the IMF Standby Arrangement, specifically the reduction of government expenditures and borrowing, the establishment and maintenance of a more realistic exchange rate, and the alignment of administered prices and interest rates at realistic, market-determined levels. It also includes the formulation and implementation of a rational medium-term public investment program that will lay a basis for longer-term growth, such as the three-year program being developed by the GOS in conjunction with the IBRD.

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

A. Execute to the best of its ability the economic stabilization program associated with its Stand-By Agreement with the IMF under which the government will reduce government expenditures and borrowing, establish and maintain more realistic exchange rates, and align prices and interest rates to realistic market rates.

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

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

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

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

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

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

In order to encourage GOS follow-through with regard to the foregoing, the USAID Mission is incorporating in the original CIP agreement and will incorporate in this amendment, appropriate linkages between the allocation and disbursement of ESF funds and GOS progress toward improved management performance.

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

1. US Interests and Overall Assistance Strategy

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

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

2. Providing an incentive for improved economic management and reform

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

3. Contributing to private sector participation in development

The current shortage of foreign exchange in the Sudan is acutely felt by private sector firms who either obtain needed foreign exchange from unofficial sources at high cost or cut back on their operations. In either case, there is a net cost to the economy. It is estimated that privately-owned industrial firms in the Sudan are presently operating at 25-30 percent of capacity, primarily because of the lack of raw materials and spare parts. Although the initial tranche of the FY 1983 CIP concentrates on the urgent imports needed to keep the economy going in sensitive sectors which are currently administered by the public sector, it is planned that this and future tranches of this CIP as well as any future year programs will continue U.S. emphasis on assisting in the rebuilding of and support to the Sudanese private sector.

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

4. GOS budget support

Funds will be deposited into a special account at the Bank of Sudan, and their use jointly determined by AID and the GOS. Priority in the allocation of CIP counterpart funds will be given to AID and other donor-assisted projects in the traditional rainfed farming areas of Sudan, for agricultural research, production and marketing projects, railway rehabilitation, road construction, and river transport development. An appropriate amount, as agreed by AID and the GOS, will also be channelled through the US/GOS Trust Fund established in FY 1981, to cover some of the program and administrative costs of the US Mission in the Sudan. The balance of the counterpart funds generated under the FY 1983 CIP will be used for general budget support.

The GOS' need for budget support is clearly evident from a review of the government's FY 1981 and FY 1982 budgets. Against total expenditures of Lsd 1.3 billion in FY 1981, for example, the budget shows a deficit of Lsd 545 million, or over 40 percent. More recent data indicate that the actual ratio may be closer to 50 percent. By comparison development expenditures in FY 1982 were estimated at LS 371 million. Foreign borrowings to finance budgetary expenditures were around LS 400 million. In effect, total GOS expenditures for development are now being financed by foreign borrowing.

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

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

A pervasive lack of spare parts is generally considered to be one of the key constraints in the Sudan to the increased production and marketing of goods in both industry and agriculture. Shortages of replacement machinery and equipment, industrial raw materials, agricultural inputs and transport vehicles are also major obstacles. As indicated in Section VII-A below, a substantial share of the funds provided for the FY 1983 CIP will be used to help overcome such shortages. AID is also trying to help increase agricultural output in the Sudan through project-financed technical assistance deliveries. The agricultural inputs and equipment brought in under the CIP, combined with the use of CIP-generated counterpart for local cost support, will effectively complement and considerably strengthen AID's technical assistance to the agricultural sector.

CIP imports of chemicals and tin plate will help to sustain labor-intensive local manufacturing industries. Tin plate is used mainly in food processing industries.

