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CLASSIFICATION:

DDBCB 295

AID 1120-1

AGENCY FOR INTERNATIONAL DEVELOPMENT

PAAD

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO.

Grant No. 650-K-608B

2. COUNTRY

Democratic Republic of the Sudan

3. CATEGORY

Commodity Financing - Standard Procedure

4. DATE

September 29, 1985

5. TO: Alexander Ray Love  
Acting AA/AFR

6. DVB CHANGE NO.

N/A

7. FROM: George Rublee  
Acting Director, AFR/PD

8. DVB INCREASE

None

TO BE TAKEN FROM:  
ESF

9. APPROVAL REQUESTED FOR COMMITMENT OR \$ 34,000,000

10. APPROPRIATION

ESF

11. TYPE FUNDING

LOAN  GRANT

12. LOCAL CURRENCY ARRANGEMENT

INFORMAL  FORMAL  NONE

13. ESTIMATED DELIVERY PERIOD

Sept. 1985-June '87

14. TRANSACTION ELIGIBILITY DATE

August 23, 1985

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 - TM15:64 January 1, 1983)

16. PERMITTED SOURCE

U.S. only:

Limited F.W.: \$34,000,000

Free World:

Cash:

17. ESTIMATED SOURCE

U.S.: \$34,000,000

Industrialized Countries:

Local:

Other:

18. SUMMARY DESCRIPTION

This amendment approves for commitment the \$34 million authorized under the PAAD dated August 23, 1985.

19. CLEARANCES

GC/AFR:MAKleinjan, AK  
M/FM:ES Owens  
AFR/EA:SMintz (Draft)  
AFR/DP:EDonohogue

DATE

9/29/85  
9/29/85  
9/29/85

20. ACTION

APPROVED

DISAPPROVED

Alexander R. Love, Acting AA/AFR

CLASSIFICATION:

CLASSIFICATION:

AID 1120-1	AGENCY FOR INTERNATIONAL DEVELOPMENT	1. PAAD NO.	Grant No. 650-K-608B
		2. COUNTRY	Democratic Republic of the Sudan
PAAD	PROGRAM ASSISTANCE APPROVAL DOCUMENT	3. CATEGORY	Commodity Financing - Standard Procedure
		4. DATE	September 29, 1985
5. TO:	Alexander Ray Love Acting AA/AFR	6. DVB CHANGE NO.	N/A
7. FROM:	George Rublee Acting Director, AFR/PA	8. DVB INCREASE	None
9. APPROVAL REQUESTED FOR COMMITMENT OR	\$ 34,000,000	10. APPROPRIATION -	ESF
11. TYPE FUNDING	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD	14. TRANSACTION ELIGIBILITY DATE
<input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT	<input type="checkbox"/> INFORMAL <input type="checkbox"/> FORMAL <input checked="" type="checkbox"/> NONE	Sept. 1985-June '87	August 23, 1985
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 - TM15:64 January 1, 1983)

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only:	U.S.: \$34,000,000
Limited F.W.: \$34,000,000	Industrialized Countries:
Free World:	Local:
Cash:	Other:
18. SUMMARY DESCRIPTION	

This amendment approves for commitment the \$34 million authorized under the PAAD dated August 23, 1985.

19. CLEARANCES	DATE	20. ACTION
GC/AFR:MAKleinjan	Sept 29, 1985	<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
M/EM:ES Owens		
AFR/FA:SMintz (Draft)	Sept 29, 1985	
AFR/DP:EDonohogue	Sept 29, 1985	
AUTHORIZED SIGNATURE		DATE
Alexander R. Love, Acting AA/AFR		
TITLE		

CLASSIFICATION:

CLASSIFICATION:

AID 1120-1  PAAD	AGENCY FOR INTERNATIONAL DEVELOPMENT  PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO. Grant No. 650-K-6098 2. COUNTRY Democratic Republic of the Sudan 3. CATEGORY Commodity Financing-Standard Procedure 4. DATE August 20, 1985
5. TO: M. Peter McPherson Administrator	6. OYB CHANGE NO. Not applicable	
7. FROM: Alexander R. Love AA/AFR (Acting)	8. OYB INCREASE None TO BE TAKEN FROM: ESF	
9. APPROVAL REQUESTED FOR COMMITMENT OR \$ 37,000,000	10. APPROPRIATION - ESF	
11. TYPE FUNDING <input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT <input type="checkbox"/> INFORMAL <input checked="" type="checkbox"/> FORMAL <input type="checkbox"/> NONE	12. LOCAL CURRENCY ARRANGEMENT <input type="checkbox"/> NONE	13. ESTIMATED DELIVERY PERIOD Sep 1985-June 1987
14. TRANSACTIONS ELIGIBILITY DATE August 1, 1985		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 - TM15:64 January 1, 1983)

16. PERMITTED SOURCE U.S. only: Limited F.W.: \$37,000,000 Free World: Cash:	17. ESTIMATED SOURCE U.S.: \$37,000,000 Industrialized Countries: Local: Other:
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18. SUMMARY DESCRIPTION

This grant represents U.S. assistance 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 \$71 million program, which is justified in the PAAD, is hereby approved. \$37 million of this amount is hereby approved for commitment, and commitment of the remaining \$34 million is subject to the availability of funds, in accordance with the AID OYB/allotment process and amendment of the PAAD facesheet. Authority is hereby delegated to AA/AFR, with M/FM clearance, to amend the PAAD facesheet adding the remaining \$34 million upon availability of funds. The grant is subject to the following terms and conditions:

19. CLEARANCES REG/DP AFR/DP: HJohnson REG/GC GC/AFR: TBooke AA/PPC: RDerham U/EM: CChristensen M/SER/COM: PHagan (Draft) GC: HERY M/AAA/SER: JOwens DAA/AFR: ELSaiera	20. ACTION <input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED AUTHORIZED SIGNATURE: M. Peter McPherson DATE: Aug 20, 1985 TITLE: Administrator
--	---

CLASSIFICATION:

1. Procurement will be restricted to A.I.D. Geographic Code 941 sources.
2. Funds under the Grant may be used to guarantee a short-term commercial bank loan of up to \$50 million to the GOS to enable Sudan to deal with some of its immediate financial requirements, if required as part of a comprehensive economic reform program.
3. Up to \$3 million of the Grant may be used to finance technical services directly related to commodity purchases, which assistance may occur both prior and subsequent to the procurement of such commodities, according to A.I.D. CIP standard regulations. Technical services may include, but not be limited to: defining scope of work for each procurement; preparation of drawings defining required commodities; reviewing designs of supplies to insure compliance with the requirements of the procurement contracts; installation or erection of A.I.D.-financed equipment of 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, except as A.I.D. may otherwise agree in writing.
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 related physical facilities without prior AID/W approval, in addition to approvals required by A.I.D. Regulation 1, except as AID/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.

**ACTION MEMORANDUM FOR THE ADMINISTRATOR**

**THRU:** AA/PPC, Richard ~~Derham~~ <sup>CRMP</sup>  
**FROM:** AA/AFR (Acting), ~~Alexander R. Love~~  
**SUBJECT:** Sudan: FY/1985 Non-Project Assistance (NPA),  
Commodity Import Program Grant, 650-K-608B

**Problem:** Your approval is required for a \$71 million amendment from ESF funds to the FY 1985 Commodity Import Program for Sudan, including approval of \$37 million for immediate obligation.

**Background:** The Action Memorandum for the original PAAD details the economic difficulties in Sudan and the international effort to support an economic stabilization and reform program in Sudan. The objective of the CIP is to assist the economic recovery of Sudan by helping the GOS overcome a serious balance of payments problem. The \$40 million which has already been approved for the FY 1985 CIP includes the second tranche of the Petroleum Initiative. The attached PAAD justifies an additional program of \$71 million of foreign exchange for other essential public and private sector imports. The attached facesheet provides for your approval of this program, including obligation of \$37 million immediately. The remaining \$34 million will be obligated for the same purpose later this fiscal year, subject to the availability of funds, by amendment of the PAAD facesheet by the AA/AFR to allow for the commitment of funds. Grant funds may also be used to provide short-term guarantees of commercial loans of up to \$50 million to the GOS to enable Sudan to deal with some of its immediate financial requirements as part of a comprehensive economic reform program.

**Discussion:** In this PAAD, USAID/Sudan has continued targeting essential imports through the CIP program for items related to social and economic stabilization. Sudan continues to face serious foreign exchange shortages, aggravated by the effects of the drought on agricultural production. In particular, the private sector has had limited access to foreign exchange. The

CIP program has been designed to address these concerns by providing critical commodities. Procurement under the CIP program will be restricted to commodities of AID Geographic Code 941 source and origin. The CIP is subject to tied-aid credit requirements. The following is an illustrative list with upper limits of value from which \$71 million in commodities may be provided under this CIP:

<u>Positive List of Commodities</u>	<u>Upper Limit of Value (\$ Million)</u>
Jute/Baling Hoops	20
Petroleum Products	40
Tallow	20
Spare Parts	8
Fertilizer, Agricultural Inputs and seeds	50
Transportation, Rehabilitation, Equipment and Parts	10
Telecommunication Equipment	6
Pharmaceuticals, Industrial Inputs and Equipment	21
Power Transmission and Distribution Systems Equipment and Related Technical Services	20
Earth Moving Equipment	<u>5</u>
Total	200 million

Sudanese local currency generated from this CIP will be programmed to support USAID's Development Assistance projects, a Regional Development Support fund, the GOS development budget, drought relief efforts, and/or other donor-financed activities. A portion of the local currency generations also will be deposited in a trust fund account to support Mission operations in Sudan.

Aside from the standard conditions precedent to initial disbursement and loan guaranty provisions, the Grant Agreement will contain eleven covenants. Principal among these, the GOS will agree to:

- pay all outstanding counterpart arrears;
- improve cotton export marketing practices so that Sudan can earn additional foreign exchange by more efficient marketing of its product;
- rationalize import procedures, especially import licensing, so that Sudan's scarce foreign exchange is used most effectively;

- incorporate parastatals so that the public sector will have to compete on more equal terms with the private sector;
- improve the National Electricity Corporation, upon which much of Sudan's productive sector depends, through better staffing, improved management practices, and reduced expenditures; and
- encourage the local private sector towards greater investment, through such means as simplification of price control mechanisms and consistency in banking, tax, and trade laws.

The commodity contracting eligibility date will be the date on which the Agreement is signed. Procurement and financing procedures under this CIP will be those set forth in AID Regulation 1, except for the procurement of technical services. Proposed tallow, baling hoops, seed, and agricultural inputs can meet the requirement of Section 203 of the International Security and Development Cooperation Act of 1981 that at least 15 percent of ESF funds made available each year for CIP be used to finance the procurement of agricultural commodities or agricultural-related products which are of U.S. origin.

The Executive Committee for Project Review (ECPR) considered this amendment on June 13, 1985, and recommended approval of \$71 million for FY 1985. The ECPR noted that the PAAD amendment was well done. The ECPR recommended that you delegate authority to the AA/AFR for approval of any substantial changes in the conditions precedent and that you delegate to the AA/AFR for redelegation to the Mission Director authority to approve any substantive changes in the covenants in the PAAD. While several activities under the CIP may be project-like, in that they relate to physical facilities or involve a technical services element greater than that normally permitted under Regulation 1, they appear to be relatively simple. The PAAD also allows use of up to \$3 million for procurement of technical services directly related to commodity procurement. These services will be procured through AID direct contracts.

#### Congressional Notification

While the CIP was included in the FY 1985 Congressional Presentation, an Advice of Program Change was submitted on July 23, 1985, notifying Congress of AID's intention to use up to \$50 million from the CIP as temporary guarantees for commercial bank loans as described above. The Congressional Notification expired without objection on August 7, 1985.

#### IEE Determination

The Africa Bureau Environmental Officer has concurred with the Initial Environmental Examination which determines that this activity qualifies for a categorical exclusion from environmental impact studies.

Program Monitors

The USAID Deputy Director will be the overall coordinator for the CIP, responsible for monitoring the performance of the four USAID offices which share CIP implementation responsibilities: Commodity Management, Controller, Economic and Policy Program, and Project Operations. The Africa Bureau projects officer responsible for the program is Timm Harris, AFR/PD/EAP. The SER/COM/ALI officer responsible for the program is Georgia Fuller.

The major GOS entities responsible for administering and implementing the CIP grant amendment will be the Ministry of Finance and Economic Planning (MFEP), the Ministry of Cooperation, Commerce and Supply (MCCS), and the Bank of Sudan.

Waivers

No waivers are necessary to implement this CIP Grant Amendment.

Recommendation: That you sign the attached PAAD amendment, thereby approving a \$71 million amendment to the FY 1985 Commodity Import Program for Sudan, including approval of \$37 million for immediate obligation. The amendment also delegates authority to the AA/AFR to approve an amendment to the PAAD facesheet to allow obligation of the remaining \$34 million, subject to the availability of funds.

Clearances:

GC, HFry

*[Signature]*

Date

8/22/85

April 22, 1985

SUDAN

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)  
COMMODITY IMPORT PROGRAM (CIP) GRANT FY 1985

650-K-608B

USAID/SUDAN  
Khartoum, Sudan

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## I. SUMMARY AND RECOMMENDATIONS

Through the 1960s, Sudan's current account was in balance or surplus. Government savings, the difference between current revenues and expenditures, were about 2 percent of GDP. Sudan's inflation rate and debt service were low. The economy was characterized by financial stability and a private sector orientation but little growth.

Spurred by oil producing states investment funds and the dream of being the breadbasket of the Arab World, the GOS launched a major public investment program. This overly ambitious program was characterized by inadequate planning and management, and ineffective public implementation and administration. The ensuing rapid growth and ill-advised economic policies stimulated a surge in expensive imported production inputs, and worse, in escalating consumption. The resulting imbalance between import outlays and export receipts widened. To cover the widening gap, GOS resorted to external borrowing. Squeezed out of this new public sector thrust, private saving rates declined. And as the GOS attempted to subsidize consumption during the investment program, public saving rates declined as well. The growing budget imbalances, which triggered increased Bank of Sudan borrowing, coupled with the external payments and debt problems, resulted in accelerating inflation and rapidly rising debt service obligations. External debt became due before physical assets achieved any production outputs. The result has been economic stagnation, staggering debt and a spiraling financial crisis.

The Sudanese economy has never recovered from the financial and economic effects of these catastrophic policies. And, in addition, an important number of policy-makers under the former administration seem not to have recovered from the mentalities and approaches of the ill-advised public investment approach. Sudan's economy has suffered endlessly from the constant disruptions and dislocations of the financial and administrative structures, the resulting lack of investor and consumer confidence in the system, and major structural imbalances. Major structural imbalances include those between investment and savings, public revenues and expenditures, and imports and exports. Total external debt, which is more than ten times annual export earnings, annual import bills three times export earnings, a current account deficit of over 10 percent of GDP, a population growth rate over 3 percent, and over 600,000 recent refugees from neighboring countries, have made solving the crisis a constant struggle.

With prospects for reversing the economic downturn and the staggering debt grim, Sudan's worst drought in memory could not have come at a worse time. Agricultural production for 1984/85 has fallen to less than half its normal levels. Resulting grain deficit estimates range from 1.3 to 1.9 million MT. Relief agencies estimate more than 3 million people will be seriously affected, meaning loss of property, dislocation, and starvation. While agricultural exports are expected to fall about 13 per cent from the previous year's already poor drought-affected performance, imports will fall further in light of foreign exchange scarcities and the general economic downswing.

There will be little foreign exchange to mitigate the drought damage through commercial grain purchases. Over the past year, it had become the donor consensus that Sudan's hopes for recovery would depend on a considered economic restructuring and reform and major changes in the approach of public officials to managing their economy. The public perception of poor Government management had simmered during the same period, culminating in the March demonstrations and riots, the general strike by professionals and workers and the take-over by the new Military Government. Two weeks into the new interim government, the future is cloudy. There is intense pressure by trade and professional unions as well as re-emerging political parties to open up popular participation in Government and the economy. However, the manifestations such a trend would take are not certain. The interim Military Council has repeatedly expressed its commitment to maintaining an austerity program for recovery and to freeing up of the economy in specific and the society in general, including coming to terms with the problems in Southern Sudan. However, there are intense pressures for the new Government to alleviate the serious cost increases, continue or expand the previous Government's last minute price roll-backs, and raise salaries. The argument to spare the lower classes from the effects of mismanagement of the economy is a widespread one and its translation into subsidies and generous employment privileges will have a detrimental effect on any proposals for economic recovery. Even with a solid commitment to immediate reform, recovery--and certainly economic development--face an uncertain future during this catastrophic year.

USAID's CIP strategy, in light of this crisis situation, has been to maintain steady pressure on immediate and far-ranging policy reform and investment strategies. Both the natural and government-induced problems are largely recognized and understood, and the remedies for most are known. USAID will continue to press for the needed reforms by using our commodity assistance as leverage to encourage the identified changes.

Hand-in-hand with such reforms will be the provision of those commodities most needed to reverse the downward slide. More than ever, considerations of targeted beneficiaries, economic impacts, recipient absorptive capacity and previous sector performance and reform will be determinant in the make-up of the CIP program.

USAID has been satisfied with performance on using the CIP as a means of encouraging policy dialogue. We have, however, had unresolved questions about the use of the commodities themselves for recovery. To look once again at the issue of commodity composition, USAID undertook a full-scale evaluation of all CIP programs. The evaluation attempted to analyze both the overall and specific impacts of commodities in the program, their importance to economic recovery and suggestions for further refinement of commodity selection criteria and financial and administrative management improvements. The USAID Project Committee has attempted to include the suggestions of the Evaluation into the development of this CIP.

Section V, A outlines the criteria applied in determining the selection of FY 1985 CIP commodities. The economic impact of each category of commodities

is also assessed in Section V, B. As a result of this analysis, USAID will continue its initiative under last year's CIP toward export promotion and private sector employment, private users in the rainfed sector, and efficient petroleum use. A major part of the commodities provided under this grant is also earmarked for continued rehabilitation of electrical transmission and distribution system, which still imposes immense costs on both the private and public sectors because of power shortages.

Recommendation: The conclusions and recommendations of the CIP Evaluation and the analyses made for the FY 1985 ESF CIP endorse recommendation of this PAAD. The Program is an integral part of AID's policy of US/GOS policy dialogue and furthers the objectives of Sudanese stabilization and recovery. It is recommended that the Administrator authorize a \$71 million Commodity Import Grant to Sudan.

## II. ECONOMIC CONTEXT

### A. Introduction

The seeds of the current economic stagnation in Sudan were sown in the early and mid-1970s when enthusiasm for Sudan's new administration and for its potential agricultural productivity ran high. Borrowing abroad financed massive and uncontrolled spending on a major, unrealistic national development program. The resultant debt obligations, combined with worldwide petroleum price hikes, set the stage for severe foreign exchange shortages and balance of payments gaps, which are now chronic and expected to persist for several more years.

Unfavorable domestic and external economic conditions were manifested in Sudan's weakening external payments position after the mid-1970s. These factors included: (1) slowing and stagnation of output growth, especially of exports; (2) rising public and private expenditures, financed mainly from uncoordinated internal and external loans; (3) shortages of skilled labor due to worker migration to the Gulf states; (4) cost/price distortions stemming from price controls on key inputs, commodities and profit margins; (5) an overvalued exchange rate that reduced export profitability while encouraging imports; (6) negative real interest rates, which discouraged financial savings; (7) rising import prices on essential items, particularly sugar and petroleum, and (8) growing external debt servicing caused by hikes in international interest rates and burgeoning total indebtedness.

Poor investment decisions have been made on the basis of undervalued foreign exchange, subsidized consumer prices, and artificially low interest rates and producer prices. Though investment levels in the 1970s were consistent with those in other developing countries, the macroeconomic distortions have created illusions, and given false signals to investors and policy makers. They have not channeled investment to the most productive activities, and economic growth possibilities have been lost. Lack of investment planning and analysis has worked with existing economic distortions to render much of the investment unproductive.

### B. Indicators of Recent Economic Performance

#### 1. Trade Deficit

In recent years, Sudan has faced increasing trade deficits and crippling foreign exchange shortages. Export performance relies totally on agriculture--cotton, sorghum, livestock, groundnuts, sesame and gum arabic. Sudan is thus vulnerable to fluctuations in world prices and changes in weather conditions.