IV. Economic Analysis

A. Balance of Payments and Trade

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

As indicated in Table 1, the total value of the Sudan's exports has hardly changed in recent years, rising from $551 million in 1977/78 to a projected $592 million in 1982. The primary reason for the lagging export trade is the decline of cotton imports. In 1977/78, cotton exports were valued at $296 million and accounted for 54 percent of total exports. By 1981, cotton exports had dropped to $158 million, representing only 32 percent of total exports. The poor performance of cotton in recent years has been attributed primarily to the lack of adequate price incentives for production and export, and a burdensome system for allocating production costs on the larger irrigated schemes, whereby cotton bore a

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disproportionate share of land preparation charges and fees. These distortions have now been corrected and a modest increase in cotton exports is projected for 1982. In fact the overall trade gap is expected to narrow slightly in the years ahead, decreasing from $1,127 million in 1981 to $1,114 million in 1982. In addition to a projected 14 percent increase in cotton exports, key factors include a 23 percent increase in non-cotton exports coupled with a comparatively modest 15 percent increase in the value of petroleum imports and a 20 percent drop in sugar imports.

Table 2 below contains a projection of the Sudan's balance of payments through 1990, taken from the IBRD's memorandum report on the Sudan's economy, published in October 1979. As indicated in the table, the Sudan is expected to continue to experience a widening trade gap and sizeable recurrent account deficits through 1990. Further, despite projected increases in private remittances and official grants and loans, the country will continue to face recurring financial gaps and arrearages on past loans throughout the decade.

A more recently completed IBRD analysis, published in February 1982 includes an "optimistic case" projection which shows a closing of the current account gap by 1990. However, this would require more rapid export expansion and slower import growth than is generally expected, and greatly increased private remittances. The "optimistic case" projection also incorporates substantial debt relief through 1985/86 and would require that commitments of donor assistance to the Sudan be more than doubled, from $850-$900 million annually in the early 1980's to $1.8 to $1.9 billion annually from 1985/86 through to the end of the decade.

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

Because of run-down irrigation facilities, the lack of foreign exchange for agricultural inputs, inadequate transport, storage and other infrastructural facilities, and price distortions, prospects for rapid increases in exports over the next several years are dim. The government is currently giving priority in the allocation of developmental resources to revitalization of

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Table 1

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

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

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

Table 2: Balance of Payments Projections, 1982-1990

($ Million)

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

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

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

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

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

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

1/ Converted from data in Sudanese pounds at the following exchange rates: for 1977/78, LSd 1.00 = US$2.87; for 1978/79, LSd 1.00 = US$2.50; for 1979/80, LSd 1.00 = US$2.50, July-September 1979; and for October 1979-September 1980, LSd 1.00 = US$2.00 October 1980-June 1981, LSd 1 - US$1.25 or US$2.00 depending on the commodity; from June 1981 to September 1981, LSd 1 = US$1.25; and from October 1981 to December 1981, LSd = US$1.18.

2/ Exclusive of petroleum re-exports.

the agricultural sector, which currently accounts for some 95 percent of the Sudan's exports. It could be several years, however, before this emphasis pays off in significantly increased exports.

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

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

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

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

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

B. Services and Capital Accounts

In addition to its sizeable and growing trade deficits, the Sudan has also regularly been registering annual deficits in its services account. Though modest to date, these

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

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

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

Sources: Bank of Sudan and staff estimates.

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

Table 5. Sudan: Origin of Imports, 1976/77-1980/81

(In millions of U.S. dollars)

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

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

deficits could increase appreciably within the next several years because of higher interest payments, unless the government is able to continue negotiating substantial debt relief. As indicated in Table 1 above, interest payments projected for 1982 would represent a three-fold increase over the level paid just four years ago.

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

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

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

C. Financing Gaps

Even with considerable help from the donors, it should be noted per Tables 1 and 2 above that the Sudan continues to be faced annually with financing gaps. Halfway through FY 1981 (which ran from July 1980 to June 1981), a gap of $450 million was still being projected for the year. With one half of (Sudanese) FY 1982 gone, the GOS was still projecting a gap of some $340 million for the year. Recent calculations by the IMF and the Bank of Sudan indicate a $566 million financing gap in CY 1982. The Consultative Group meeting of January 1983 produced extraordinary non-project assistance of $107 million such that an unfinanced external BOP gap of $752 million remained for consideration at the Paris Club debt rescheduling meeting in February 1983. At that meeting 100% of all debt and arrears falling due in calender year 1983 was liberally rescheduled such that the IMF 1983 Standby was allowed to be undertaken.