For several years, export production has failed to reach its potential. One disincentive is that official exporters have received an artificially low pound price for every dollar of exports. In addition, export

producers and exporters have faced numerous implicit and explicit taxes. These are strong disincentives to production. Fuel shortages and a deteriorating transport structure have also contributed to export stagnation.

Despite occasional exchange rate devaluations, the official exchange rate (LS 1.3 to US \$1) and the commercial bank rate (LS 1.8 to US \$1), prevalent until October 1984, were far less than the legal free market exchange rate (LS 2.25 per US \$1). This stimulated imports while at the same time reducing export profitability. Administered prices also fueled excess demand for consumer goods, despite their high real economic opportunity cost. On an annual basis, Sudan now imports over two times the dollar value of what it exports. Clearly, this is untenable.

Sudan suffered a record trade imbalance in 1981/82 when the deficit exceeded \$1.5 billion. Cotton export receipts, the old standby, fell due to low yields, inferior quality, and low prices, resulting in nominal cotton earnings less than one-fourth of 1979/80 levels. At the same time, the import bill topped \$1.8 billion--an all time high. The petroleum bill was very high as Sudan's bad credit rating and panic buying drove the import price up, while exchange rate distortions and subsidized domestic prices increased demand. The importation of vehicles also leaped, and sugar continued to be a large ticket item.

In 1982/83, the balance of payments gap eased slightly to \$1.2 billion. Merchandise import expenditures actually fell by 7.5 percent as the GOS implemented multiple devaluations, import substitution incentives, and restrictions on bank-financed imports. But instrumental was the increase in Kenana estate sugar production, which, under new management, cut the sugar import bill by over \$100 million: production area expansion and ex-mill price increases are credited with the success.

Exports, too, recovered with receipts up 48 percent in 1982/83 from the previous year's all-time low. Cotton made the difference as earnings more than doubled from the preceding year, though remaining at relatively low levels. Thus, overall export receipts drew back to levels of the late 1970s, making no significant breakthrough.

Table 1. Sudan Balance of Payments  
1978/79 - 1983/84  
(In millions of U.S. Dollars)

	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84
Exports <sup>1/</sup>	<u>527.0</u>	<u>581.5</u>	<u>478.9</u>	<u>281.2</u>	<u>573.0</u>	<u>732</u>
Cotton	320.7	333.4	182.0	69.4	175.0	344.0
Other	206.3	248.1	296.9	211.8	398.0	388.0
Imports <sup>1/</sup>	<u>-1,137.9</u>	<u>-1,339.9</u>	<u>-1,631.4</u>	<u>-1,884.7</u>	<u>-1,516.0</u>	<u>-1,388.0</u>
Petroleum <sup>2/</sup>	-177.6	-254.0	-393.0	-494.8	-353.0	-373.0
Sugar	-28.0	-122.7	-183.6	-158.5	-53.0	-24.0
Other	-932.3	-963.2	-1,054.8	-1,231.4	-1,110.0	-991.0
Trade Balance	<u>-610.9</u>	<u>-758.4</u>	<u>-1,152.5</u>	<u>-1,603.5</u>	<u>-943.0</u>	<u>-656.0</u>
Services	<u>-104.5</u>	<u>-82.0</u>	<u>-48.8</u>	<u>-65.1</u>	<u>-241.0</u>	<u>-290.0</u>
Receipts	181.0	261.1	328.5	503.0	250.0	225.0
Payments	-285.5	-343.1	-377.3	-568.1	-491.0	-515.0
Of which: interest	(-77.8)	(-70.5)	(-105.2)	(-190.2)	(-191.0)	(-215.0)
Transfers (net)	<u>257.2</u>	<u>293.2</u>	<u>426.6</u>	<u>523.5</u>	<u>877.0</u>	<u>716.0</u>
Private <sup>3/</sup>	240.0	209.0	304.6	350.0	415.0	380.0
Official	17.2	84.2	122.0	173.5	462.0	336.0
Current Account	<u>-458.2</u>	<u>-547.2</u>	<u>-774.7</u>	<u>-1,145.1</u>	<u>-307.0</u>	<u>-230.0</u>
Official capital	<u>347.9</u>	<u>442.1</u>	<u>412.8</u>	<u>587.7</u>	<u>161.0</u>	<u>178.0</u>
Receipts	405.0	532.2	499.0	685.0	219.0	194.0
Payments	-57.1	-90.1	-86.2	-97.3	-58.0	-16.0
Allocation of SDRs	<u>13.0</u>	<u>13.0</u>	<u>11.0</u>	<u>--</u>	<u>-74</u>	<u>5/</u>
Errors and omission <sup>4/</sup>	<u>103.3</u>	<u>17.5</u>	<u>148.1</u>	<u>130.9</u>	<u>--</u>	<u>--</u>
Overall Balance	<u>6.0</u>	<u>-74.6</u>	<u>-202.8</u>	<u>-426.5</u>	<u>-220</u>	<u>--</u>
Monetary movements (increase -)	<u>-6.0</u>	<u>74.6</u>	<u>202.8</u>	<u>426.5</u>	<u>--</u>	<u>--</u>

Source: IMF Sept 1983, "Sudan - Recent Economic Developments," and IMF Staff Estimates, 1984

<sup>1/</sup> Customs data.

<sup>2/</sup> Excluding petroleum re-exports.

<sup>3/</sup> Up to 1979/80 private transfers include estimates of workers' remittances used to finance imports under the nil-value licensing scheme. Since 1980 data on private transfers obtained from banking statistics have been adjusted by the staff to reflect workers' remittances which have been increasingly directed to the free market for foreign exchange.

## 2. Domestic Fixed Investment

Despite outdated and variable figures, all estimates of annual fixed investment show that as a percentage of GDP, Sudan's rate is lower than that of most developing countries, especially those with relatively high growth rates. At about 12.5 percent of GDP in 1982/83 (IBRD estimate), it has dropped even from Sudan's own average over the past decade. Moreover, public fixed investment is over half the total. Much of Sudan's productive capital is publicly held and not subject to the financial discipline and incentives of private ownership.

Poorly organized, fragmented and heavily controlled capital markets; a very low domestic savings rate; and policy disincentives and instability all hamper private investment. Until recently, negative real banking interest rates, which were government controlled, have discouraged savings and weakened the banking system. Savings were negative in 1981/82, and declined again by nearly one percent of domestic production in the following year. Government control of foreign exchange and implicit taxation of exporters drove foreign exchange out of the banking system and even out of the country. Investors' foreign exchange costs increased. This system has also seriously hampered investment in the rainfed agricultural sector (groundnuts, sesame, and sorghum), which offers the greatest scope for expansion of production and net foreign exchange earnings.

Low fixed investment levels restrict the capital base from which a country attempts to increase production and labor productivity. An economy in which the incentives favor consumption over savings and investment, as Sudan's does, will have problems achieving future economic growth.

## 3. Gross Domestic Product

Sudan's domestic production in the early 1980s continues to falter in the face of energy, labor, transport, and equipment problems. There has been no sustained growth in GDP for the last five years, despite some fluctuations from year to year. The performance of agriculture determines the total annual production of Sudan, as transport, services, and manufacturing are often dependent or complementary to agricultural production. Cotton is still the principal cash crop in Sudan, but from 1977/78 through 1980/81 its production and sale suffered from financial disincentives, shortages of imported inputs, inadequate fixed capital and management, and white fly infestations. Both the area cultivated and cotton yields hit bottom in 1980/81, though export earnings

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4/ Short-term capital movements and unidentified transactions, including smuggled exports.

5/ Because of the sizable adjustments to the monetary data, the probability of significant errors in the data on monetary movements are much greater than usual. An estimate of the overall balance of payments position for 1983/84 has therefore not been attempted. It is hoped that in the period ahead further work by the staff and a technical assistance expert will make it possible to increase the accuracy of both the monetary and balance of payments data.

were less in 1981/82. Rainfed crops--sorghum, millet, groundnuts, and sesame--despite the recent drought, have shown real promise and have received increasing emphasis.

In 1981/82, Sudan's GDP grew by 7.2 percent in real terms, fanning hopes for a resurgence in growth. This mirrored the growth rate in the agricultural sector which was spurred by a bumper harvest of rainfed crops, making up for the continued stagnation in cotton production. Led by agriculture, production in the manufacturing, transport, and service sectors also increased in 1981/82.

In 1982/83, severe drought contributed to yet another reversal in domestic production. Despite cotton's recovery in the irrigated sector, a drastic cut in rainfed production reaffirmed the importance of the rainfed sector to Sudan, as GDP fell two percent. Production declines in groundnuts, sorghum, sesame, and millet ranged from 30 to 60 percent. Industry and transport performance suffered, too, while personal and financial services grew slightly. The construction sector continued its slow and steady growth, as real estate remains a popular hedge against inflation.

#### 4. Government Budget Deficit

The Government's tax effort has been very low for years, an estimated 13 percent of GDP in 1982/83. Thus, with GDP stagnant, tax revenue has grown little. While government expenditures (at 19 percent of GDP in 1982/83) are fairly moderate, they have grown much faster than GOS direct revenues. Sizeable deficits have persisted for several years. Heavy government borrowing in domestic and foreign markets and donor assistance have financed investment and often current consumption. Such financing has aggravated Sudan's external debt and inflation problems. The deficit was down slightly to six percent of GDP in 1982/83. An expansion of customs valuation and a revaluation of the customs base, selective excise tax increases, and higher rents and fees all combined to increase GOS revenues.

Tax collection has been a fairly stable share of GDP. Over half of government revenues are raised through international trade taxes instead of sales or income taxes. The revenue structure is thus heavily dependent on external trade and not easily tapped for major revenue increases, especially in times of economic contraction.

#### 5. External Debt

The Government's massive and uncoordinated borrowing resulted in a debt of \$9 billion by early 1984. Annual debt service obligations are currently about equal to export earnings. Repayment of this staggering sum is Sudan's most serious barrier to economic recovery.

Sudan has worked with creditors on three separate occasions to reschedule debt payments to more manageable levels. As trade deficits worsened in the late 1970s and early 1980s, Sudan sought debt rescheduling

through the international community. In late 1981 and in 1982, U.S. \$1.1 billion in multilateral, bilateral and commercial loans were rescheduled. In February 1983, the Paris Club rescheduled \$535 million of Sudan's debts. Commercial and other multilateral and bilateral creditors took note of the move and Sudan's precarious economic position. Thus, total 1983 reschedulings reached \$734 million. Without such assistance, Sudan's annual foreign exchange earnings would have gone for debt payment, and crucial imports would have been lost.

#### 6. External Financial Resources

In addition to its savings from debt rescheduling and its inadequate export earnings, Sudan has only two other sources of foreign exchange--donor assistance and remittances. Donors have been extremely supportive of Sudan in recent years, and it ranks second only to Egypt as a principal recipient of US economic assistance on the African continent. Donors disbursed at least \$550 million in balance of payments support and pledged \$260 million for projects in 1983. The December 1983 Paris Consultative Group meeting, enthused about the USAID-backed Petroleum Initiative and still deeply concerned about Sudan's poor economic performance, committed \$405 million for additional balance of payments support and \$330 million for projects.

Donor assistance to Sudan aims in part to provide quick disbursing balance of payments support. Heavier emphasis is now placed on facilitating the implementation of economic reforms. The donors appear ready to continue assistance through the 1980s, the minimum time needed to consolidate structural adjustments, especially if reconciliation with the South can halt the costly disaffection. But implementation of economic reforms is a prerequisite to continued high levels of assistance.

The Sudanese Government has made some attempts, with minor success, to encourage Sudanese working abroad to remit some of their substantial earnings. Rising from \$209 million in 1979/80 to \$450 million in 1983/84, remittances flowing through the banking system helped finance essential imports. Much more comes in outside the banking system to finance consumption and real estate/housing investments. Remittance-financed real estate is estimated to run into billions of dollars in recent years. Remittances have provided the bulk of foreign exchange in the free foreign exchange market. Substantial new incentives would be required to bring in more remittances and direct it toward capital investment in the productive sectors. Low investor confidence shows in recent remittance downturns, even following substantial devaluation.

#### 7. Money, Credit, and Inflation

Changes in money supply and credit expansion through the banking system and national budget have been difficult to spot given the quality and structure of available data. Examination and revision of these records have been made back to June 1980, and hopefully, future reporting will be better.

Until 1979/80, Central Government domestic borrowing helped fan annual liquidity increases of over 20 percent. Liquidity growth was held to about 20 percent in that year due to expanded foreign financing and an IMF stabilization program. Unfortunately, borrowing by the central government and public entities was forced up sharply in 1980/81 to finance expensive imported inputs and cover operating losses related to price controls and stagnant production and manufacturing, e.g. poor sugar production. Despite efforts to reduce Government recourse to the banking system to finance its operations, borrowing by public entities has continued to expand rapidly, especially by the agricultural schemes (see Table 2). The expansion of credit to public entities was about 50 percent in 1981/82 and over 40 percent in 1982/83. Bank credit to the private sector has grown more slowly at 34 percent and 37 percent respectively in 1981/82 and 1982/83.

Sudan has had difficulty in meeting the credit ceilings established in recent IMF standby agreements, and credit restrictions have usually been imposed on the private rather than the public sector. But a persistent balance of payments gap and debt arrears have dampened the growth in domestic liquidity. Nonetheless, the money supply has grown rapidly, increasing by 36 percent in 1982/83.

Controlling credit and total domestic liquidity have proven difficult, and Sudan has faced persistent double-digit inflation. Current estimates of inflation are, however, based on prices paid by upper middle class Khartoum residents for a basket of goods with considerable import content. Thus, the CPI overstates price increases experienced by the majority of the population. This index shows inflation of 31 percent in 1980/81, 23 percent in 1981/82 and a rapid rise to 38 percent in 1982/83. The latter increase resulted from currency devaluation, upward adjustment of controlled prices, and excess demand pressures. The national average is probably somewhat lower, perhaps 25 percent.

Table 2. Sudan: Change in Credit, 1978/79-1982/83  
(In millions of Sudanese Pounds)

Changes During Period	1978/79	1979/80	1980/81	1981/82	June 1982- March 1983
<b>(a) To Public Entities:</b>					
Agricultural entities	<u>47.7</u>	<u>30.7</u>	<u>100.2</u>	<u>180.1</u>	<u>186.5</u>
Gezira scheme	15.9	6.0	42.8	18.6	24.2
PAPC scheme	31.8	23.7	50.4	77.9	39.8
Cotton public Corporation	--	--	--	75.1	119.1
Other	--	1.0	7.0	8.5	3.4
Industrial entities	<u>8.6</u>	<u>6.7</u>	<u>18.0</u>	<u>26.3</u>	<u>24.0</u>
Sugar and Distilling Corporation	8.4	6.6	18.0	26.3	24.0
Other	0.2	0.1	--	--	--
Public utilities	<u>16.7</u>	<u>5.4</u>	<u>4.4</u>	--	<u>6.6</u>
Sudan Railways	14.8	4.9	2.8	--	--
Other	1.9	0.5	1.6	--	6.6
Other	<u>0.1</u>	--	<u>8.9</u>	--	<u>7.2</u>
<b>Total</b>	<u>73.1</u>	<u>42.8</u>	<u>131.5</u>	<u>206.4</u>	<u>224.3</u>
<b>(b) To Private Entities:</b>					
Commercial bank loans	<u>88.4</u>	<u>118.7</u>	<u>172.8</u>	<u>232.5</u>	<u>263.4</u>
Short-term	61.2	82.9	146.6	170.9	177.5
Export financing	(12.6)	(17.8)	(35.8)	(78.9)	(39.8)
Import financing	(5.9)	(17.3)	(21.8)	(53.9)	(79.0)
Industrial enterp.	(26.7)	(28.1)	(70.9)	(22.7)	(32.3)
Other	(16.0)	(19.7)	(18.1)	(15.4)	(26.4)
Medium and long-term	27.2	35.8	26.2	61.6	85.9
Bank of Sudan loans to specialized banks	--	--	--	<u>5.3</u>	<u>2.3</u>
<b>Total</b>	<u>88.4</u>	<u>118.7</u>	<u>172.8</u>	<u>237.8</u>	<u>265.7</u>

Source: IMF/Bank of Sudan

C. 1984 - 1985 A Period of Change, Uncertainty and Reform:

In 1983/84, Sudan experienced drastic changes in the political environment and in economic conditions, which have created enormous uncertainty. The April 1984 Declaration of a State of Emergency permitted the President to vigorously consolidate and begin trying to implement far-reaching changes in the rules of business organization and in the banking structure related to the September 1983 imposition of Sharia law. This, combined with its administrative redivision into three regions, caused increased civil unrest in Southern Sudan. The severity of the worst drought in a century in Darfur and Kordofan provinces and major parts of Eastern Sudan has necessitated international emergency assistance. The drought has hurt Sudan's entire economy, as low Nile waters hamper irrigation and drastically cut power generating capacity. Urban water supplies are extremely low. The additional uncertainty and real risk these elements have imposed upon Sudan's economic environment have had negative consequences even beyond real production losses. Increased public and private expenditures are being incurred as a direct result. Overcoming these negative factors will require time, money and serious reforms.

Over the past year, it had become the donor consensus that Sudan's hopes for recovery would depend on a considerable economic restructuring and reform and major changes in the approach to public officials to managing their economy. The public perception of poor Government management had simmered during the same period, culminating in the March demonstrations and riots, the general strike by professionals and workers and the take-over by the new Military Government. Two weeks into the new interim government, the future is cloudy. There is intense pressure by trade and professional unions as well as re-emerging political parties to open up popular participation in Government and the economy. However, the manifestations such a trend would take are not certain. The interim Military Council has repeatedly expressed its commitment to maintaining an austerity program for recovery and to freeing up of the economy in specific and the society in general, including coming to terms with the problems in Southern Sudan. However, there are intense pressures for the new Government to alleviate the serious cost increases, continue or expand the previous Government's last minute price roll-backs, and raise salaries. The argument to spare the lower classes from the effects of mismanagement of the economy is a widespread one and its translation into subsidies and generous employment privileges will have a detrimental effect on any prospects for economic recovery. Even with a solid commitment to immediate reform, recovery--and certainly economic development--face an uncertain future during this catastrophic year.

1. Sharia's Effect on Private Investment

The initial declaration of Sharia law in September 1983 introduced new uncertainties for the business community. Many businessmen proposed to "wait and see," which translated into reduced capital investment, inventory buildup and reduced production levels. Capital flight and outmigration of skilled labor stepped up noticeably. The President's announcement of a State

of Emergency in April 1984, aimed at consolidating the Islamic revolution, eliminated many constitutional guarantees, granted the military forces full police power, and established Decisive Justice Courts to carry out Sharia law and Presidential decrees. Although the emergency was formally ended in September 1984, the structures put in place persisted and use of police power continued to hamper market activity.

Two aspects of the changed environment created extreme risk and uncertainty for private business, accelerating a negative financial response to Sharia's imposition and reducing productive activity:

- (1) a disruptive increase in Government attempts to control the economy through police powers, and
- (2) introduction of new and undefined legal structures based on Sharia law.

## 2. The Military Economic Corporation (MEC)

The Military Economic Corporation, already a concern to private businessmen, achieved an enhanced role during the Emergency. The former administration's wish to control the marketplace, i.e. roust out black marketeers and control urban commodity prices and supplies, cast the MEC in the role of public protector against greedy "middlemen." By implication this has included entire segments of the private sector. The MEC has found justification to expand its production and marketing of goods and services.

A large portion of the MEC's office space, overhead, and staff salaries come out of the military budget and are not attributed directly to the organization. This, combined with having a guaranteed market--the military--makes it a formidable competitor to private businesses. Following the April 6, 1985, change in government a positive development regarding the MEC is the April 14, 1985, GOS decree freezing the activities of the Military Commercial Corporation (MCC), one of the seven corporate entities of the MEC. The MCC civilian employees have been placed on indefinite leave and military employees have been returned to their units. The decree excluded the three units of the MCC which deal with food security. The records of the MCC are being reviewed and to date there has been no announcement of the disposition of MCC assets.

## 3. Market Controls and Changing Laws

The scope and enforcement of long-standing price controls on major commodities (sugar, wheat, petroleum) expanded rapidly under the Emergency. The crackdown obviously hurt small merchants as police and security forces patrolled the market, insuring no transgressions on pain of fines, imprisonment, and occasional lashing or property destruction. Shortages in key items developed as controlled prices often failed even to cover production and/or marketing costs.

Under the Emergency, "hoarding" of essential or scarce commodities was outlawed. Merchants and residents were fined or lashed for holding even small amounts of sugar, flour, edible oils, or petroleum products under laws which made no distinction between holding inventories and price speculation or supply monopoly. Private businessmen were thus hit hard by commodity scarcities and rendered unable to respond to any consumer demand increases. Supply scarcities intensified.

Up until September 1984 transportation of essential commodities was much restricted. To move flour, grain, petroleum, etc. required a permit from the Ministry of Commerce, Industry and Cooperation (MCCS) on a load-by-load basis. Such regulations and restrictions are an avenue for favoritism, and many legitimate businessmen could not obtain needed permits.

Overall, these laws greatly increased the cost and risk of normal business procedures--holding supplies and producing in small lots is expensive. Price controls squeezed profit margins, and transport bottlenecks created costly supply interruptions. The possible severe punishments for breaking these ambiguous laws greatly reduced business activities. Thus, the investment climate in Sudan was very poor this past fiscal year, 1983/84.

Constant, drastic and all-encompassing changes have also occurred in the laws governing commercial transactions in Sudan. In February 1984, President Nimeiri's Government promulgated the Civil Transactions Act of 1984, eliminating the validity of some 20 laws governing contracts, property rights, companies, sales, etc. The most disconcerting aspect is the opportunity for elimination of limited corporate liability, which could leave shareholders' personal assets vulnerable in the case of business failure. Trade regulations and license procedures have also been reexamined, causing further uncertainties for businessmen.

The former tax laws, too, were completely revamped to allow for enforcement of Zakat, a new tax system reorganized on Islamic lines. Zakat is designed to increase revenue by lowering tax rates but widening the tax base at the same time. Direct taxation on companies, businesses and individuals, which used to rise progressively to rates of 65 and 70 percent has been abolished in favor of a flat rate of 2-1/2 percent on incomes, on assets minus liabilities and on fixed assets such as buildings. Under one new law wealth and potential yield are taxed rather than actual yield or profits. Estimates of the revenue the new tax law will generate vary widely and are overly optimistic. Many businessmen view Zakat as confiscatory and believe evasion will be widespread.

Equally far-reaching is the restructuring of banks into an Islamic system. Banks may now be direct partners in an investment or sell commodities to businessmen, but never be in a position to simply lend money for a profit (e.g., earning interest). The banks remain uncertain about how to Islamicize, and businessmen fear their services will cost more and be apportioned on the basis of social and family ties. The hallmark of 1984 for private investors was increased risk and uncertainty. Few of the plethora of new laws have yet

been interpreted or implemented. Business confidence is extremely low in the midst of such confusion and instability. Thus far, the April 6th coup has provided no guidelines as to which of these banking laws will be changed. The result is a continual "wait and see" policy by savers and investors.

As is common in unstable environments, capital flight and out migration of skilled labor has surged dramatically. The recent investment decline will further restrict Sudan's productive base. Worsening foreign exchange shortages curtail imports, further increasing costs to surviving businesses and raising the specter of default on Sudan's massive debt. A continued poor climate for investment could cause the entire economy to contract and could thwart the best efforts of policy-makers and donors to encourage Sudan's economic recovery program.

#### 4. The South

The redivision of the South into three regions in 1983 came three months prior to the declaration of Sharia. These developments triggered an outbreak of increased rebel activity. The resources spent by Southerners to further the insurgency and those spent by the Central Government to quash the unrest are ill-afforded. Southern government administration has been torn apart by redivision, halting activity even in secure areas. With the exception of a few larger towns, civil order is at the mercy of tribal and individual authorities.

The dispute caused the cessation of two of Sudan's most economically important projects--Chevron's pipeline activities and construction by the French of the Jonglei Canal through the South's extensive swamps to save water for irrigation in the North and in Egypt. The canal is also to be a waterway between the North and the South. Given Sudan's desperate balance of payments situation, enormous external debt, and scarce fuel supplies, the country cannot afford delays in having an indigenous fuel source available for domestic use and for export. But locally produced petroleum will now clearly not be on line in 1986.

The lack of political stability between the North and the South imposes a heavy political and economic burden on the entire country. Though there are some signs of hope for improvements in relations between the North and South there have been no concrete changes. Thus far, stability in the South continues to be a major concern.

#### 5. The Drought

In the past three years, rainfall has been uncharacteristically low, and in 1984 the drought was severe. The drought conditions have devastated Sudan's agricultural production. In the West, Darfur and Kordofan regions have been declared disaster areas nationally and internationally, and food assistance is pouring in. Over half a million people have moved to escape starvation in stricken areas, and at least 3.0 million people in the West alone are affected. Although fewer people have been affected in the East, the drought has drastically curtailed agriculture and water supplies there and in the North as well.

Sudan's 1984 wheat crop in the Gezira was not planted due to inadequate water for irrigation. Sorghum production for 1984, at 1.2 million MT, was down about thirty-five percent from 1983. This belies the extreme severity of the crisis in that the previous year's grain consumption relied heavily on large stocks from a bumper crop in 1981. Those are gone, and sorghum exports were banned in early 1984, worsening the foreign exchange crisis. In 1983, Sudan earned \$60 million from sorghum exports. Sorghum production for 1984 at 1.2 million MT, is only 56 percent of the average for the five years preceding the drought. The 1984/85 millet crop has been devastated in the West, and groundnut production has fallen nationwide to an all time low. Sudan received diminished foreign exchange earnings from last year's cotton crop due to low prices and poor quality (fly infestation lowered the quality of much of the crop), so again foreign exchange shortages were even worse than usual. Thus, there is no foreign exchange to make up for food deficits through 1985 commercial grain imports. Donors have begun to respond (USAID is currently providing 277,000 MT of sorghum under PL 480, Title II emergency assistance and has further requested 600,000 MT of food grains and \$26 million of non-food emergency support), but it remains unclear whether food assistance will be able to completely counteract food shortages throughout 1985. The food grain deficit is estimated at 1.9 million MT for 1985, at least 36 percent of the nation's essential consumption needs. Cattle off-take increased drastically due to the drought, and it will take 3-4 years to rebuild the herds. Some formerly cultivable land may never bear another harvest. The drought is Sudan's worst recent obstacle to economic growth and creates further uncertainty about future prospects.

#### 6. Economic Reform During 1984

Attempts to achieve major economic reform in Sudan have been hindered by the rapidity with which economic and political conditions change and the lack of current and comprehensive data on the performance of the economy. Without a full understanding of Sudan's economy and meaningful dialogue among senior policy makers across institutional lines, there has been difficulty with implementing a comprehensive reform package versus gradual discrete policy initiatives.

In the past two years, Sudan has removed explicit budget subsidies on key commodities. The Government was particularly progressive with bread prices, as both budget subsidies and implicit foreign exchange rate subsidies have been removed over the past two years. Nonetheless, prices are still controlled on many items, e.g. pharmaceuticals, petroleum, bread and sugar. On major agricultural schemes, tenants were given individual accounts in 1982/83 that allow cost signals to guide production toward greater efficiency. There have been several adjustments of the official and commercial bank foreign exchange rates. And until February 1985, when the free foreign exchange market was closed, the Government openly used the free foreign exchange market to finance essential imports.

Nevertheless, Sudan's macroeconomic performance has continued to deteriorate, and recovery prospects have dimmed in the face of severe drought and significant changes in the investment climate during last year. The

Sudanese pound has continued to depreciate as production and export performance has plummeted. In July 1984, the GOS was unable to pay \$42 million in arrears owed to the IMF. The desperately needed IMF standby arrangement collapsed, and consultations on a new reform package came to a halt.

The USAID Mission stepped in to revive a macroeconomic policy dialogue with the GOS. Movements to correct an overvalued exchange rate and to accept realistic credit ceilings were made conditions of FY 1984 CIP disbursements, and USAID financing of the FY 84 and 85 Petroleum Facility was tied to considerable petroleum sector reform.

In October 1984, the GOS, in part as a result of the policy dialogue with USAID, undertook major exchange adjustments. Although the official foreign exchange rate remained at LS 1.3/\$1.0 the commercial bank rate was increased from LS 1.8/\$1.0 to LS 2.1/\$1.0, a 16.7 percent increase. More importantly, at the urging of USAID and based upon an in-house analytical study of Sudan agricultural export competitiveness, the Bank of Sudan abolished the 75/25 Foreign Exchange Rate Formula used to price agricultural exports. Before October 21, 1984, agricultural exporters were paid in pounds at a LS 1.42/\$1.0 exchange rate, based upon 75 percent of export earnings converted at the official LS 1.3 rate and 25 percent at the then commercial bank rate of LS 1.8/\$1.0. The movement from LS 1.42 to 2.10 represented a 47.7 percent price increase in terms of domestic currency for agricultural exporters.

Pricing agricultural exports at the then new commercial bank rate provided major export incentives for agricultural exports. While some of the added revenues were expected to be passed on to producers (October-December being the harvesting period), improved production incentives are not expected to be realized until the 1985 production season. The 75/25 formula (75 percent of earnings valued at LS 1.3/\$1.0 and 25 percent at LS 2.10/\$1.0 = LS 1.52/\$1.0) still applies to cotton and gum arabic for the 1984 crop. However, cotton and gum arabic are scheduled to come off the formula and be priced at the prevailing commercial bank rate with the 1985 crops. All imported agricultural inputs, which were priced at the official exchange rate (LS 1.3/\$1.0) before October 21, 1984, were to be priced at the new commercial bank rate (LS 2.10/\$1.0). These changes have already been reflected in newly announced agricultural prices.

Foreign exchange from "invisible" receipts--e.g. embassy local expenditures, hotels and tourism, foreign investment and loan monies, and money brought in for local expenditures of foreign companies--were in October 1984 revalued at the commercial bank rate of LS 2.1/\$1.0 instead of LS 1.3/\$1.0. Petroleum was the only major import remaining on the official rate. The highly overvalued official rate was thus to play a much diminished role in the Sudanese economy.

During October 1984, the GOS acted on its own, through the Bank of Sudan, to curb credit expansion and domestic liquidity. Bank lending for essential commodities requires sizeable--40 percent of value--margin deposits;

raw materials and spare parts for local industries require 10 percent margins; and nonessential commodities require a full 100 percent of the import value. Commercial banks can now only finance listed essential commodities. Inventory financing is restricted to discourage hoarding, and banks may no longer finance personal or real estate loans, or long- or medium-term loans to the public sector. Banking system security has been enhanced by increasing reserve requirements, restricting interbank lending and limiting the maintenance of local currency accounts by foreign banks. The new regulations not only work to secure the banking system, but promote export financing and industrial working capital, while restricting imports and hoarding practices. They are a major step forward in meeting future IMF credit targets and may dampen inflation rates.

During November and December 1984, the Ministry of Finance has announced several important fiscal reforms to help counter a large projected annual budget deficit. These included reimposing the excise tax as a "consumption tax" (which is expected to generate LS 170 million) and the personal and business income tax (which is expected to generate LS 200 million), and revaluing customs duties based on a rate of LS 2.1/\$1.0 instead of LS 1.3/\$1.0, to generate an additional LS 250 million. In addition, the Ministry of Finance announced that it is in the process of cutting public expenditures by LS 40 million for the current fiscal year. The combined effect of these measures was expected to reduce the projected budget deficit by LS 350 million to LS 400 million for the 1984/85 fiscal year.

#### 7. Economic Reform During 1985

During December 1984, it had become evident that further drastic action was required to deal with the increasing deterioration of the Sudanese economy. The President responded by appointing several new economic ministers. In addition, he created the Supreme Council for National Economy, comprised of ministers of key economic ministries and the Governor of the Bank of Sudan. The Council was established to review the state of the economy and advise President Nimeiri on corrective actions required to combat declining export earnings, a depreciating pound, a major budget deficit and a loss of confidence in the Sudanese economy. The Council was to meet once a week, but in fact met in 22 sessions during its first 2-1/2 months.

At the time of the formation of the Council, the GOS was facing repercussions related to the July collapse of the IMF Standby Arrangement. By February 28, 1985, arrears to the IMF alone reached \$110 million. The IMF, the IBRD, and major bilateral donors including the USG withheld their balance of payments support, which was largely to be used to finance essential imports and rehabilitation projects. The lack of these net resource flows to the Sudan, coupled with the impact of a severe drought, created an increasingly severe foreign exchange crisis, further decrease in imports and a mounting budget deficit. To avert shortages of selected essential imports, the public and private sectors increasingly entered the free foreign exchange market to finance essential imports. The result was a strong demand for free market foreign exchange. The rate steadily increased and during January alone moved from LS 3.25/\$1.0 to LS 4.80/\$1.0. The overall economic situation was reviewed by the Council, and the GOS decided to undertake major policy changes. During February and March, the following policy actions were taken:

- (1) BOS devalued the official foreign exchange rate by 92 percent (LS 1.3/\$1.0 to LS 2.5/\$1.0).
- (2) The licenses of the free foreign dealers were withdrawn, and the free foreign exchange market closed down.
- (3) The commercial bank rate was increased by 42 percent (LS 2.1/\$1.0 to LS 3.0/\$1.0), and the commercial banks were permitted to operate the country's only legal "free foreign exchange window". Its rate is the commercial bank rate and a mechanism exists for its adjustment by the Banking Board, a newly created body. In mid-March the rate became LS 3.16/\$2.0, proving the mechanism viable. Further upward adjustments have occurred.

The revision of the foreign exchange rate regime established new price structures and incentives in the economy. The official rate (LS 2.5/\$1.0) becomes the new export rate (except for the 1984 cotton and gum arabic crops) and the import rate for the public sector, principally the public sector agricultural schemes. The resources to support the official rate changes to become all earnings from agricultural exports and commodity aid to the public sector.

The new commercial bank rate is expected to be a flexible rate, and will cover all private sector imports. The resources to support the rate will be remittances from Sudanese working abroad, which formerly were often channelled to the licenced foreign exchange dealers. In addition, that portion of commodity aid destined for the private sector will be channelled through the commercial banking system. The commercial bank rate will be the import rate applied to the private sector.

The new exchange rate regime was established to correct the overvalued official and commercial bank foreign exchange rates in order to dampen imports and provide incentives for increased exports. There will be a time lag before the impact of the new exchange rate regime will be fully felt in the economy, but it is generally believed that real progress can be made during 1985 to reduce the balance of payments gap in the near term.

In addition to the exchange rate adjustments, the GOS, during February, 1985, revised the Central Government Budget. In order to overcome the projected LS 600 million budget deficit over the remaining 7-1/2 months of FY 1985, the government substantially increased customs tariffs, other taxes and fees, principally on cigarettes and cement, and land and water charges on the irrigated schemes.\* In addition, the Ministry of Finance applied an implicit export tax on 1984 cotton and gum arabic crops currently being exported (the difference between the former LS 1.52/\$1.0 and new LS 2.5/\$1.0 export rates). In addition to these revenue measures, which are expected to generate LS 560 million over the remaining period of the fiscal year, the Ministry of Finance reduced planned Central Government expenditures by LS 40 million.

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Customs duties on essential imports--pharmaceuticals, wheat and wheat flour, some spare parts and agricultural equipment--will be somewhat lower.

During March the Government substantially increased petroleum prices for all products and moved them from the official exchange rate in order to achieve import parity at the new exchange rates and to achieve full cost recovery at retail outlets. Substantial price increases were involved, LS 3.00/gallon for benzene and LS .9/gallon for gasoil. Heavy customs revenues were at the same time built into the price of petroleum and the GOS expects to generate LS 120 million over the remainder of the fiscal year. At the same time, the Government agreed to implement the Petroleum Import Facility by early March depending upon when the Bank of Sudan could actually pay into the special account its first \$20 million contribution. The Facility will provide \$360 million from GOS, USG, Saudi and Dutch resources for the importation of petroleum over its first 12 months of the Initiative. Reforms associated with the Facility could provide for major changes for the financing, importing, and domestic marketing of fuel, as well as a significant increase in supply, albeit at higher official prices. Moreover, the high-priced black market in benzene and gasoil is expected to greatly diminish. A reliable supply of fuel at internationally competitive prices is expected to reduce Sudan's petroleum import bill and increase production and efficiency within the overall economy.

The GOS has thus embarked upon a number of potentially far reaching economic reforms during February and March 1985. The new exchange rate regime was established to correct the overvalued exchange rate. The new fiscal measures were designed to reduce the widening budget deficit. Price increases were designed to eliminate subsidies and achieve import parity prices. The Petroleum Facility was designed to overcome excessive unit costs for petroleum imports and to solve the problem of acute fuel shortages, which have plagued the economy over the past few years. Together these measures are expected to address the balance of payments crisis and reduce the budget deficit. The new prices resulting from these measures, taken together, are expected to dampen imports and provide substantial incentives to increase exports. The difficult, and in some cases painful, economic measures come at a time when the negative impacts resulting from a severe drought and the freeze on donor balance of payments support were being felt throughout the economy. However, if the frozen commodity aid is released soon as a result of recent GOS policy reforms and the drought is not repeated again during the 1985 crop cycle, Sudan may well be headed toward economic recovery in late 1985 or early 1986. If Sudan continues to encourage production and rein in government spending, especially those financed by heavy borrowing, the country could experience real growth in the late 1980s.

#### D. Future Prospects

In the year 1984/85, Sudan's economy again faces grim prospects due largely to the drought's impact on production and exports. Agricultural exports are expected to fall about 13 percent from the previous year's low level to \$600 - \$650 million, and imports will also decline in light of foreign exchange scarcities and the general economic downswing. Imports are projected to be \$1,400 million. The decline in imports should lessen the trade gap slightly to around \$800 million. Sudan will pay higher interest charges on outstanding debt and is expected to receive somewhat less official

assistance, so the current account balance will worsen, particularly if currently frozen donor commodity aid is not released in the near future. Even assuming that debt rescheduling is as generous as in recent years, Sudan is expected to face an overall balance of payments gap exceeding \$600 million. (see Table 3)

Agriculture's projected performance will result in a declining GDP for the second year in a row, and real incomes will fall again in 1984/85. Little wheat was planted, so nearly the entire domestic harvest will be foregone. Sorghum production during the 1984 crop cycle fell to 1.2 million MT from last year's 1.8 million, which was also below normal. Millet and sesame production will register production declines as well. Maintenance of groundnut production levels may be helped by promising yields in the Blue Nile Region and South Gedaref. It is estimated that Sudan's 1984/85 food grain deficit, not including donor assistance, will be about 1.9 million MT. There will be little foreign exchange to mitigate the hardship through commercial purchases. Hunger will spread and internal migration will continue, depending upon the extent to which donor food assistance is able to cover the expected food deficit. Domestic demand will be low due to general recession, and export production will be much less than average. A year of economic decline and population dislocations are certain for 1984/85.

Sudan still has the cultivable land area to become an important agricultural producer and exporter. That, however, requires continued attention to maintaining macroeconomic prices that provide appropriate resource allocation signals and producer incentives. To help that happen means allowing producer prices to rise with time, not allowing exchange rates to overvalue the pound, resisting use of price subsidies and letting savers be rewarded for providing investible funds. In later years, economic performance could be encouraged by continued management of domestic credit levels, improving the tax structure and rate of collections, controlling public expenditures, managing and eventually reducing the external debt, reducing population growth rates, and maintaining a realistic floating exchange rate policy. Growth will depend to some extent on developments in the antagonism between the North and the South especially as it affects commercialization of indigenous petroleum supplies and economic integration. The February-March 1985 reforms described in Section C-7 above are very positive moves in the right direction for the economy as a whole, and indicate increasing awareness by the GOS of policy effects on growth. It remains to be seen whether the new (April 1985) government will adhere to similar policy patterns.