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

(In millions of Sudanese pounds)

	1975/76	1976/77	1977/78	1978/79	Prov. Actual 1979/80	Budget 1980/81	Revised Budget 1980/81 1/	Prov. Actual July-Dec. 1980
Grants	...	...	3.7	7.2	42.0	60.0	79.0	57.2
Commodity	...	...	...	...	30.5	...	38.0 2/	...
Project	...	...	...	...	11.5	...	41.0 3/	...
Loans	...	...	46.0	162.0	266.0	399.8	321.0	118.6
Cash	...	...	...	...	128.5)	109.9)	144.0 2/)	109.2
Commodity	...	...	...	...	29.0)	)	)	
Project	...	...	...	...	108.5	209.9	177.0 3/	9.4
Total	84.5	53.5	49.7	169.2	308.0	459.8	400.0	175.8
Less: Repayments	-19.7	-19.7	-23.3	-22.8	-70.4	-37.2	-37.0	...
Equals: Foreign financing	64.8	33.8	26.4	146.4	237.6	422.6	363.0 4/	...

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

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

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

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

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

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

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

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

(In millions of U.S. dollars)

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

Source: Data provided by the Sudanese authorities.

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

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

3/ As reported by Bank of Sudan.

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

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

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

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

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

	1976	1977	1978	1979	1980
Suppliers' credits					
Amount (US$ millions)	53.3	89.2	35.9	--	--
Interest (per cent)	7.1	5.1	7.8	--	--
Maturity (years)	11.1	13.1	15.0	--	--
Grace period (years)	3.5	3.5	3.9	--	--
Grant element (per cent)	13.2	25.2	11.8	--	--
Financial institutions					
Amount (US$ millions)	160.9	13.8	40.5	51.6	37.0
Interest (per cent)	8.3	8.8	8.7	5.9	8.0
Maturity (years)	10.2	8.8	11.2	14.8	6.0
Grace period (years)	4.5	2.9	6.0	3.4	2.5
Grant element (per cent)	7.1	4.3	5.3	22.3	5.9
International organizations					
Amount (US$ million)	83.9	86.2	140.6	266.2	281.9
Interest (per cent)	3.1	3.3	1.3	1.7	0.9
Maturity (years)	28.6	27.1	34.1	29.3	40.3
Grace period (years)	7.3	6.2	7.8	6.2	8.6
Grant element (per cent)	52.8	49.0	66.7	59.3	74.4
Government loans					
Amount (US$ millions)	310.0	379.6	504.0	645.9	79.5
Interest (per cent)	3.4	5.2	4.1	7.9	2.3
Maturity (years)	21.5	14.0	22.3	15.2	19.7
Grace period (years)	6.4	3.0	6.9	5.6	5.2
Grant element (per cent)	43.6	27.1	41.5	13.8	46.3
Total					
Amount (US$ millions)	608.1	568.8	721.0	963.7	398.4
Interest (per cent)	5.0	5.0	4.0	6.1	1.8
Maturity (years)	18.6	15.7	23.6	19.1	33.0
Grace period (years)	5.8	3.6	6.9	5.6	7.3
Grant element (per cent)	32.6	29.6	42.9	26.8	62.5

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

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

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D. Reserves Position and Net Foreign Assets

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

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

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

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

E. External Debt and Annual Services Payments

The Sudan's total outstanding external debt amounted to $3.7 billion at the end of 1981, having nearly doubled since 1976. As shown in Table 9, about $1.9 billion of the total is owed to bilateral creditors, primarily Saudi Arabia, Kuwait, and the United Arab Emirates. Approximately $1.1 billion is owed to multilateral institutions such as the IBRD/IDA, the Arab Fund for Economic and Social Development and the Arab African Bank. The remaining $0.7 billion is owed to various private commercial banks and other financial institutions, and to suppliers.