The next several years are bound to be troubled ones economically. Sudan's problems are largely recognized, and the direction policies must continually take are generally known. Future growth is possible, and its achievement rests squarely with the new Sudanese policy-makers, albeit with continued assistance from the donor community. With the diverse sources of advice and pressure and the immensity of the economic and physical crisis, the new regime will face an extraordinary challenge over the next year.

Table 3. Sudan: External Financing Gap  
(In millions of U.S. dollars)

	<u>1984</u>	<u>1985</u>
	September Mission Estimates	Projections
Exports	675	647
of which: Cotton	(310)	(318)
Imports	-1,328	-1,457
of which: Financed by aid ex- cluding petroleum	(417)	(474)
Petroleum aid	(95)	(150)
Services (excluding interest payments)	-45	-93
Receipts	(210)	(200)
Payments	(-255)	(-293)
Private transfers	350	450
Disbursements (gross)	512	624
(1) Official transfers	(359)	(468)
(2) Loans	(153)	(156)
Debt service (including IMF)	-523	-1,524
Interest	-300	-669
Amortization	-223	-855
Unfinanced gap	-359	-1,353

Memorandum item:

a. 1985 debt relief along the lines given in 1983 and 1984:

	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
a. Paris Club	-85	-117	-202
b. Non-Paris Club	-106	-211	-317
c. Commercial banks	-48	-162	-210
d. Total	<u>-239</u>	<u>-490</u>	<u>-729</u>

Source: IMF, 1985

### III. GOS AND DONOR APPROACHES TO STABILIZATION

#### A. GOS Economic Reforms

The economic program for 1983/84 as proposed by the GOS and supported by the donors aimed primarily at reducing the increasing debt burden while still maintaining the essential floor of imports and capital goods needed to rehabilitate and reconstruct the economy's productive capacity. In order to achieve this, the GOS undertook important policy actions in 1983 and 1984, including devaluation of the Sudanese pound and a broadening of those transactions allowable through the free foreign exchange market, more effective enforcement of a ban on the importation of less essential goods, implementation of budgetary measures to reduce reliance on bank financing, and elimination of budgetary subsidies. At the same time, the GOS, in 1984, also introduced an Islamic banking system (abolishing interest rates) and Islamic Zakat in lieu of certain taxes.

#### 1. Exchange Rate Adjustments

The organization of the foreign exchange market has settled into a system of two exchange rates: the official rate and the regulated commercial bank rate. The table below shows the chronology of adjustments in these exchange rates since 1981. The adjustments have decreased the value of the Sudanese pound per U.S. dollar for official transactions from LS 0.50 prior to autumn 1981 to LS 2.50 in February 1985. Prior to October 1984, agricultural exports were valued at an effective rate of LS 1.42 to \$1. This rate was based upon a conversion formula of 75 percent at the official foreign exchange rate and 25 percent at the commercial bank rate. On October 21, 1984, the GOS announced that the new commercial rate, (2.10 to \$1), would be used to value all merchandise exports except for two commodities--cotton and gum arabic. Those two commodities, both major foreign exchange earners, are for the current production year valued on the basis of the old 75/25 foreign exchange conversion formula.

In February 1985 the Bank of Sudan devalued the official rate by 92 percent (from LS 1.3 to \$1.0 to LS 2.5 to \$1.0). In addition, the commercial bank rate was increased by 42 percent (from LS 2.1 to \$1.0 to LS 3.0 to \$1.0). In March 1985 the rate was adjusted to LS 3.45/\$1.0. The resources supporting the official FX rate are all exports, commodity aid to the public sector and invisibles. The official rate becomes the export rate. The resources supporting the commercial bank rate are remittances from Sudanese working abroad and commodity aid destined for the private sector. The commercial rate becomes the import rate for the private sector.

Table 4  
Foreign Exchange Rate Adjustments

<u>Date</u>	<u>Official Rate</u> Pound Per \$	<u>Commercial Rate</u> Pound Per \$	<u>Market Rate</u> Pound Per \$
Pre-summer 1981	.50	.80	1.00
Summer 1981	.50	.80	1.25
November 1981	.90	.90	None
June-August 1982	.90	1.13-1.15	1.40
November 1982	1.30	1.75	None
March 1983	1.30	1.80	2.00
March 1984	1.30	1.80	2.30
October 1984	1.30	2.10	2.50
January 1985	1.30	2.10	3.25
February 1985	2.50	3.00	market closed
April 1985	2.50	3.45	3.6 <sup>*</sup>

(thin market)

\* Rate of illegal street market

## 2. Export Promotion and Import Restrictions

Another change brought about by the October 1984 announcement on foreign exchange was a modification of the distribution of foreign exchange through the banking system. Previously, the commercial banks kept 25 percent of the export proceeds they handled. The other 75 percent was turned over to the Central Bank, at the official rate. As of October 1984, the commercial banks were to keep about 50 percent of the proceeds. This increase in foreign exchange in the commercial banking system was to be used, in part, for invisible transactions that support export trade. In addition, the new commercial bank foreign exchange rate, as part of the export price formula, greatly increased export incentives. With the February devaluation the export rate increased from LS 2.1 to \$1.0 to 2.5 to \$1.0, thereby further improving export incentives. At this time, April 1985, the Bank of Sudan is to acquire all export earnings and commercial banks foreign exchange supply is to come from remittances and other permitted transactions.

The other side of the export/import formula called for import restrictions on non-essential goods. The list of 39 banned luxury items developed in 1983 remains in effect.

## 3. Private Investment

In November 1982, a National Development Bank was created with LS 10 million from the GOS and private investors to encourage private sector investment in transportation, food processing, and agriculture. An Investment

Bureau now operates to provide a one-stop location where licenses, building site permits, tax holidays and customs exceptions may be obtained. A Ministry of Finance committee has been established to streamline regulations and procedures for doing business in Sudan. Cotton, textile and sugar parastatals have been reincorporated under the Companies Act.

#### 4. Elimination of Subsidies

The Government has actively pursued a policy of eliminating consumer subsidies. During 1983 and 1984, the prices of petroleum and petroleum products, cigarettes, wheat, wheat flour, bread and most pharmaceuticals were raised substantially to import parity. The factory gate price of sugar increased late in 1983. The GOS also doubled water and electricity rates in May 1983. As a result, customs yields grew rapidly, and enormous budget subsidies--LS 82 million for wheat products alone--disappeared. In 1984, the prices of petroleum, cigarettes, railway fares, freight rates, electricity tariffs and telecommunication charges were all raised. In the FY 1985 PL 480 Title I agreement, the GOS agreed to continue pricing wheat at the commercial bank rate. As a result of these measures, all budget subsidies except for those on pharmaceuticals have been removed. In addition, implicit foreign exchange subsidies were greatly reduced during 1984 at the prevailing commercial bank rate. However, in order to prevent implicit foreign exchange rate subsidies from reemerging, as a result of the February 1985 devaluation, the prices of commodities administratively controlled will need to be increased in the very near future. In March 1985 the GOS raised prices on all petroleum products by margins of up to 66%, achieving a cost-recovery system at the applicable exchange rate. In addition, consumer bread prices were increased 33 percent in an attempt to reflect the cost of importing flour and wheat, however, these prices were rolled back in April allowing a budget subsidy to arise.

#### 5. Credit Policy

The Bank of Sudan, in order to curb inflation and limit the importation of the non-essential goods, issued new bank credit and liquidity control policies in October 1984. The following are some of the more important measures taken:

- (a) importers of essential goods will pay a minimum of 40 percent of the import value prior to the bank's approval of the import licence, except for raw materials and critical spare parts, which require only 10 percent;
- (b) on all other commodities the margin is 100 percent of the import value to obtain bank approval of the import licence;
- (c) inventory financing is restricted to discourage hoarding; loans to finance the storage of sorghum, flour, wheat and sugar are limited to 40 percent of inventory cost and may not exceed three months;

- (d) prohibited were the financing of loans for the purchase of foreign currency, credit facilities to private money exchange shops without prior approval of the BOS, loans for the purchase of land or real estate, and loans for personal use; and
- (e) to restrict banking sector liquidity, four regulations were issued.

The commercial bank reserve requirement was raised to 12.5 percent, up from 10 percent; all funds deposited as advance payment for imports had to be transferred from commercial banks to a special BOS account for payment of import bills; inter-bank lending was prohibited without approval of the BOS; and foreign banks were allowed to maintain demand and savings accounts only for importers and exporters registered with the Ministry of Commerce, Industry and Cooperation, companies engaged in development projects, and Sudanese working abroad.

#### 6. Streamlining the Management of Public Sector Entities

Public sector entities in the sugar, cement, tanning and textile sub-sectors were incorporated in 1983 and 1984 in order to streamline their management and operation as commercial firms. A Presidential decree was issued on January 22, 1984, which prescribed the arrangement for ownership and management of the White Nile pump agricultural schemes.

#### 7. Government Revenues and Expenditures

At the close of fiscal year 83/84, the Government switched its fiscal year basis from the Gregorian calendar to the Islamic calendar. Consequently, the current fiscal year, known as 1405h, runs from September 26, 1984 through September 12, 1985. This change was concurrent with substantive changes in the tax laws, specifically the introduction of a Zakat tax. At the time of the passage of the Zakat Act the following taxes were abolished: personal income tax, business profits tax, capital gains tax, and the stamp tax. These taxes amounted to LS 228.5 million in the fiscal year 1983/84 budget. Despite this abolition, the business profits tax and the stamp duty have reappeared at substantially higher base levels in the 1405h budget--collection is always one year in arrears. Revenue projections from a number of indirect taxes in the new budget exceed FY 83/84 amounts by 18 to 58 percent. Overall, there is a projected net revenue gain to the budget of LS 75.9 million. This figure does not include Zakat revenues as these are to be redistributed directly by the Zakat Chamber in accordance with the Koran.

The rate of expenditure growth in the budget continues to decline; 9.5 percent in the current year, compared to 27 percent in the previous year and 33 percent in FY 1982/83. The main areas of

budgeted expenditure growth during the last three years have been foreign loan repayment, defense, and salaries and supplies. The share of the development budget in total expenditures is 16 percent. Total expenditures, including the development budget, are LS 2,663 million. Since total revenue is projected to be LS 1,640 million, the overall budget deficit is officially estimated at LS 1,023 million. Foreign financing is projected at LS 918 million, a figure that includes project loans, local counterpart funds, and budget support. This leaves LS 105 million as a projected unfinanced deficit. The Finance Minister's budget speech asserted that this deficit will be covered by expenditure control, ordinary local resources, or the issuing of investment bonds. Three months after the 1405h budget was presented, the President issued two provisional orders: the first introduced a new consumption tax, and the second reintroduced personal income and business taxes, albeit renamed the Social Justice Tax.

The Government is now reassessing the budget situation and has put the estimated budget deficit (after debt relief) at LS 600 million. The Ministry of Finance and Economic Planning is preparing a deficit reduction plan which includes substantially higher customs duties, reductions in expenditures, higher taxes and less dependence on domestic bank financing.

#### 8. Monetary Policies

The GOS aimed to limit the expansion of the money supply in 1982/83 to 28 percent. The actual growth turned out to be 37 percent. This was due to the fact that even though borrowings by the Government, public entities and the private sector were within the relevant ceilings and targets, the external sector turned out to be much less contractionary than anticipated. As a result, the Government lowered the target for monetary expansion for 1983/84 from the original 26 percent to 18 percent. To help achieve the new target, a number of policies were adopted, including restricting government borrowing to 12 percent, borrowing by public entities to 13 percent and private sector borrowing to 19 percent. The initial impact of these measures was to sharply curtail the growth in domestic liquidity to 4.7 percent in the first four months of FY 1983/84. Sudan met IMF credit ceilings for 1983/84 as a result.

#### 9. Introduction of Sharia

In 1984, President Nimeiri announced new legislation in an effort to introduce Islamic law in Sudan. These included: (1) the Civil Transactions Act, 1984, (2) the Zakat Tax Act, 1984, (3) the Excise Duty Act, 1984, and (4) the Customs Act (Amendments), 1984. The Civil Transactions Act deals with legal subjects such as contracts, sales, companies, loans, insurance, etc. Since the implementation of this law draws heavily on the teachings of the

Koran and is in conflict with the Companies Act of 1925, it has raised a number of issues including the concept of limited liability. The Zakat Tax Act, which became effective on September 26, 1984, was originally designed to replace 18 existing acts including personal income taxes, business taxes, etc. In November 1984, the GOS reintroduced many of the old taxes, including personal income tax and the business tax. However, the GOS has not formally announced the changes of November 1984, which cover direct and indirect taxes including Excise Duty and Custom taxes. In December 1984, the GOS announced the banning of interest from all banking transactions. Because the various Sharia-related laws and regulations were only recently enacted, it is not possible at this time to assess their full impact on the Sudanese economy. The impact is further complicated by the status of Sharia under the new regime. While publicly maintaining its commitment to Islamic Law--albeit with elimination of so-called non-Sharia excesses imposed by the last regime--the new regime has apparently relaxed its enforcement of Sharia related laws. The system which will eventually evolve is unclear at this time as is the impact on the economy or economic actors reaction to it.

SUDAN: POLICY REFORM

Policy Issue

Status 3/85

1. Exchange Rate Regime      The Sudanese pound has had a history of being set at an overvalued rate. There has been a growing divergence between the official and the free rate. As a result, it is difficult for Sudan to compete in the world export market at an overvalued exchange rate.

The devaluations of 1978, 1979 and 1982 brought the official rate down by 73 percent to LS 1.30 per dollar. During February 1985, the BOS devalued the official rate 92 percent to LS 2.50 per dollar. At the same time the commercial bank rate was increased from 2.10 to 3.45 per dollar, and allowed to float.
2. Export Promotion      The export of cotton, groundnuts, gum arabic and other crops has been constrained because Sudan's overvalued exchange rate cuts producers' returns. Presently, the export rate is LS 2.5 per dollar and the commercial rate is higher. In addition, 100% of the export proceeds go to the BOS which does not enable the exporter to import inputs from his export proceeds. This acts as disincentive, since he has to pay LS 3.45 or even higher rates to buy foreign exchange.

As of Feb. 1985, only two commodities, cotton and gum arabic, were valued on the basis of the old 75/25 FX conversion formula; the new commercial bank rate was used to value all other merchandise exports. The movement from LS 1.42 to LS 2.1 represented a 47.9 percent price increase in terms of local currency for exporters. This incentive improvement was reflected in substantial producer price increases. Cotton prices for the 1984/85 crop were increased by 23 percent; cotton will be moved to the commercial bank foreign exchange rate for the 1985/86 crop. In Oct. 1984, the distribution of foreign exchange was changed. Commercial banks remitted 50 percent of export proceeds to the BOS for all exports, except cotton and gum arabic. With the Feb '85 devaluation the export rate was increased from LS 2.1 to \$1.0 to LS 2.5 to \$1.0. However, for the 1984 cotton and gum arabic crops the GOS will continue to price them at the LS 1.32 to \$1.0 export rate. With the 1985 crop cycle, all exports will be fully priced in domestic currency at the new official FX rate.
3. Import Liberalization      With the Feb '85 devaluation, all public sector imports will be priced at the new official LS 2.5 to \$1.0 rate

All private sector imports (except some drugs) were transferred to the free market rate by February 1983. The USAID Mission

and private sector imports will be priced at the commercial bank rate. Petroleum will now be priced based on a rate reflective of the FX cost of financing the supplies, and adjusted as the exchange rate fluctuates.

#### 4. GOS Domestic Resource Mobilization

The GOS has relied heavily on domestic borrowing and foreign financing rather than on its own savings to finance investment. Its domestic borrowing has cut availability and raised the cost of investment funds, thus curtailing exports, and heavy external borrowing has fueled soaring import demand and precipitated a debt servicing crisis.

#### 5. Elimination of Subsidies

Beginning in 1983 and continuing through the present, the Government has pursued a policy of eliminating consumer subsidies. To date, all explicit budget subsidies have been removed. Exchange rate subsidies remain on some petroleum items and some pharmaceuticals.

successfully negotiated the transfer of wheat import prices from LS 1.8 to LS 2.1 per dollar in the fall of 1984. Further movement is now required in order to prevent the implicit foreign rate from reemerging as a result of the February 1985 devaluation.

The GOS budget deficit has run about 6.5 percent of GDP in the past 2 years. With the introduction of the Zakat tax for social purposes and concurrent elimination of some 20 other taxes in mid-1984, the GOS faced the possibility of a large increase in the Government deficit. Realizing the implications of that, the GOS reinstated both personal and business income taxes, introduced an excise "consumption" tax, and revalued customs on the basis of the LS 2.1 to \$1 rate in late 1984. During February 1985, the Ministry of Finance revised the budget again in light of the devaluation. New fiscal measures were introduced to generate LS 560 million in additional revenue and budget expenditures were cut by LS 40 million. The combined measures were designed to finance an estimated LS 600 million budget deficit.

Subsidies have been eliminated by raising administered prices, often by using the commercial rate instead of the official rate as a basis for valuing tradeable items. Bread and wheat/wheat flour foreign exchange rate subsidies were eliminated in July 1984. Public sector imports have been moved to the new official rate of LS 2.5/\$1.0. Periodic adjustments in

administrative prices are required to prevent the reappearance of explicit budget subsidies. Preventing the reappearance of implicit subsidies necessitates periodic commodity price increases based upon a realistic exchange rate. Prior to initiation of the Petroleum Facility, substantially higher petroleum prices were announced in March 1985 which will more than cover import parity at the new official exchange rates.

6. Monetary Control Tighter control on money supply is essential because of its impact on aggregate demand and import demand. Excessive monetary expansion has contributed to significant inflation.

In 1982-83, monetary growth reached 37 percent as opposed to the IMF target of 28 percent. In 1983/84, the GOS has been successful in limiting growth in money supply to under 18 percent, primarily by restricting credit to public entities, the private sector and the Central Government. In December 1984, the GOS voluntarily undertook measures to further curb credit and domestic liquidity growth. Bank lending for essential imports now requires margin requirements of 40 percent, and only specified items are eligible for financing. New loan restrictions apply, and personal, real estate, and long- and medium-term loans to the public sector are prohibited. The IMF is working with the GOS to attempt to hold growth in money supply to 18 percent in 1985.

7. Interest Rates and Savings Mobilization Sudan has traditionally been reluctant to use interest rates to encourage savings and allocate capital due to political and religious attitudes, and has instead allowed negative real rates and adopted inefficient quantity restrictions on bank lending.

In Dec. 1984, the GOS announced the banning of interest on all banking transactions and introduced Islamic banking practices. The banks may now take an equity position in collaboration with other investors, and thus share more of the direct business risk. Their participation arrangements serve the same purpose as explicit interest rates in allocating their investible funds, as banks are permitted to charge various "fees" on

loans. It remains to be seen whether this, combined with recent devaluations, will encourage increased savings by Sudanese and encourage remittances from Sudanese working abroad.

8. Increases in Domestic and Export Prices The GOS practice of setting prices has resulted in major problems in both production and consumption expenditure. Of particular importance have been the prices for agricultural and industrial public services.

Institutional arrangements were made in 1984 for carrying out regular price reviews of all tradeable goods. Minimum procurement prices of cotton, groundnuts, sesame and gum arabic increased again in October 1984 by amounts ranging from 30 to 40 percent. The domestic price of sugar was increased from LS 250 per ton to LS 400 per ton during the FY 83 season. Electricity rates doubled in May 1983 and increased another 50 percent in December 1983. Similarly, the price of gasoline was increased by 50 percent in December, 1983. Further petroleum price increases were announced in March 1985, ranging up to 66%.

9. Public vs. Private Sector Relationships Although the GOS is undertaking a well-publicized privatization program, events in the past year indicate that the public sector is emphasized at the expense of the private sector. This has resulted in increased inefficiencies and price distortions, a disappointing trend after the policy reforms of the last three years.

Public sector entities in the sugar, cement, tanning and textile sub-sectors were incorporated companies in 1983 and 1984. In Jan. 1984, the small agricultural pump schemes of the White and Blue Nile schemes were transferred to the private sector. However, the expansion of the Military Economic Corporation in the productive sectors of the economy is proceeding at an alarming rate. From a very modest beginning in 1982, it has grown to employ a large staff and has branches in London, Cairo, Abu Dhabi and Morocco. It owns factories, farms, aircraft, buses, several companies and has almost entirely taken over the importation of certain commodities, including cigarettes. This, combined with a complete overhauling of commercial laws to conform with Sharia, has added considerable uncertainty to the investment climate. Recently, the new government has moved to freeze and review some MEC activities.

Overall Summary

The GOS has implemented some tough reforms in the past two years, especially in the areas of foreign exchange, credit control and producer pricing. During February 1985, the GOS implemented a major devaluation of the official rate, substantially increased the commercial bank rate, and moved free foreign exchange transactions into the commercial banking sector. In addition, it implemented necessary fiscal reforms to cover the projected 1984/85 government budget deficit. But in order for sustained recovery to take place, the GOS needs to revise the relationship between the public and private sectors, which continues to burden public finances while inhibiting the use of private capital and resources for productive economic activities. Steps must be taken to reduce the risk and uncertainty that exist in the private sector. It remains to be seen whether the April 1985 regime will continue austerity measures and structural reforms commenced under former President Nimieri's government in recent months.

**B. Three Year Public Investment Program.**

The last Three Year Public Investment Program (TYPIP) done in 1983, provided for development expenditures of LS 724 million in 1983/84, at current prices, but only 69 percent of the budgeted amount was spent. The LS 500 million expended is still a 25 percent increase over 1982/83. Implementation of budgeted funds was particularly good in the energy sector, but agriculture, transport and communications received the largest shares.

The GOS has undertaken economic reforms to support its investment plans. Though hampered again by drought, the GOS adjusted exchange rates and increased export prices in 1983/84, while reducing export taxes. Exports thus increased slightly. The GOS reports that its attempts to restrain monetary expansion are working. The rate of expansion reportedly fell to 18 percent in 1983/84. The GOS maintains that resource mobilization efforts induced a 30 percent increase in the collection of direct taxes and an 11 percent increase in indirect tax revenues.

The current TYPIP covering the period 1984/85-1986/87 contains a policy action program aimed at supporting structural adjustments in the economy.

**1. Policy Action Program**

**Balance of Payments:** The GOS plans to maintain a flexible exchange rate policy to promote exports and limit import demand with the long-term objective of balance of payments equilibrium. In a more direct approach to export promotion, the GOS plans to continue raising producer prices to international levels. A study is under way to determine the real composition of producer prices and ensure that they remain remunerative. Inputs purchased on the free market will be valued as such in determining commodity prices. Agricultural production relationships in public schemes have been reformed, and the rehabilitation of irrigated schemes is continuing. Customs duties on exports have been cut, and those on imports increased. The effective exchange rate applicable to all but cotton and gum arabic was raised from LS 1.42 per \$1 to LS 2.1 per \$1 in October 1984, greatly increasing export incentives. In addition, the domestic price of all imported agricultural inputs were priced at the LS 2.1 per \$1 exchange rate, thus achieving the same exchange rate for inputs and outputs. In February 1985, the GOS moved exports and public sector inputs to LS 2.5 to \$1.0 and allowed commercial banks to raise their rate to LS 3.0/\$1.0 and developed a mechanism for the rates adjustment. The Banks are also to deal in foreign exchange at their new rate. By mid-March the rate was LS 3.16/\$1.0, and has subsequently floated to LS 3.45/\$1.0 in April.

The GOS seeks to limit imports to levels consistent with resource availability and essential needs through administrative controls and appropriate price signals. Margin requirements on letters of credit are 100 percent for all but 22 essential imports at 40 percent, and raw materials and critical spares at 10 percent. Thirty-nine luxury items, including passenger cars, are banned outright. Customs duties on all but essentials have been revised upward in early 1985.

The GOS is currently studying ways to further increase the inflow of remittances from Sudanese working abroad.

Production: To increase production, the GOS plans to continue increasing the managerial efficiency of parastatals, to work with the World Bank to implement the rehabilitation of textile and sugar plants, and to complete the revision of production relations in irrigated agriculture. A revision of national labor codes and employment policies is also planned. A comprehensive strategy to improve rainfed agriculture will be prepared, and implementation will begin during this TYPIP. Medium- and small-scale irrigated agricultural pump schemes are being privatized. The GOS states that it plans to phase down direct government participation in productive economic activities generally, and has "commercialized" several enterprises to this end.

To support producers, the GOS plans to better coordinate its commodity assistance and its own resources to insure that essential inputs are supplied. Programs for agricultural storage and marketing and livestock productivity will also be continued.

Money and Banking: The GOS plans to hold money supply to a 15 percent increase in 1984/85 by further reducing Central Government credit with commercial banks and continuing to use strict margin requirements on most imports. Private productive investment will be given priority by banks while loans for real estate and consumption will remain banned. Commercial banks must maintain balances equal to 12.5 percent of total deposits and interbank lending must be approved by the Bank of Sudan.

Domestic Resource Mobilization: The GOS aims to cut current expenditures from 17.7 percent of GDP in 1983/84 to 14.6 percent in 1986/87 in view of the shift of some central tax resources to the Zakat system. To do so, the GOS will implement a revised customs tariff structure and reorganize the customs department to insure improved collection. Tax collection is to be improved generally. Subsidies should not reappear as prices for parastatals and other producers will be reviewed with an aim at cost recovery and adequate remuneration. The tariffs of public utilities will continue to be reviewed for needed increases. Petroleum prices will be closely monitored for needed adjustments. The legal framework for a stock market is in place, and the GOS still talks of its implementation to encourage savings and investment.

Resource Allocation: Studies to guide investment for development will continue, and the GOS will allocate monies only to projects directly contributing to economic recovery and in areas of Sudan's comparative advantage.

Annual development budgets will be monitored for consistency with the TYPIP. Project appraisal and information systems will be institutionalized, with project approval procedures explicitly followed. In addition, monitoring of macro-economic performance will be further refined to develop a framework for assessing long-term investment programs and policies.

External Resource Mobilization: Through the support of the December 1983 Consultative Group, over \$800 million in balance of payments and project support was mobilized. In May 1984, major Paris Club and commercial creditors agreed to a generous rescheduling/refinancing of Sudan's burdensome debt. The

GOS realizes that it needs continued support and is attempting, with IMF assistance channeled through the Joint Monitoring Committee, to improve debt management and thus make timely payments.

Private Sector Promotion: The GOS recognizes the importance of encouraging private production, which now accounts for 70 percent of total GDP. Though public investment in infrastructure and services will support private enterprise, other initiatives are planned.

The GOS approach to improving the incentive structure and investment climate includes expanding tax concessions, utility and finance supply preferences, and trade protection. Development of more financial institutions will be undertaken, with some jointly funded by the GOS and other investors. Joint public and private, domestic and foreign ventures will be encouraged. The GOS states it will eliminate subsidies to public sector entities so as to improve the competitive position of private ventures. In the same vein more public ventures will be privatized. The Military Economic Corporation's operations are to "supplement and not supplant the private sector," and no monopolistic role will be assigned to it in trade, services, or production. The GOS is hosting a UNIDO Regional Investment Promotion meeting in March 1985, where local projects will be presented for funding to potential foreign investors. In addition, the GOS plans to introduce a formal investment schedule to channel private funds to priority areas. At the same time, the GOS Investment Board has opened consultations with the Chamber of Commerce to allow private participation in decisions affecting investors.

Several of these policies represent a sharp departure from current practices and are yet to be implemented.

Certain constraints facing the private sector are mentioned but not addressed through explicit policy measures. They include: excessive government "red tape" and inflexibility, a lack of well-planned industrial areas, excessive rural lending rates, uncertainty in the foreign exchange regime, profit squeeze caused by a less effective exchange rate being applied to exports than to imported inputs. Others, such as price and profit margin controls, and burdensome labor laws went unmentioned.

The above policy program is designed to instill donor confidence in Sudan's willingness to address structural imbalances in the economy. In conjunction, Sudan will continue efforts at future debt rescheduling and seek foreign assistance which doesn't exacerbate its debt structure. The GOS will seek donor technical assistance to effectively implement a manpower development and training program essential to the recovery program. Overall, the GOS intends to improve coordination with donors on the level, type and timing of aid, to better meet development objectives.

## 2. Public Investment Program

The fifth TYPPIP is structured to embody much improved disbursement of foreign aid and a reduction in budgets of "self-financing" government entities. With foreign aid disbursement increases, the GOS hopes to push implementation of the public investment budget to 80 percent from 69 percent,

thus raising real investment in 1984/85 by 10 percent from the previous year. In constant 1981/82 dollars, the three year (1984/85 - 1986/87) total planned investment is LS 1,237 million, or LS 2,700 million in nominal terms. Local contributions will total 47.4 percent and foreign input is planned for 52.6 percent of the budgeted total. Agriculture, transport and communications comprise by far the greatest share, but regional development follows, evidence of its priority (see Table 5).

Agriculture: Under this TYPIP, ongoing rehabilitation of irrigated sector schemes will continue, and a major rehabilitation program in Gezira and the Northern Pump Schemes commences. Rainfed agricultural production has suffered during the three-year drought, losing some of its preeminence to irrigated production, which managed improvements under the previous policy program. Fully one-third, LS 280 million, of agriculture's allotment will fund investment in rainfed agriculture. Projects to boost rainfed and livestock production will be reemphasized, and gum arabic trees will be replanted in projects with the aim of checking desertification. Livestock routes will be developed, further reducing overgrazing that has contributed to desertification. Additional multipurpose storage will be constructed to improve agricultural marketing.

Manufacturing: Public sector industrial investment is small relative to private involvement. The GOS plans to rehabilitate sugar, textile and leather industries and improve the management of these, and of public food-processing and cement industries, by operating them on a "commercial basis." Rehabilitation claims the largest budget share and focuses on sugar, in which Sudan expects to become self-sufficient during this TYPIP. Textile rehabilitation also aims at import substitution.

Transport and Communications: Lack of infrastructure remains a major barrier to economic growth. GOS priorities for its improvement include completing current road projects and maintaining existing roads. Further attempts will be made to rehabilitate Sudan Railways' physical and managerial structures, including implementing new tariffs to make it a viable mode for long-haul shipments. Road links to the West (including the USAID-financed El Obeid-Kosti Road) and South will commence, and river transport between the Central and Southern regions is scheduled for development. Sudan hopes to modernize internal and international telecommunications links.

Energy and Mining: Insufficient power supply is a critical constraint to increasing production in Sudan, and generation increases have not kept pace with demand growth. In this TYPIP, 11.4 percent of the budget is allocated to energy and mining, a reflection of implementation constraints rather than low priority. The World Bank Power III and Power IV projects will result in an improved and expanded Blue Nile Grid. Hydro projects are being studied, and the program also allows for a pipeline connection between Sudan's oil refinery and the new harbor south of Port Sudan.

Water and Services: In the next three years, LS 68.5 million will be spent on developing water supplies to support people and livestock. The bulk will apply to developing rural water sources. The GOS has allocated 11.3

percent of the TYPIP budget to services, primarily to health and higher and technical education. Specialized higher educational faculties will be developed for the regions, and vocational training will seek to replace some of the emigrated Sudanese manpower. Public work monies will fund public design and supervision efforts, while the private sector will undertake most construction.

Regional Development: Support of the regions remains a stated GOS priority. From a LS 78 million allocation to the regions in 1983/84, the average under this program will increase to LS 107 million per year. Regional governments decide their use, but most fund small basic needs projects in regional and provincial capitals.

These investments are intended to compliment the structural adjustment goals embodied in the policy action program. Without timely implementation of such measures, dislocations caused by policy shifts will have a greater negative impact, and the policies themselves will be less effective.

Table 5

5TH THREE YEAR PUBLIC INVESTMENT PROGRAM

1405 H - 1407 H (1984/85-1986/87)

(Millions of Sudanese Pounds)

Sector	Estimated			Actual			1405 H			1406 H			1407 H			3 Year total			%
	1983/84		Total	Local		Foreign	Local		Foreign	Local		Foreign	Local		Foreign	Local		Foreign	
	Local	Foreign		Local	Foreign		Local	Foreign		Local	Foreign		Local	Foreign		Local	Foreign		
Agriculture	57.6	71.5	129.1	77.5	147.4	224.9	111.0	181.8	292.8	123.6	197.7	321.3	312.1	526.9	839.0	31.1			
Manufacturing	18.2	16.3	34.5	16.7	43.3	60.0	20.0	75.0	95.0	28.0	77.0	105.0	64.7	195.3	260.0	9.6			
Transport & Communication	65.3	56.3	121.6	60.3	74.5	134.8	73.5	95.4	168.9	83.5	91.5	175.0	217.3	261.4	478.7	17.7			
Energy & Mining	26.7	47.2	73.9	13.8	58.8	72.6	24.1	71.5	95.6	36.1	103.7	139.8	74.0	234.0	308.0	11.4			
Water	9.6	4.1	13.7	7.9	15.0	22.9	13.0	10.8	23.8	11.6	10.2	21.8	32.5	36.0	68.5	2.5			
Services	39.7	10.2	49.9	37.3	46.3	83.6	51.5	55.5	107.0	56.3	56.8	113.1	145.1	158.6	303.7	11.3			
Regional	69.0	9.0	78.0	97.7	7.8	105.5	97.9	-	97.9	118.7	-	118.7	314.3	7.8	322.1	11.9			
Dev't Reserve	-	-	-	40.0	-	40.0	40.0	-	40.0	40.0	-	40.0	120.0	-	120.0	4.5			
<b>Total</b>	<b>286.1</b>	<b>214.6</b>	<b>500.7</b>	<b>351.2</b>	<b>393.1</b>	<b>744.3</b>	<b>431.0</b>	<b>490.0</b>	<b>921.0</b>	<b>497.8</b>	<b>536.9</b>	<b>1034.7</b>	<b>1280.0</b>	<b>1420.0</b>	<b>2700.0</b>	<b>100</b>			
<u>of which</u>																			
Self-Financed	46.4	28.0	74.4	41.6	43.6	85.2	40.3	58.6	98.9	47.7	58.3	106.0	129.6	160.5	290.1	10.7			
Centrally Financed	239.7	186.6	426.3	309.6	349.5	659.1	390.7	431.4	822.1	450.1	478.6	928.7	1150.4	1259.5	2409.9	89.3			

C. IMF Standby Arrangements

As of January 1985, Sudan had no IMF Standby Arrangement and owed arrears of \$82 million to the Fund. This figure had grown to \$170 million by the time of the April 6 coup. The IMF is currently reassessing Sudan's economic situation and determining conditions for a continued relationship with the Fund. In looking at Sudan's economy, the IMF will have to consider the impact of the drought on projected foreign exchange earnings and on domestic resource mobilization in the short and medium term. Substantial reforms on the part of the GOS will undoubtedly be required.

The targets of Sudan's last full-fledged Standby Arrangement (February 1983-February 1984) were only partially met. On the positive side, a few goals were actually exceeded: cotton production surpassed its 16 percent targeted increase, and the government budget deficit did decrease to 6 percent of GDP, 1 percent better than the targeted 7 percent. On the other hand, GDP declined by over 2 percent, as drought affected the rainfed agricultural sector, and the money supply grew more than the 28 percent targeted, driving inflation to 40 percent versus the 30 percent originally projected. Government and private borrowing, however, remained within the 18 percent credit ceiling.

Despite some unmet targets, Sudan and the IMF started talks about a new Standby Arrangement to be based on satisfactory economic reform measures and successful debt rescheduling with commercial and foreign government lending institutions. A new short- and medium-term standby program involving significant economic reforms, developed in the spring of 1984, began in June 1984. The new Standby Arrangement, however, collapsed one month later, in July 1984, when Sudan could not meet arrears of \$42 million to the Fund.

The failed Standby Arrangement had assumed an optimistic real annual GDP growth of 5 percent through 1985/86, on the condition that external assistance and debt relief remained steady and that the free foreign exchange market continued to operate. The program aimed at increasing traditional exports, reducing imports of non-essentials and certain domestically produced items, and cutting inflation to 20 percent annually. Specifically, the short-term elements of the program included:

- Encouraging exports by increasing procurement prices and ensuring the availability of essential imports through a carefully managed commodity import program.
- Promoting import substitution through the continued rehabilitation of irrigated agricultural schemes and sugar and textile factories, while improving internal transport by strengthening Sudan Railways' management and finances.
- Improving resource allocation by raising petroleum prices and removing controls on retail prices and private profit margins.

- Limiting monetary expansion to 18 percent in 1983/84 by restricting BOS credit to the Central Government to LS 100 million, raising charges and rates on land use, transport and electricity, and restraining private sector credit by increasing margin requirements and reducing nonessential imports.
- Continuing use of the multiple exchange rate system with a 75/25 foreign exchange conversion rate formula for exports, resulting in an effective exchange rate of LS 1.42/\$1.00 (which USAID considered inadequate).
- Reducing nonessential imports by maintaining restrictions on thirty-nine items.

For the medium term, through 1985/86, last spring's failed Standby Arrangement called for:

- Continued growth in agro-industries and irrigated agriculture through further rehabilitation of irrigated schemes and sugar and textile plants, along with the maintenance of financial incentives.
- Increased government resource mobilization and reduction of the deficit to 3 percent by containing recurrent expenditures, increasing tax collections, raising the yields on government bonds, and improving the profitability of public sector enterprises.
- Restricted money supply growth with positive returns on bank lending and reasonable growth in public and private credit.
- Reoriented private investment, turning away from trading and real estate and toward agriculture and agro-industry, along with the elimination of price controls and administered profit margins.
- Limited growth in public and private sector consumption, pegged at the population growth rate of 3 percent a year.

#### D. Debt Rescheduling and Other Donor Assistance

Sudan's agricultural promise, strategic geographic position and economic reform efforts have encouraged both creditors and donors to provide strong support during the past few years for stabilization work. Continuing generous past Paris Club rescheduling terms, all unpaid principal and interest due in 1984 were consolidated in May 1984 into one loan, and half the amount due from the 1983 rescheduling was capitalized and added to the main consolidation.

Commercial creditors (London Club) also rescheduled some \$137 million in 1984. The total amount rescheduled following the February 1983 Paris Club meeting was US \$535 million. In both instances, similarly generous rescheduling terms were arranged with non-Paris Club bilateral donors and other commercial creditors.

Debt rescheduling thus reduced Sudan's unfinanced current account gap by nearly \$400 million in 1984. Going into arrears or arranging costly refinancing were the alternatives. Such arrangements have allowed Sudan time to determine the magnitude and timing of its payment requirements and develop medium-term debt management plans. The IMF has provided assistance for initiating a GOS debt monitoring unit. Nonetheless, Sudan's external debt profile shows projected high annual obligations throughout the 1980s. Payments (without rescheduling) are expected to be about \$1 billion annually throughout the 1980s (see Table 6) and will thus most likely outstrip annual export earnings by about 25-30 percent.

Annual debt obligations for the next two or three years are projected at between 8 and 12 percent of GDP in nominal dollars. The debt profile is Sudan's greatest obstacle to economic development, draining scarce foreign exchange while it increases private business costs and delays public development expenditures. It is imperative that the GOS continue to carefully negotiate further debt rescheduling and create a climate of confidence in its stabilization efforts.

Aside from debt rescheduling, donors have obligated substantial amounts of money to project and commodity assistance and other types of aid. Increasingly, donors have shifted from loans to grants because of Sudan's already massive external debt. In 1983, about \$264 million in project aid was committed, along with \$550 million in cash and commodity support. Levels were similar for 1984, when \$332 million was committed in project assistance and \$474 million in balance of payments support (cash and commodity aid).

Thus, total donor assistance committed at the 1984 Consultative Group meeting, held in December 1983, was \$806 million. Actual disbursements between January 1984 and June 1984, however, amounted to only \$182.9 million--\$69.7 million in project aid and \$113.2 million in nonproject support (see Tables 7 and 8). The nonproject aid disbursement of \$113.2 million included \$33.2 million from commodity aid in the pipeline on January 1, 1984, \$30 million from PL 480 committed in 1984, \$11.5 million from commodity aid committed in 1984, \$18 million from cash grants committed in 1984 and \$20.5 million from the Arab Monetary Fund.