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

F. Payments in Arrears

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

V. Budget Support Requirements

A. Overall Deficit

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

B. Development Expenditures

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

VI. Market Analysis

A. U.S. Share of Total Imports

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

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

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

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

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

The official exchange rate in the Sudan is presently U.S. $1.00= LSd 1.2961. The unofficial (market) rate is approximately US $1.00= LSd 1.90.

B. <u>CIP Pipeline</u>

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

(In millions of U.S. dollars)

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

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

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

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

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

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

B. Implementation Procedures

1. GOS

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

2. A.I.D.

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

C. Procurement and Financing Procedures

Procurement and financing procedures under this CIP will be those set forth in A.I.D. Regulation 1. A review of GOS and Sudan private sector purchasing practices indicates that procurement will include a mixture of formal competitive-bidding, negotiated solicitations and proprietary procurement. The financing of procurement will be through the use of Bank Letters of Commitment and/or Direct Letters of Commitments.

D. Eligible Commodities

Commodities eligible under the A.I.D. Commodity Eligibility Listing (1978 as revised) will be eligible for A.I.D. financing and will be included in all Commodity Procurement Instructions. However, commodities actually financed will be determined largely by the allocations made by the Economic Group and transmitted to A.I.D. by the Ministry of Finance and National Planning. As noted above, the Ministry has already provided an indicative list of allocations for the FY 83 Commodity Import Program .

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

E. Procurement Restrictions/Limitations

This grant will be restricted to Code 941 sources and origins for commodities and related incidential services. U.S. flag vessel service to Sudan is supplied by two U S. vessel operators, one on an inducement basis and the other providing monthly Lash and Charter transportation. Because of the relatively small U.S. vessel participation in U.S. to Sudan ocean transportation, U-S. vessels may not always be available.

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

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

F. Commodity Eligibility Date

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

G. Terminal Disbursement Date

The grant's Terminal Disbursement Date (TDD) will be 24 months from the date Conditions Precedent are met. Recognizing an urgent need to provide balance of payments support, efforts will be made by the Sudanese and USAID authorities to channel A.I.D. funding into short leadtime, large value procurements. The bulk of the grant will be committed to individual purchases in the first 12 months.

H. Port Clearance and Inland Transportation

Sudan has a critical problem in both port clearance and inland transportation of all but the highest priority imports. This problem will be alleviated but not fully resolved with the recent opening of the highway to Khartoum. The past port situation is partially the result of a lack of cargo handling equipment and reliance on railroad freight cars both within the port and for inland transportation.

A.I.D. will apply the standard 90 days port clearance and the 12 months utilization period requirements. These, with constant follow-up and pressure on both buyers and transportation officials, should serve to expedite the movement of A.I.D. financed cargo. At present, the formerly large backlog of GOS public sector imports awaiting inland transportation in holding areas outside the port has been reduced significantly by the new Port Sudan to Khartoum highway.

I. Arrival Accounting and End-use Monitoring

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

There has been a need under the previous CIP grants to augment the GOS monitoring capabilities. The public sector allottees under the earlier CIP's have been greatly interested in receiving and using their A.I.D. imports in the most efficient and timely manner possible. As the volume of arriving cargo increases, there may be a need to establish a monitoring unit outside the GOS. In this respect, USAID has held discussions with two foreign freight forwarders active in the Sudan. One of these, an American corporation joint venture with a Sudanese freight forwarder has indicated that if the need arises, an agreement funded in local currency can be established that will suit the needs of A.I.D. in the areas of arrival accounting and port clearances.

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

J. Import Controls

1. Private Sector

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

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

2. Import License Systems

There are three licensing systems currently operating.

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

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

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

K. GOS Allocation and Control of CIP Funds

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

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

L. Tentative Implementation Schedule

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

July 1983	First Shipment Arrives Sudan
September 1983	Grant Fully Committed (L/COMS)
February 1984	Final Shipment
May 1984	Final Disbursement

VIII. Other Considerations

A. Impact of U.S. Balance of Payments

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

This Commodity Import Program should help to increase the market share of U.S. suppliers. Trends in Sudanese trade with the U.S. and other major suppliers are presented above in Table 5. At present the U.S. accounts for about 10 percent of the Sudan's total imports.