The GOS/CG Monitoring Group has indicated that donor assistance has not been as forthcoming as pledged. The pace of disbursements was unusually slow in calendar year 1984, especially with regard to commodity aid. In the past commodity aid has had a record of relatively faster commitment and disbursement. By September 1984, as against a pledge of \$405 million, the bilateral donors had committed only \$252.4 million through signed protocols. This included \$88 million committed by the USG.

Table 6  
Sudan: Estimated Debt Service on Public and Publicly Guaranteed Loans, 1984-89 1/  
(In Millions of U.S. Dollars)

	1984		1985		1986		1987		1988		1989	
	Principal	Interest										
Multilateral Institutions	221	86	202	100	192	95	230	86	245	78	254	73
Abu Dhabi Fund	11	1	11	6	11	5	16	5	16	5	16	4
African Development Bank/Fund	14	1	1	1	1	1	2	1	2	1	2	1
Arab Fund	11	3	12	6	12	7	12	8	13	8	16	9
Arab Monetary Fund	39	6	22	8	19	9	10	10	19	12	45	14
European Development Fund	3	-	1	-	1	-	1	-	1	0	1	-
IBRD/IDA	9	8	7	10	7	10	6	11	7	12	8	13
IMF 2/	95	60	124	59	113	53	151	38	155	28	115	19
Kuwait Fund	17	3	8	3	8	3	9	3	9	3	8	3
OPEC Fund	3	0	5	0	5	-	5	-	5	-	5	-
Saudi Fund	16	2	8	3	12	3	12	6	12	6	14	7
Other	3	1	3	4	3	4	6	4	6	3	6	3
Bilateral creditors	357	272	341	244	306	229	238	217	231	204	379	183
Club of Paris	195	138	128	117	130	113	68	103	67	100	107	95
I	(59)	(29)	(66)	(21)	(68)	(17)	(25)	(7)	(23)	(5)	(23)	(3)
II	(10)	(19)	(-)	(18)	(-)	(18)	(-)	(18)	(17)	(17)	(35)	(14)
III	(25)	(58)	(-)	(58)	(-)	(58)	(-)	(58)	(-)	(58)	(30)	(58)
other	(101)	(52)	(62)	(20)	(62)	(20)	(43)	(20)	(27)	(20)	(21)	(20)
OPEC members	130	119	181	112	141	101	136	100	142	92	250	82
Kuwait	(13)	(46)	(52)	(42)	(52)	(37)	(52)	(35)	(61)	(29)	(110)	(25)
Saudi Arabia	(94)	(60)	(96)	(53)	(66)	(48)	(76)	(54)	(76)	(52)	(120)	(47)
Other	(23)	(13)	(33)	(17)	(23)	(16)	(8)	(11)	(5)	(11)	(20)	(10)
OIEA members	14	5	13	6	11	6	8	6	6	5	4	2
Other	18	10	19	9	24	9	26	8	16	7	18	4
Commercial banks	-	163 3/	186	112	186	90	186	68	186	45	44	29
Rescheduling agreement	-	137 3/	186	86	186	64	186	42	186	19	44	3
Other	-	26	-	26	-	26	-	26	-	26	-	26
Total	578	521	729	456	684	414	654	371	662	327	657	285

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

1/ Includes debt service on new loans estimated at US\$402 million in 1983, US\$366 million in 1984, and US\$275 million per annum in 1985-89.

2/ Includes Trust Fund and SDR charges.

3/ Obligations prior to the debt relief accorded on April 2, 1984. Under the relief, these obligations have been reduced to US\$36 million.

Table 7

Statement of Donor Disbursement of Project  
Aid During the Period Jan 1983 to June 1984

(U.S.\$ Million)

	Jan. June 1983	July Dec. 1983	Jan. Dec. 1983	Jan. June 1984	July 1983 June 1984
1. World Bank	53.059	16.778	69.837	16.108	32.886
2. IFAD	1.870	1.712	3.582	3.155	4.867
3. African Development Fund	1.014	0.227	1.241	-	0.227
4. African Development Bank	-	-	-	-	-
5. Islamic Development Bank	-	-	-	-	-
6. Arab Development Fund	-	0.236	0.236	-	0.236
7. E.E.C.	10.600	9.249	19.849	6.494	15.743
8. Kuwait Fund	5.351	0.822	6.173	-	0.822
9. Abu Dhabi Fund	0.035	0.009	0.044	-	0.009
10. Saudi Fund	3.692	1.200	4.892	7.270	8.470
11. F.R. Germany	6.902	16.793	23.695	11.739	28.532
12. U.S.	10.140	12.875	23.015	5.291	18.166
13. Denmark	1.231	5.046	6.277	0.045	5.091
14. Netherlands	5.491	12.052	17.543	4.941	16.993
15. U.S.A.	-	-	16.740	13.621 <sup>1/</sup>	-
<b>TOTAL</b>	<b>99.385</b>	<b>76.999</b>	<b>193.124</b>	<b>68.664</b>	<b>132.042</b>

Source: GOS 6th Report of the JMC, Ministry of Finance and Economic Planning

<sup>1/</sup> As of September 1984

SUDAN CIP - W-214 REPORT

AS OF	TOTAL DISBURSEMENTS		MONTHLY DISBURSEMENTS
1981 - 1/31	143,707,201.00	JAN.	-
2/28	165,663,693.00	FEB.	*1,956,492.00
3/31	167,403,810.00	MAR.	1,740,117.00
4/30	155,483,726.00	APR.	-
5/31	165,991,938.00	MAY	10,508,212.00
6/30	178,360,498.00	JUN.	10,956,688.00
7/31	198,325,469.00	JUL.	19,964,971.00
8/31	201,781,797.00	AUG.	3,456,328.00
9/30	205,201,192.00	SEP.	3,419,395.00
10/31	209,549,703.00	OCT.	4,348,511.00
11/30	216,499,511.00	NOV.	6,949,808.00
12/30	219,350,509.00	DEC.	2,850,998.00
1984 - 1/31	221,894,440.00	JAN.	2,543,931.00
2/29	242,216,261.00	FEB.	*2,321,821.00
3/31	244,820,328.00	MAR.	2,604,067.00
4/30	246,332,233.00	APR.	1,511,905.00
5/31	248,701,228.00	MAY	2,368,995.00
6/30	250,327,828.00	JUN.	1,626,600.00
7/31	261,505,614.00	JUL.	11,160,945.00
8/31	262,491,160.00	AUG.	905,546.00
9/30	263,734,675.00	SEP.	1,243,525.00
10/30	265,699,672.00	OCT.	1,964,997.00
11/30	266,100,206.00	NOV.	400,534.00
12/31	266,548,887.00	DEC.	448,681.00

\* EXCLUDE 2 CASH TRANSFERS FOR \$20 AND 18 MILLION

58+

TABLE 5  
COMMODITY AID DISBURSEMENTS  
DURING JULY 1983 TO JUNE 1984

(In US\$ Million)

<u>Sources</u>	<u>July-December</u> <u>1983</u>	<u>January-June</u> <u>1984</u>	<u>Total</u>
U.K.	7.6	8.2	15.8
Switzerland	1.1	6.9	8.0
Norway	.7	2.0	2.7
Finland	2.0	-	2.0
E.E.C.	19.0	-	19.0
Saudi Arabia	38.5	-	38.5
France	6.0	2.1	8.1
West Germany	-	2.2	2.2
Japan	3.9	0.1	4.0
Netherland	13.0	0.6	13.6
Italy	21.5	3.6	25.1
U.S.A.	<u>25.4</u>	<u>49.0</u>	<u>74.4</u>
Total	138.7 =====	74.7 =====	213.4 =====
<u>Cash Assistance</u>			
Saudi Arabia	48.2	-	48.2
AMF	-	20.5	20.5
U.S.A.	<u>20.0</u>	<u>18.0</u>	<u>38.0</u>
	68.2 =====	38.5 =====	106.7 =====

Source: GOS 6th Report of the JMC, Ministry of Finance and Economic Planning

World Bank Group gross commitments to Sudan through 1984 totaled \$990 million, while IFC project commitments were \$35 million. There have been eight IBRD loans (two on third window terms) and 39 IDA credits for a total of 47 projects. Nineteen projects are being implemented. Over 80 percent of the Bank's assistance has consisted of IDA credits, \$85 million, while IBRD loans have amounted to \$139 million. The IFC's \$33 million has primarily financed public-private joint ventures in textiles, cement, sugar and food processing, most of which have been run as commercial ventures. World Bank lending represents about 10 to 15 percent of total aid flows to Sudan.

About 59 percent of total Bank/IDA lending has been for agriculture. Work in other sectors includes three electrical power generation projects, two education projects, two highway projects, four railway projects, two port projects, two technical assistance projects, and two industrial credit projects.

In 1983 IDA committed a total of \$130 million, of which \$80 million equivalent was for the Gezira Rehabilitation Project and \$50 million for the Second Agricultural Rehabilitation Program. The Gezira Project is expected, over five years, to raise crop yields and production through improved irrigation, drainage and pumping systems; rehabilitation of infrastructure and ginneries; provision of critical inputs; and improvements in training, research and health control. The project, which has a total cost of \$230 million, is cofinanced by Italy, the United Kingdom, the Arab Fund, and the Saudi Fund for Development. Japan is also considering participating in the cofinancing of this project. The Second Agricultural Rehabilitation Program will further support the Government's efforts to expand agricultural export earnings through the provision of inputs and spare parts on a fast disbursement basis in the irrigated subsector.

The Bank Group's commitments in 1984 amounted to \$50 million in project assistance. The Third Agricultural Rehabilitation Program Credit, when finalized, will disburse \$50 million in commodity assistance.

The IBRD puts emphasis on the rehabilitation of existing capital investments that offer promise of helping the country generate or save foreign exchange and on infrastructure projects that address critical bottlenecks. Specifically, the IBRD supports the following objectives:

1. Improved Balance of Payments--support for development projects and policy actions that help the country generate or save foreign exchange, with current priority given to rehabilitating existing capital investments in agriculture, and later in other sectors.
2. Key Infrastructure--support for infrastructure projects that relieve the most critical bottlenecks inhibiting productive output, especially in power and transport.

3. Longer-Term Development--assistance to the Government to prepare for longer-term development activities through studies of irrigated water-use priorities, population and health, rainfed agricultural potential and industrial development.

The IBRD expects to devote particular attention to domestic resource mobilization, the labor market, labor policies, industrial policy, private sector development, irrigation investment priorities, and a strategy for rainfed agriculture. The IBRD is planning a special population and health study for next year. Over the next several years, IDA expects to commit around \$100 million per year in new credits, although this level is dependent both on IDA replenishment at a reasonable level and continued improvements in GOS performance on economic policy and execution of IDA-financed projects.

#### E. US Assistance Strategy and Contributions

Owing to the nature of Sudan's development problems, A.I.D. had devised a strategy which lays the foundation for a medium- and long-term development effort aimed at economic development and growth, particularly in rain-fed agriculture.

Economic policy reform is at the heart of A.I.D.'s overall strategy. A.I.D., in conjunction with the IMF, has played a key role over the past three years in the reforms that have taken place thus far, particularly with respect to foreign exchange rate adjustments. However, in order to stimulate both agricultural production and export earnings greater financial incentives are required for the private sector. This is absolutely vital to the country's economic future, and it is, therefore, a major focus of attention in A.I.D.'s strategy.

In conjunction with the possible use of \$50 million from this CIP to guarantee a loan which the GOS may procure to help with short term debt. AID has certain requirements for GOS performance in matters pertaining to exchange rate unification and import parity pricing. Yet, it is not practical for the USAID to attempt to negotiate reforms in these areas with the GOS while the IMF is also addressing them. Thus, discussions between USAID and the IMF will assure that AID concerns are given consideration in the next round of policy reform. AID positions on the exchange rate and pricing reforms are reflected in the following points:

1. The GOS should continue to allow the commercial bank exchange rate to fluctuate in order to respond to market forces, thereby attracting foreign exchange to the commercial banking system.
2. The GOS will assure that, by December 31, 1985, Sudan's official foreign exchange rate will be unified in a way that assures that public and private transactions, and imports and exports, are valued at the same rate in terms of the foreign exchange utilized.
3. The GOS will move the financing of all imported commodities for use by the private sector and parastatals out of the Bank of Sudan accounts, with foreign exchange being provided through the commercial banks. Recognizing that the channels of the commercial bank for acquiring foreign exchange from Sudanese

working abroad will require time to develop, the GOS will review (on a monthly basis) foreign exchange availabilities of the commercial bank to determine a schedule upon which individual essential imports such as petroleum, wheat and flour, pharmaceuticals, fertilizer, pesticides, herbicides, farm mechanisms and other agricultural inputs will be shifted from Bank of Sudan to commercial bank accounts.

4. The rate of exchange utilized in pricing exports should be an average of the commercial bank rates over the previous two months. This rate is to be adjusted monthly. This would not apply as cotton produced in the commercial bank rates at the time of export. Exporters should be given the full value of the expected product as reflected in the foreign exchange price determined at that point.

5. To insure that sufficient foreign exchange stocks and flows exist in-country to finance key imports, the GOS will allocate to commercial banks by December 31, 1985, no less than 50 percent of the foreign exchange earnings from export receipts. Thus foreign exchange will be available to the private sector at the commercial bank rate.

In the past year, attempts to achieve realistic macroeconomic policies has been a top priority. Macroeconomic prices had become severely distorted in an economy that can little afford misallocation of its scarce resources. The foreign exchange regime has been of great concern, especially as it affects export prices (and thus supply) and the cost of imports to domestic consumers. In some cases, A.I.D. has actually worked with the GOS to revise retail prices of key items and procurement prices of major agricultural crops. Without a realistic incentive structure, development projects and commodity assistance play a less effective role as economic catalysts.

The CIP and PL 480 Programs help alleviate Sudan's very severe foreign exchange shortage. Moreover, A.I.D. has found these programs to be important mechanisms for maintaining a policy dialogue with senior government officials and for encouraging much needed economic policy reforms.

Commensurate with its efforts in policy reform, A.I.D. is striving to develop Sudan's rain-fed agricultural subsector. Studies carried out by A.I.D. have clearly shown that the rain-fed subsector's contribution to net agricultural foreign exchange earnings, given normal weather conditions, is far greater than that of the irrigated subsector, nearly four times as great in 1982. Though the rain-fed sector has been adversely affected by the drought, its potential for expansion remains strong. In contrast to irrigated production, the labor-intensive nature of traditional rain-fed agriculture and the minimum foreign exchange requirements for capital inputs assure high returns to marginal investments in technology and supporting infrastructure.

The lack of infrastructure is a significant constraint to Sudan's development. To alleviate the problem, A.I.D. will build a major road into the rain-fed subsector over the next three years while simultaneously improving farm to market roads and building grain storage facilities in the area. The intent is to facilitate both the flow of farm products to domestic and international markets and the distribution of improved technology and other farm requirements within Western Sudan. Complementing this approach

will be A.I.D.'s effort to support the government's policy of decentralizing Government services by providing local currency support for development efforts.

To support its assistance objectives in Sudan, the U.S. has provided balance of payments support and project aid since resumption of the A.I.D. program in FY 1978. In FY 1978, concessional sales of PL 480 Title I wheat totalled \$9.8 million. This was increased to \$19 million in FY 1979. In FY 1980, a five-year \$100 million Title III program was signed. Title I imports for FY 1985 are programmed at \$85 million, increase the FY 1983 and FY 1984 levels by \$35 million.

U.S. balance of payments assistance also has been provided since FY 1980 through the annual ESF-financed Commodity Import Program (CIP). ESF grants for CIP imports were \$40 million in FY 1980, \$50 million in FY 1981, \$100 million in FY 1982, and \$82.25 million in FY 1983, of which \$20 million was a cash grant. The FY 1984 CIP totalled \$120 million, of which \$18 million was provided in February 1984 in a cash grant. Of the remaining \$102 million, \$62 million was programmed for commodities and \$40 million was reserved towards the petroleum facility. The total FY 1985 CIP including the Petroleum Initiative CIP, is budgeted at \$114 million.

Project assistance has increased steadily in recent years. For FY 1985 the level is \$28 million. The bulk of the money will be spent on supporting agriculture, including financing marketing roads, grain storage, crop research, and agricultural credit. The Mission also has activities in energy, health, population and training.

#### IV. JUSTIFICATION FOR THE COMMODITY IMPORT PROGRAM

##### A. U.S. Interests and Objectives

Sudan is important to U.S. security interests in Egypt, the Red Sea littoral and the Horn of Africa. With both African and Arab cultural influences, Sudan's geographic reach contributes to its significance inasmuch as it borders on eight other countries, which together constitute half the area of the continent. In economic terms, Sudan could become an important exporter of food as its agricultural endowment is superior to virtually all of its neighbors.

U.S. - Sudanese relations have grown closer since the mid-1970s. The outlook of the two countries continue to coincide on a broad range of international issues. The U.S. objective is to promote Sudan's economic and political stability through its economic assistance program and to maintain the country's moderate orientation in the international arena as well as help it achieve its economic potential as a benefit to both itself and to the region.

##### B. Contribution to Recovery Effort

USAID Sudan's CIP underwent a thorough evaluation in October 1984 which examined its development and success in achieving stated goals. The evaluation noted the shift in commodity assistance from solely a quick-disbursing response to balance of payments problems, to a much more targeted effort aimed at easing the country through prescribed structural adjustments. The 1982 CIP provided the first big push to tie stabilization support to a reform initiative aimed at improving the efficiency and management of para-statal enterprises. This was a departure from the IBRD approach which only involved providing commodity assistance to public entities. This approach helped provide impetus to overall donor efforts to support restructuring the relationship between the State and its productive activities in Sudan.

In 1983, the CIP was tied to more specific economic sub-sectors which supported particular program emphasis or were connected with reform effort. Thus, USAID Sudan was determined to promote rainfed agriculture, and power and transport investment as having strong potential to improve economic productivity. To some extent, this exerted a focus on regional development particularly in the West, and where possible, in the South. For the first time, a goal was set to greatly increase private participation in the belief that their commodity use would be most efficient. The overall size of the program necessitated that the Mission also look hard at the management and joint programming of our considerable local currency funds.

Attempts to coordinate policy changes with commodity allocations led to the formation of a GOS Commodity Assistance Committee (CAC) in November 1983. The committee has devised a process for publicizing the availability of the

commodity assistance to the public and private sectors, receiving requests and making allocations in accordance with the GOS Three Year Public Investment Plan (TYPIP), which is prepared with IBRD assistance. In 1983, for the first time the GOS itself raised and discussed the management of parastatals in the its new TYPIP and in sessions of Sudan's Joint (Debt) Monitoring Committee (JMC).

In the 1984 CIP, USAID Sudan continued to emphasize sectors identified in 1983. Significant progress has been made in improving the capacity for power generation and this has opened the way for rate and management reforms which should help the system cover its cost deliver service essential to productivity, and make required system investments. A Regional Development fund was devised to use local currency monies to fund lending by the Agricultural and Industrial Banks of Sudan to the private sector, especially for rainfed agricultural development. The CIP allocation continued to show a movement from financing consumption items to production items, and progress in increasing the share to the private sector. Thus, shares for machine and vehicle maintenance and intermediate items to support export industries, e.g. jute bags and baling hoops for cotton, continued to be funded. CIP local currency generations were made available to support Western regional rehabilitation efforts through financing of rural water supply projects and needed commodities.

In 1984, USAID's local currency committee was established to review and program funds toward economic priorities. For the first time, some economic justification for each proposed commodity was included in the PAAD as well as clear rationale for particular sector focuses. To bolster efficient use of conventionally funded items, an innovative CIP solely for petroleum importation was developed for FY 1984 and 1985. Experience had proven the GOS's ability to generate analysis to support policy reform to be thin at best, and CIP local currencies are now available to complement commodity assistance with structural adjustment policy analysis.

The 1984 CIP evaluation came out in support of USAID's rainfed sector, power and transport sector focus. Basically, it called for more of the same—i.e. more analysis of the economic benefits of specific commodities is needed, greater coordination and perhaps technical assistance to the CAC in planning actual allocations would improve their level of efficiency and more careful programming of local currencies. The evaluation did find that CIP and associated reforms had been most successful in areas where leverage was greatest, the power sector, and agricultural pricing policies, for example. The Military Economic Corporation's continued expansion into productive areas was found to be hampering our efforts to develop a vibrant private sector. The CIP program has also been unable to induce significant GOS investment in either the West or the South, partly because of the magnitude of the investments needed to build infrastructure and the lack of internal policy change management capacity of the GOS. The CIP has helped leverage changes in foreign exchange rates and agricultural export prices, which provide strong incentives to rainfed producers in those areas. To date, the allocation of CIP funds has been primarily to Central region businesses and government agencies, though many of the commodities are eventually used in the other regions.

## 1985 CIP:

Despite the continued strong donor support of Sudan, the country has experienced severe economic decline in the last three years compounded by drought induced crop failure, power shortfalls, displacement and hunger of millions of Sudanese and a massive influx of refugees from other drought-ravaged border states. Sudan's foreign exchange account is all but empty. The GOS has enacted far-reaching economic reforms in the last several months (October 1984 to March 1985) in a desperate attempt to encourage the flow of donor and local resources into productive sectors. After carefully evaluating its 1984 CIP, USAID Sudan has put together a package of commodity assistance aimed at getting production moving again.

The CIP program has multiple objectives besides the policy reform aspect: (a) boost export performance and efficient import substitution to improve the balance of payments situation, (b) improve infrastructure--especially power transmission and generation, and transport to support agricultural and industrial production and marketing, (c) encourage private sector economic activity, (d) and to provide crucial budgetary support for the Government of Sudan (GOS) and donor development projects via joint programming of local currency counterpart funds. These stabilization efforts are a key adjunct to structural adjustment through policy reform. The CIP helps ease Sudan through structural adjustments which necessitate controlling domestic credit and restricting FX availability in the short-run. The CIP program was specifically designed to help fulfill the Export Action Program embodied in Sudan's current Three Year Investment Plan and continued in the current draft. From the Export Action Plan and analysis of efficient import substitution, a positive list of commodities was developed for Sudan by the GOS and donors in 1984. The 1984 CIP evaluation revalidated that list and all proposed 1985 CIP items are found on it.

Tallow imports support the labor-intensive, import-substituting soap industry and helps protect supplies of high value cotton seed oil for export. Sudan's per capita soap consumption is lower than that of many developing countries and expected to grow. Lubricant imports ease a critical shortage which affects the transportation, agriculture and manufacturing sector. Shortages shut down industrial machinery and reduces the economic life of capital equipment while increasing maintenance costs. The burgeoning Sudanese sugar industry is particularly vulnerable to lubricant shortages, as is the private transport sector. Pharmaceutical raw imports are intended to strengthen the seven manufacturing plants in Sudan. Supply shortages (among other things) have rendered them unable to meet local tenders, necessitating a scramble for expensive finished imports. Tinplate supports two fully utilized paint factories and some food canning industries which manufacture their own cans. Jute/sacks and baling hoops are key marketing inputs for cotton and sorghum. Cotton is Sudan's largest foreign exchange earner and sorghum its principal food staple. Imports for improving electric power generation and transmission are among the most important CIP items. It has been estimated that 75 to 90 percent of Sudan's output would have been adversely affected without them. Power interruptions still force great cost, tens of millions of

pounds, on the Sudanese economy. Regional agricultural inputs are primarily to support the export oriented rainfed sector strategy, the linchpin in the approach to agricultural development upon which Sudan's economic future depends. They can also be used to strengthen sorghum mill capacity, expand cold storage for high value items, as well as support oilseed refineries productivity.

In short, FY 1985 CIP commodities provide critical support to productive enterprises. They are key in allowing success of other recovery efforts. With Sudan's current FX shortage and economic downturn they have never been more needed, especially by the private sector where FX access is almost nil. This year's CIP funds will cover 10% of the country's trade deficit. Moreover, the local currency generated will exceed LS 200 million. Based on past expenditure patterns, this will provide 20 to 30 percent of the national development budget. Local currency availability is often the hinge upon which provision of FX by other donors for development projects turns. Finally, March/April is the crucial time for positioning agricultural inputs and fuel for plowing and planting operation which commence in June in the irrigated sector and July in the rainfed sector. Sudan has not the money to cover these costs. Commodity assistance can make an enormous difference in Sudan's production in 1985. Clearly, Sudan's ability to finance necessary imports and finance external debts is dependent upon increased output and domestic capital formation. The CIP facilitates just that.

V. DEVELOPMENT IMPACT OF PROPOSED COMMODITY IMPORTS  
AND RELATION TO U.S. ASSISTANCE PROGRAM

A. Criteria

The central purpose of the Commodity Import Program is to provide balance of payments support to an economy which is unable to finance minimum essential imports from current foreign exchange earnings, and thus to help ease the country through difficult structural adjustments. In an effort to tailor the definition of balance of payments support to optimize stabilization and development impact, USAID has further refined its programming of the CIP and assessed the relative priorities of proposed import commodities. The criteria for targeting CIP commodities have been developed in accordance with concerns of major international and bilateral donors analyzing Sudan's balance of payments crisis and, in particular, expressed Congressional interests in how CIP's can be used more effectively.

1. Need

The commodity needs of Sudan have changed only slightly since the GOS worked with teams from the IMF, UNDP and IBRD to formulate the positive list presented in the FY 1984 CIP. The effects of the country's most severe drought have left an already delicate economy faced with further stress. The major difference between the FY 1984 CIP and the FY 1985 CIP is the need for AID to be responsive to the call for additional resources to combat the negative economic and humanitarian impacts of the drought. Following the 1984 evaluation of USAID/Sudan's CIP programs and a review of the current GOS requests for commodity assistance, AID has determined that the same positive list should be the basis for the FY 1985 program. The aim of the FY 1985 program continues to be to maintain Sudan's social and economic stabilization, while simultaneously trying to redirect imports, where possible, towards investment for increased production and export. When the list was originally developed, the GOS/IMF guidelines and criteria were then meshed with commodities needed to fulfill requirements of the World Bank-assisted Export Action Program which resulted in the Three Year Investment Program. The final Three Year Investment Program was presented to the Consultative Group donors in December 1983 for program and project financing. The draft Three Year Investment Program which has been prepared by the GOS for presentation in 1985 to the Consultative Group meeting, which has yet to be scheduled, substantiates the decision to use the 1984 positive list.

The highest priority in both policy reform and investment allocation was given to agriculture. AID's long term strategy is focused on rainfed agriculture. Analyses by AID have shown that the rainfed subsector's net foreign exchange earnings are far greater than those of the irrigated subsector, largely because of the higher cost of inputs required for the latter. The rainfed subsector's performance is sorely limited, however, because it is lacking in roads, bridges, storage facilities and communications. Moreover, its farmers have difficulty in getting agricultural inputs, credit and technical assistance. To increase production in the rainfed subsector, AID is devoting a portion of its project assistance to improving the subsector's infrastructure and to enhancing the economic and social environment of its private entrepreneurs. A.I.D. has determined that

the CIP can effectively support export-oriented, agro-industrial firms, particularly those that are based in the rainfed region or that are associated with rainfed agricultural production without confronting absorptive capacity issues. While AID's long-term focus is on rainfed agriculture, the current importance of the irrigated subsector is recognized. Energy is of critical importance to export production sectors, thus a substantial portion of the CIP will once again be devoted to electrical transmission and distribution. This emphasis will in, addition, benefit industries in Khartoum and its environs, which each year suffer substantial production losses through power outages. Issues regarding petroleum imports and distribution have been addressed in a separate document supporting this CIP.

## 2. Policy Reform.

Sudan's economic recovery can be achieved only through foreign exchange adjustments as well as budgetary reforms and credit restraint. In addition to CIP covenants directed toward more general macro-economic policies, USAID has also examined requests for categories of commodities in light of performance and reform in the sub-sectors in which these commodities would be used, thereby helping to assure optimal use of commodities. Increased emphasis on development of the rainfed agricultural sector, reform of the energy and electricity sectors and GOS stated desire to improve the role of the private sector are specific examples of areas which have received high priority in light of reforms undertaken.

## 3. Regional Impact.

A somewhat new emphasis will be the use of the CIP to reinforce USAID's emphasis on regional development. Appropriate institutional mechanisms have been identified or established to assure a higher regional component of the CIP than has occurred in the past. Should the political climate in the South stabilize, the FY 1985 CIP program will target inputs to the South in support of the Mission's Southern Initiative. As another example, USAID and the GOS are again examining the possibility of using the Agricultural Bank of Sudan, which has branches in the regions and whose clients are almost exclusively private borrowers.

Beneficiaries of agricultural inputs, sorghum milling and spare parts commodities will be mainly in the western and southern regions. Approximately 50 percent of the proposed Commodity Import Program will be utilized directly by beneficiaries in rural areas outside the major urban centers.

## 4. Consistency with National Plan for Economic Development and Effectiveness of the National Plan.

The Sudan Three Year Public Investment Plan (TYPIP IV), formulated in collaboration with the International Bank for Reconstruction and Development, places highest priority on rehabilitation of export producing industries along with reforms and balance of payments support. The Three Year Plan is revised annually to incorporate the next year and has been endorsed by the Consultative Group.

5. Impact on Agricultural Production and Exports.

In nearly every category, the proposed imports have a direct or indirect impact on agricultural production and exports. Agricultural inputs, such as tractors, are the key foreign exchange component of agricultural exports. Energy supplies are essential to agricultural production, which is dependent on reliable electrical supplies. Similarly, lubricants are important in all production. Industrial inputs, including spare parts, are essential for the output of other sectors and provide value added through domestic processing.

6. Multi-sectoral Impact.

Imported electrical and lubricant commodities especially have a multi-sectoral and multi-regional impact since these commodities are used widely in the economy. Jute sacks, baling hoops and industrial chemicals impact mainly in the cotton producing regions. However, many associated industries depend on profitable cotton production and export. Therefore, chemicals for the textile industry have considerable impact outside the cotton production sector. Essential pharmaceuticals produced in Sudan from chemical inputs also are used widely throughout the economy.

7. Use for Productive, Employment-Generating, Cost Effective Purposes.

The information provided in the following sections demonstrates that each category of imported commodities is for a high-priority, productive use, employs significant manpower, and is an economically rational use of these commodities. Electrical equipment, lubricants, and industrial chemicals are critical inputs to production on which other industries depend for output and income. However, the CIP is not applied towards employment generation per se, but rather towards the expansion of the economy as a means of increasing employment opportunities.

8. Emergency Responsiveness

B. Proposed FY 1985 CIP

The proposed FY 1985 CIP is to be used for the purchase of critically-needed commodities and related technical services. But, because of immediate and short-term financial constraints, grant funds of up to \$50 million can be used as a loan guaranty by the GOS. These funds could be used to guarantee a short-term commercial loan made to the GOS to enable Sudan to deal with some of its immediate financial requirements. As indicated in Table 6 (page 43), the GOS external debt service in CY 1985 and 1986 is estimated to be \$1.185 billion and \$1.098 billion respectively. Thus, there is clearly more than sufficient external debt to which to apply the loan proceeds.

Such a CIP-funded loan guaranty will be made only if required as part of a comprehensive reform program which addresses those issues discussed in section III E, U.S. Assistance Strategy and Contributions. The terms of the loan guaranty will be mutually determined by USAID and the GOS, following the appropriate Conditions Precedent and Covenant. It is anticipated that the loan would be repaid with proceeds of the cotton crop, when it is sold. It is

the fact that this source of income is available to the GOS only at limited times that necessitates a short-term loan. Once the short-term commercial loan (guaranteed by CIP funds) is repaid by the GOS, and the guaranty is no longer required, these funds will revert to normal CIP uses as follows.

Except for the emergency procurement of \$15 million worth of jute materials and \$4.5 million for the accelerated hybrid sorghum seed program, AID/W has not yet authorized the disbursement of funds under the FY 1984 CIP. Moreover, the delay in implementing last year's program is forcing the GOS to revise its priorities. Consequently, there has been very little discussion between AID and the Ministry of Finance's Commodity Aid Committee regarding the composition of the FY 1985 CIP. Preliminary indications are that particular emphasis will be placed on the following commodities or types thereof:

- Raw Materials for the pharmaceutical industry
- Spare parts for the industrial and transportation sector
- Equipment and parts for the agro-industry
- Transmission and distribution systems components for the energy sector and related technical services

- Export-oriented agricultural equipment
- Seed for grain and fodder production
- Base oils for local blending of lubricants
- Jute materials
- Baling hoops
- Tallow
- Tinplate
- Emergency Relief Inputs

A brief analysis of the balance of payment impact of some major items follows.

1. Tallow

Tallow, an important ingredient in the manufacture of soap, is included in the CIP because of its positive impact on a labor-intensive, import-substitution industry. The importance of imported tallow as a low-cost substitute for valuable cotton-seed oil has been emphasized by the Ministry of Industry, which has prohibited soap factories from using cotton-seed oil because of shortages of edible oil. Since cotton-seed oil is a popular cooking oil, it must be replaced by higher value exportable oils, such as groundnut and sesame, and by imports of refined edible oils.

The 50 soap factories in the Sudan require about 40,000 tons of tallow annually to operate at current levels of capacity (55 percent). Production problems encountered by the soap industry are familiar--shortages and delays in supplies of raw materials, continuous shortage and unavailability of spare parts for obsolete machines, scarcity of technical skills and expensive employment of unskilled workers, and continuous power failures. Although only the first constraint is addressed by CIP tallow imports, industry sources say that shortages of tallow are the main bottleneck to production.

As a result of these constraints, Sudan's soap factories produce only 70,000 to 80,000 tons annually, about 5.8 kg/year per capita, although installed domestic capacity is 9.65 kg/year per capita. Even though annual domestic production is supplemented by imports of 7,000 to 15,000 tons of soap, per capita consumption of soap is only one-fourth of that in developed countries and only one-half of per capita consumption in Egypt. The total capacity and production of Sudan's soap factories in 1984 was:

<u>Type</u>	<u>Tons Capacity</u>	<u>Tons Produced</u>
Laundry Soap	160,400	60,000
Bath Soap	12,960	5,000
Soap Powder	<u>10,080</u>	<u>5,500</u>
Total	183,440	70,500

Demand for soap products, and therefore of imported tallow, is expected to increase substantially in coming years. Assuming that population growth is 2.8% annually, and that consumption increases 5% annually, minimal demand for tallow through 1994 will be:

<u>Year</u>	<u>Population</u>	<u>Total Soap Consumption (MT)</u>	<u>Per Capita Consumption (Kg)</u>	<u>Demand for Tallow (tons)</u>
1983	19,000,000	110,200	5,800	73,466
1984	19,532,000	119,145	6,100	79,430
1985	20,078,900	128,405	6,395	85,430
1986	20,041,100	138,608	6,715	85,603
1987	21,219,055	149,594	7,050	92,403
1988	21,813,190	161,482	7,403	107,654
1989	22,423,950	174,801	7,773	116,200
1990	23,051,825	188,149	8,162	125,432
1991	23,697,280	203,086	8,570	135,390
1992	24,360,800	219,247	9,000	146,164
1993	25,042,900	236,648	9,450	157,765
1994	25,744,100	255,382	9,920	170,254

Note: One ton of tallow produces 1.5 tons of soap  
Source: Unity Company for Industries, Ltd.

These figures indicate a foreign exchange requirement of some \$50 million in 1984 at current tallow prices, most of which must be financed by scarce foreign exchange from the free markets. Shortages of foreign exchange for tallow will make the substitution of cotton-seed oils increasingly tempting for manufacturers, with accompanying adverse effects of Sudan's balance-of-payments.

The Unity Company for Industries (UCI), which represents about 45 soap factories, will be the sole agent for importing CIP tallow. Allocation of tallow to the soap factories is approved by the Ministry of Industry according to the capacity and needs of each factory. In the past, about 90% of CIP tallow has been distributed to private factories.

Tallow has been imported in 22 kg drums, which reduced the hazards of damage or leakage. Most of the unloading was manual, and losses were estimated to be 3%. Starting in 1984, 75% of the tallow was imported in bulk because: (1) importation in bulk decreased losses from 3% to 1%; (2) the price of bulk shipments was less, and (3) the storage space required inside the factories was less.

Tallow is directly pumped from the ships to tanker trucks. Bulk facilities exist in the port, and the soap factories have facilities to receive bulk tallow. Specially equipped 50-ton trucks are available from private companies. Two yards in Khartoum North are used if necessary for storage. Construction of additional bulk storage is planned for Port Sudan

and Khartoum. Services rendered to the soap factories by the Unity Company for Industries are included in the price, i.e. the cost per ton delivered to the factory.

CIP financing of tallow is a net economic benefit to the Sudan in two ways. First, private domestic production and employment are supported, thereby providing value-added and foreign exchange savings. The existing capacity of the soap factories can supply domestic demand for all types of soap with some production available for export to neighboring countries, provided raw materials are available to utilize operating capacity. Secondly, import substitution is achieved by substituting tallow for cotton-seed oil, thereby allowing the Sudan to use its comparative advantage in production of high-valued oilseeds. As more cotton-seed oil is available for domestic consumption as an edible oil, imports of refined edible oils can be reduced.

Procurement of tallow will have an immediate balance of payments impact. As in the past, the Unity Company for Industries will take the lead in undertaking a single purchase on behalf of all soap factories. A formal tender will be issued through the Sudanese Embassy in Washington. Bids will be received and evaluated in Khartoum. With the prior approval of the USAID Mission, AID will then issue a Direct Letter of Commitment to the successful supplier. It is anticipated that the procurement cycle will be completed within four months.

## 2. Lubricants

Although the Sudan's lubricant requirements have grown significantly since 1980, annual imports of lubricants and greases have declined, resulting in critical shortages in the transportation, agricultural and manufacturing sectors. Industry sources say the decrease is mainly the result of foreign exchange shortages, and estimate a current shortfall of 90,000 barrels, worth about \$6.5 million at world prices.

Base oils are a fast disbursing item with immediate balance-of-payments impact. Base oils will be imported in bulk by the Mobil and Shell Oil companies, through Port Sudan, as in the past, for blending in the Port Sudan Shell blending plant. The procurement cycle should be no more than three months.

Lubricants and base oils have been procured outside the Bank of Sudan by the private sector in a free market manner and, on a case by case basis, may be permitted to function outside the Petroleum Facility.

Shortages of lubricants, which are vital inputs in every mechanized production process, have two adverse economic effects:

- a. Shut down of industrial machinery, resulting in decreased output, transportation bottlenecks and spoiled perishables, and
- b. Reduced economic life of capital equipment. Inadequate lubrication shows up in the form of higher maintenance costs and early replacement of machinery.

Although lubes are vital, the amounts needed are relatively small, suggesting that it is cost-effective to target limited foreign exchange for their importation under the CIP.

Because of the structure of the lubricant and grease market in the Sudan, the brunt of the shortages have not been borne by heavy industry, but by small transporters and especially small industries. The market is dominated by four importers: Shell Oil with 60% of the market, Mobil Oil with 30%, and Total and Agip together, 10%. Shell's and Mobil's dominant position arises from their use of the Shell blending plant in Port Sudan in which they combine imported base stocks with imported additives to make various lubricants for local sale. The plant operates at about 70% capacity. Total and Agip, on the other hand, import finished, packaged products. The savings to the Sudan in buying base oils to be blended at Port Sudan are considerable. A finished barrel of lubricants imported by Total/Agip costs Sudan about \$135 more in FX than does the same barrel blended locally. It is because of this that the FY 1985 CIP will not include finished lubricants as part of the illustrative list.

Because of the indispensability of the product to mechanical processes, and their vulnerability to government intervention or regulation, Shell and Mobil have established informal priority lists of strategic account customers in which the essential needs of public industries, such as the railways, NEC, sugar factories and the main textile factories, are met first. Large transport companies are next in line, followed last by the private entrepreneurs, who compete for the remainder of available supplies in the open market.

When foreign exchange shortages limit imports of base stocks, as has been the case since May 1983, the oil companies ration output among customers, deciding who will get how much based on the customer's stocks and equipment needs, and even arrange for customers to supply each other from their stocks. No inventories are kept by Shell or Mobil. Lubes and greases are loaded directly on trucks at the factory and sent to waiting customers.