B. Counterpart Generations

Under GOS budgetary/financial procedures, counterpart funds will be generated by both public and private sector importers, although only the private sector generations are actually made available for joint programming. The Bank of Sudan will establish a separate account for the counterpart funds generated and importers will deposit their counterpart funds when the foreign exchange is disbursed. Use of the counterpart funds will be limited to specific development activities, Trust Fund expenses, and CIP management support activities as determined by consultation between USAID and the GOS.

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

C. Trust Account Deposit

The Government will make deposits of local currency to a Trust Account in the name of the U.S. Disbursing Officer upon request of

A.I.D. and subject to approval by the Government. Deposits in this Trust Account will be in local currency and equal to 10 percent of the value of this tranche of the CIP grant. Disbursements from the Trust Account may be made by the Government of the United States to cover the program and administrative costs of the United States Assistance Program, and administrative costs of other elements of the U.S. Mission in the Sudan.

D. Internal Financial Effects

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

E. Use of U.S. Government Excess Property

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

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

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

There were two small Foreign Credit Insurance Association (FCIA) loans completed in 1980, based upon long standing past acceptances. However, there has been nothing new considered for 1981. The CIP grant for FY 1983 will complement, not conflict, with Ex-Im Bank activities.

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

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

Before 1979, OPIC had issued four insurance policies covering $12.5

million in investments in the Sudan. During the period 1979-1981, additional OPIC coverage of $20 million was issued for activities in transportation.

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

IX. Recommendation

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

A. Terms and Conditions

1. Conditions Precedent to Grant Disbursement.

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

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

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

2. Terms and Covenants of the Grant.

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

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

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

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

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

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

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

--Commodities procured under this grant may not be used in the production of palm oil or citrus products.

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

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

B. Authorities

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

5C(1) - COUNTRY CHECKLIST

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

A. GENERAL CRITERIA FOR COUNTRY ELIGIBLITY

1. FAA Sec. 481. Has it been determined that the government of the recipient country has failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully? — No

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

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

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

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

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

7. FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC?

8. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters? — No

(b) If so, has any deduction required by the Fishermen's Protective Act been made? — No

9. FAA Sec. 620(q); FY 1982 Appropriation Act Sec. 517. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country? ... — At present Sudan is not in arrears on loan repayments to A.I.D.

(b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill appropriates funds? — No

10. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking into — Yes

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

11. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

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

12. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)

been in arrears on payments of its U.N. obligations at the tim that the A.I.D. administration approved the FY 82 OYB.

13. FAA Sec. 620A; FY 1982 Appropriation Act Sec. 520. Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism? Has the country aided or

No

abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime? — No

14. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? — No

15. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) — No

16. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Session of the General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed — Sudan was represented at this meeting and to date has not disassociated itself with the communique in question. This action on the part of Sudan has been considered by the U.S. Government (see Taking into account memo dated January 15, 1982) in approvin the Agency's FY 82 OYB.

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

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

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria.

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

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest? No

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

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

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

This activity provides assistance using FY 83 ESF to Sudan.

Initial Environmental Examination
or Categorical Exclusion

Country: Sudan

Title: Sudan Commodity Import Program Grant

Funding: FY 83 (ESF Account) $18 million

Period of Assistance: The terminal date for requesting disbursement authorization is 12 months from the date of the Grant Agreement. The terminal disbursement date is 24 months from the date Conditions Precedent were met.

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

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

Concurrence:

Edward J. Spriggs
Director, AFR/EA

Bureau Environmental Officer's Decision:

Approved: ____________

Disapproved: ____________

Date: ____________

Clearance
AFR/PD/EAP:AReed ______
GC/AFR:DRobertson ______

Examination of Nature, Scope and Magnitude of Environment Impacts

I. Description of the Project

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

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

II. Recommended Environmental Action

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

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