One example of an industry that could benefit from an expanded supply of lubricants is the sugar industry, which uses large amounts of lubricants in its grinding mills and its fleet of tractors, earth-moving equipment and trucks. The GOS has emphasized increasing sugar production to decrease sugar imports and therefore conserve foreign exchange. National sugar production rose from 82,000 tons in 1981/82 to 130,000 tons in 1982/83, and 195,000 tons in 1983/84.

Even though sugar industry output rose 45% in the 1983/84 season, the annual consumption of lubes and greases remained constant at about 9,000 barrels a season. To meet needs, the sugar mills drew on stocks, but suffered major shortages of lubes such as circulatory oil for the turbines, transmission oil, mill bearing greases and oils, and automotive lubricants.

The private sector--an array of bus companies, taxis, and small industries--has been hit the hardest, though financial statistics are

unavailable. Lubes and greases are often unavailable in retail markets, and even when supplies are available, GOS security forces ration customers to one gallon.

Shortages encourage entrepreneurs to use three alternate sources: (1) re-using old or worn-out lubes with the risk of capital losses; (2) buying inferior lubes imported in small quantities by local merchants, again risking damaged equipment; (3) buying from the black market at prices 100 to 200% above official control prices. The free market supplies about 10% of the demand for lubes, almost entirely in the private sector, and involves considerable sums of underground foreign currency.

The FY 85 CIP funds will be used in 1985 to import base stocks to be blended and packaged domestically, which is more cost-effective than importing finished products. Distribution of CIP-funded lubes will be determined by Shell and Mobil. The primary beneficiaries of additional imported base oils will be the private and industrial sector and government services.

Lubricant Demand and Supply

(1000 bbl)

<u>Year</u>	<u>Stock</u>	<u>Quantity Supplied</u>	<u>Quantity Demanded</u> <sup>1/</sup>	<u>Shortfall</u>	<u>Percent Shortfall</u>
1980	0	235	235	-	-
1981	0	231	258	27	10
1982	0	197	281	84	30
1983	0	220	314	94	30
1984	0	233	350	117	33
1985	0	254 (est)	385	131	34

<sup>1/</sup> Quantity demanded estimated from quantity consumed in 1980 as base, and increased by 10% each year. Shortfall figures are probably conservative because 1980 consumption was about 10% below demand.

3. Pharmaceutical Raw Materials

Severe drought conditions in Sudan have resulted in malnutrition and displacement affecting millions of people. The economic crisis and foreign exchange shortages have resulted in shortages of chemical inputs for pharmaceutical products.

Procurement of pharmaceutical raw materials will be done by the companies who have presented lists of their input needs to the Commodity Aid Committee (CAC) within the Ministry of Finance and Economic Planning. Allocations will be made by the CAC to these companies on the basis of need. Procurement will be undertaken under AID-negotiated procurement procedures, and AID Special Provision 40.1 and 40.2 will apply to each transaction. Disbursements will be effected through a Bank Letter of Commitment.

Industry sources say that unavailability of imported raw materials is the primary reason that the industry, with an estimated capacity of 900 million tablets per annum, produced only an estimated 50 million tablets in 1983, 6% of capacity. As a result, Sudanese factories could not fulfill any government tenders for pharmaceuticals in 1981, 1982, 1983 and 1984, which forced the GOS to make up the shortfall with expensive, imported finished pharmaceuticals.

Seven pharmaceutical factories are licensed for production--five Sudanese, one American, and one Greek--with a total capital investment of over 7 million Sudanese pounds. Seven pharmaceuticals factories produce about 15% of Sudan's consumption of tablets, capsules and syrups. The other 85% is imported as finished products. Chloroquine products and aspirin tablets are the primary items produced in the Sudan, followed by chemotherapeutic and antibiotic medicines.

Distribution of pharmaceuticals is divided between (1) the private retail sector, which sells about one-third of Sudan's pharmaceutical supplies through private pharmacies, and (2) the national public health system, which distributes the rest. Recognizing that foreign exchange is saved by importing inputs rather than finished products, the GOS has attempted to procure domestically-produced pharmaceuticals. The MFEP offered tenders in 1981 to purchase whatever local factories could produce, and contracts for LS 11 million were awarded to Sudanese companies for delivery in 1981-1983. Unfortunately, foreign exchange shortages, combined with GOS pricing controls on foreign exchange, forced the companies to rely on the Bank of Sudan (BOS) for their foreign exchange. Since the BOS had no foreign exchange to offer, the companies could not import the chemicals they needed. As a result the tenders were not filled.

Unfilled local tenders have a direct impact on Sudan's BOP. Allocations of foreign exchange by the MFEP to the Ministry of Health (MOH) for overseas purchase of pharmaceuticals have a provision that the MOH can increase imports by 20% to explicitly cover shortfalls resulting from local, unfilled tenders. In 1981-83, the MOH imported \$40-50 million in finished pharmaceutical products, some 10-15%, or \$4.7 million, of which was included to cover unfilled domestic tenders.

Industry production for private sector retailers fared somewhat better. Unlike the companies producing for GOS tenders, which were forced to rely on the financially-strapped BOS for their FX, companies using private sector outlets were able to buy FX on the free market and operate at near-to-full capacity. Although retail prices of pharmaceuticals are controlled, their profit margin is evidently high enough to permit import of inputs at black market rates.

Yet domestic production and import of pharmaceutical goods does not come near to satisfying demand, which is large but unquantified. Despite the \$20-25 million in pharmaceuticals imported by the MOH in 1982/83, plus \$20 million in finished products imported by private retailers, and \$6-10 million produced by local industry for private retailers a total of about \$55 million--medicines were generally unavailable in local pharmacies, and hospitals suffered critical shortages of basic pharmaceuticals. Rural areas, where even public hospitals could not obtain aspirin, IV solutions, or antibiotics, suffered the most. USAID's Rural Health Support Project provides \$2 million for the procurement of pharmaceuticals for Kordofan, Darfur and the South, where shortages are endemic.

CIP commodities can help fill these critical industrial needs, especially since MFEP is reforming pricing policies on government pharmaceutical tenders. Negotiations under way with support from USAID will allow the industry to purchase foreign exchange at the commercial bank rate of LS 2.10=\$1, a liberalization of exchange rate regulations. Such a reform will increase industry demand for foreign exchange at commercial bank rates as production for government tenders activates factories that have operated at 20 to 40% of capacity for the past two years. CIP will be allotted both to private companies producing for government tender and those producing for private sector retailers. In particular, these commodities coupled with the pricing reforms will complement USAID's Northern Primary Health Care Project, which provided technical assistance for the medical logistics unit of the Ministry of Health which handles procurement and distribution of medical supplies.

Since installed production capacity is sufficient to meet domestic demand for chloroquine products and aspirin tablets and substantially reduce imports of other finished products, such as antibiotics, a loosening of the foreign exchange constraints through CIP funds can reduce substantially foreign exchange expenditures by importing agencies such as the Ministry of Health and private pharmacies.

Without considering the humanitarian aspects of increased medical supplies or the economic effects of a healthier population, increased and more reliable domestic pharmaceutical output would also: (1) employ Sudanese in the industrial sector; (2) prevent purchase of medicines at inflated international prices; (3) encourage the GOS to reform pricing controls on a highly visible consumer item; and (4) shift scarce foreign exchange away from high-cost finished products toward lower-cost raw materials.

**Table 9: Illustrative Pharmaceutical Chemicals  
Required in 1984-85**

<u>Chemicals</u>	<u>Quantity (kg)</u>
Acetyl Salicylic Acid	185,000
Citrates <sup>1/</sup>	146,000
Dextrose <sup>2/</sup>	161,875
Chloroquine Phosphate	192,100
Paracetamol	56,400
Tetracycline Hydrochloride	7,400
Gelatin Capsules	50 units
Laminate (packaging)	86,000

Note: Excludes Nicholas Laboratories

<sup>1/</sup> Includes Citric Acid Anhydrous, Sodium Citrate and Potassium Citrate.

<sup>2/</sup> Includes Dextrose Monohydrate and Dextrose Anhydrous

#### 4. Tinplate

Tinplate is used by the Rainbow Paint Company, Nile Paint Company, the Saeed Food Company, and the Bitar Oil Mill. In 1983, \$775,000 of CIP commodities were allocated to the Nile Paint Company. Production is 80% emulsion, decorative paints, and 20% industrial paints. Production growth is 10% annually and plant capacity is fully utilized. All raw materials are imported. Total foreign exchange needed by the Rainbow Company is between \$3 million to \$4 million annually. Most of the factories' production, 3,400 tons a year by the Rainbow plant and 3,600 tons a year by the Nile plant, is sold in the domestic market with no output available for export. The Nile plant also produces glue. Prices are controlled by the Ministry of Industry which calculates the cost of production plus a 15% profit margin.

Each of the paint factories needs about \$1 million worth of tinplate. Rainbow Paint is submitting a request of \$400,000 for tinplate and \$600,000 for paint chemicals, mainly titanium dioxide. The imports which are not provided under CIP would be imported using free market foreign exchange. The main problems of the factories is shortage of working capital and foreign exchange. Bitar Oil Mills produces cans for their own and other edible oil mills. Saeed Food also uses tinplate for canned food. Annual production capacity is 2,000 tons of tomato paste, 4,500 tons of juices, 2,000 tons of jams, and 1,500 tons of vegetables. Importing tinplate rather than finished cans saves foreign exchange, adds value to domestic production, sustains employment and income, and provides tax revenues to government.

## 5. Jute Materials/Sacks/Baling Hoops

The Sudan Gezira Board (SGB), the Agricultural Bank of Sudan (ABS) and other public agricultural corporations <sup>1/</sup> have requested CIP funds for jute products and baling hoops, for which an allocation of \$15 million is being considered. Without bags for the picked cotton and dura, hessian cloth to protect cotton bales and baling hoops to bind the huge circular cotton bales, export of cotton and dura would not be possible. Although a small fraction of the total value of these exports, jute products and hoops are strategic inputs for the marketing process.

The SGB would import on behalf of public corporations other than ABS because of its experience in tendering, clearance, forwarding, transportation and storage of agricultural inputs such as fertilizers, insecticides, pesticides, jute products and baling hoops. The total annual requirement for jute products and baling hoops is \$19 million, \$16 million for cotton and \$3 million for sorghum.

Jute materials required include: (1) sacks for export of cotton; (2) bags for cotton during picking which then are weighed in the fields and transported to ginning factories; (3) hessian cloth used to cover the bales after ginning for protection; (4) sacks for wheat; and (5) large grain sacks used for improved cotton seeds to be transported from the ginning factors after treatment to the blocks and the tenants. Small grain sacks are used for commercial cotton seeds for local oil mills or export.

The SGB is located between the Blue Nile and the White Nile south of Khartoum. The idea started as an experimental cotton plantation in Tayiba in 1910, irrigated by pumps. In 1925, Sennar dam was completed which is considered the actual beginning of the Gezira Scheme and irrigation by gravity. The year 1950 was a milestone when the scheme was nationalized and the Sudan Gezira Board set up to run the scheme. The scheme occupies 2.2 million feddans. The principal crop is cotton, however groundnuts, sorghum, wheat and vegetables are also produced on the scheme. Because of deterioration in the physical facilities of the scheme, a comprehensive rehabilitation program financed by IBRD is under way to modernize production. SGB represents the 103,000 tenants of the SGB, who cultivate 15-40 acres each.

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<sup>1/</sup> Including: (1) Rahad Agricultural Corp, (2) Blue Nile Agricultural Corp, (3) White Nile Agricultural Corp, (4) New Halfa Agricultural Corp, (5) Suki Agricultural Corp, and (6) Zidab Agricultural Corp.

In the 1984/85 season, the area under mechanized crop production in rainfed areas is 4,272,969 feddans. The annual requirement of jute bags for rainfed agriculture and private irrigated agriculture is estimated to be around 18,000 bales (\$3,240,000), 85 percent to 90 percent for the rainfed sector, the remaining 10% for the private irrigated agriculture, mainly in the northern region.

The two main crops under rainfed areas are sorghum and sesame. Both crops provide economic benefits in the form of food security and foreign exchange. Both crops are produced using mechanized and traditional production methods. Financing of jute products will meet CDSS objectives of encouraging private production. Baling hoops are used for securing cotton bales, mainly for the Gezira Marketing Board. The annual requirement for baling hoops is \$4 million.

The procurement of jute products is expected to get under way in July/August 1985 through the issuance of a formal tender. Bids will be opened in Khartoum, and a Direct Letter of Commitment will be issued to the lowest responsive bidder.

Baling hoops for the 1985/86 cotton harvest are needed in-country in the last quarter of 1985. Limited testing of more than one supplier's product took place during the 1983/84. However, due to the delay in releasing FY 1984 funds procurement for 1984/85 harvest had to be conducted on an emergency sole source basis. For 1985 the expectation is that circumstances will permit procurement on a formal competitive basis with disbursement effected through a Direct Letter of Commitment.

## 6. Energy

Under this Commodity Import Program (CIP), for commodities and related technical services will be provided to continue the rehabilitation, expansion and improvement programs previously supported by earlier CIPs for the Blue Nile Grid power system. The Blue Nile Grid is a principal source of electric power in Sudan, and provides services to both the irrigated agriculture sector located between the Blue and White Nile rivers, and the industrial requirements in and around Khartoum. This import program is a continuation of efforts initiated in FY 1982, and is consistent with IBRD/IDA coordinated development plans for the Power IV Project Loan to the National Electricity Corporation (NEC).

The publicly owned installed electric generating capacity in Sudan is approximately 350 MW, of which 225 MW is hydro-electric, with the balance being from thermal generation. Due to the age of equipment, the lack of spare parts and the absence of major overhauls, the reliable capacity of the generating equipment is in the order of 250 MW. The Blue Nile Grid, which encompasses the area along the Blue Nile from Damazin to Khartoum is the principal generating and transmission/distribution facility in the Sudan. The Blue Nile Grid has an installed capacity of approximately 310 MW, of which 225 MW is hydro. The Blue Nile Grid produces about 87% of the publicly owned generation within Sudan. This supply is utilized in the cities of Khartoum,

Sennar, Damazin, Wad Medani, Hassa Heisa, El Sukki, El Singa, and other towns between Damazin and Khartoum. The utilization of energy consumption is estimated to be: residential - 40%, industrial - 40%, agricultural - 10%, and other - 10%. The NEC is an entity within the Ministry of Energy and Mining and is responsible for construction, operation and maintenance of the Blue Nile Grid.

The NEC, with financial assistance from the IBRD financed Power III Project, is adding additional generating capacity to the Blue Nile Grid. Within the last year, four diesel units of 10 MW each have been placed into service at the Burri Power Station in Khartoum. Two 40 MW hydro power generating units (Nos. 5 and 6) have become operational at the Roseires Dam power house located at Damazin. Also financed under the Power III Project are two steam powered thermal generating units of 30 MW each, which are expected to become operational at the Khartoum North power station in February and April 1985.

Studies financed by AID and the IBRD during the last few years have pointed out the importance of improving the reliability of transmission/distribution systems within the Blue Nile Grid as opposed to the continuing concentration on increasing generating capacity. Chief among these studies have been "Short-Range Electricity Supply Reliability Improvement Programs" by the International Science and Technology Institute, Inc./Energy Development International, Inc., in October 1981, and "Technical Assistance to the National Electricity Corporation, Sudan, in Support of the Immediate Rehabilitation of the Blue Nile Grid", by Bechtel International Inc. in June/August, 1982. These studies indicated that the needs for commodities to improve the reliability of the existing transmission/distribution of the BNG were in the range of \$80 to \$100 million in 1981 prices.

Based on these studies and funding limitations, specifications were prepared and approved in the spring/summer of 1982 for the most urgently needed transmission/distribution equipment in the areas of telecommunications systems, mobile maintenance equipment and preventative/emergency power systems equipment, which had an estimated cost of \$16.5 million. An initial allocation of \$16.3 million was made under the FY 1982 Commodity Import Program for these commodities. A technical assistance contract was subsequently signed with Bechtel International Inc., to assist the NEC with the procurement and installation of these commodities. Tenders were received and evaluated, and procurement contracts were executed prior to the end of FY 1983. As of December 1984, the majority of the equipment has been received by the NEC, with the assistance of the contractor. All equipment ordered under the FY 1982 CIP, with the exception of the El Bagier substation, is operational. The expeditious handling of these commodities is attributed to the performance of the contractor, timely coordination by the GOS implementing agencies, primarily the NEC, and continuing support by the Mission and AID/W.

The current Commodity Import program, FY 1985, will support Phase III of the Rehabilitation and Improvement Program for the BNG. Phase II has been substantially delayed due to late release of CIP funding, and it is expected that Phase II and Phase III will be closely coordinated and that concurrent procurement may be carried out in some instances. Materials to be procured under Phase III include the following:

<u>Item</u>	<u>Quantity</u>	<u>Estimated Cost (\$ 000)</u>
1. Substations, 110/33/11 KV 2 x 10 MVA at Omdurman and Izergab	2	3,030
2. Substation extension, 110/33/11 KV, at Khartoum North Power Station	1	530
3. Transmission Line, 110 KV	30 Km	3,785
4. Nile River Crossing 110 KV	1 Lot	2,000
5. Substations, 33/11 KV, 2 x 10 MVA	6	3,155
6. Cables, 33 KV	36 km	1,500
7. Engineering Services	5 person years	<u>1,000</u>
TOTAL		\$ 15,000 *****

NEC intends to reinforce the Khartoum area transmission and distribution system by constructing a 110 KV transmission line around the Khartoum area. This ring main will connect major 110/33/11 KV substations at Khartoum North power station, Izergab, Omdurman, Banat, Forest, Kilo X, and Kuku. This development program is consistent with the overall plans being developed by the NEC and the World Bank for the Power IV Project. The main objectives of Power IV are as follows:

1. Rehabilitate existing facilities in the Blue Nile Grid (BNG) and the Eastern Grid (EG), and assure their efficient operation through the provision of technical assistance and spare parts in conformity with the Government's strategy for economic development;
2. Provide additional generation capacity in the BNG and EG to meet the forecast increase in power demand during the latter part of the 1980s;

3. Increase transmission capacity in both grids to transmit the generated energy to the main load centers;
4. Increase the capacity of the subtransmission and distribution networks in the Khartoum area and areas of the BNG outside Khartoum to improve reliability of the power supply systems;
5. Continue efforts for institutional improvements and strengthening of NEC's organization and operation through comprehensive management and staff training programs, planning and partial funding for which were initiated in the World Bank Power III Project;
6. Carry out load management and energy conservation studies and improvements; and
7. Provide fuel oil transportation equipment to assure regular supply of fuel oil requirements to thermal power stations in the Khartoum area.

Continuing the improvement and the reinforcement of the transmission/distribution systems of the BNG is a high priority for Power IV. We expect close coordination between the Bank, NEC, USAID-financed technical assistance contractors, and USAID in carrying out these programs.

The economic costs associated with interruptions in electric service are substantial. In recent years (through 1983), the annual industrial loss from non-scheduled shedding was in excess of 20 percent. Fixed and some variable expenses continue for factory owners, including labor charges under Sudanese law, even if a plant is not producing. These losses are some of the most costly to the economy because these funds would otherwise be available to entrepreneurs who have progressed from trading to become industrialists. These economic losses reduce internal financing available for new investments.

Unreliable power also forces utilization of small privately-owned generators costing millions of dollars annually in standby generator equipment and diesel fuel. Agricultural production in the areas irrigated by the use of electrical power pumps also suffers drastically because of the unreliability of electricity. Such losses exceeded \$100 million in 1983.

USAID support to the electric power sector illustrates the integration of the Commodity Import Program with other elements of the U.S. assistance program in the Sudan. Aside from the CIP financed Blue Nile Grid reliability improvement program, CIP commodities, related technical services and local currency generations from the CIP are being used to alleviate the sediment/debris buildup at El Roseires Dam and Power Plant, the major hydro-electric power source for the BNG. Under the DA-financed Energy Planning and Management Project, a contract with Harza Engineering Company is providing long- and short-term assistance to the NEC to improve overall planning and operational capabilities.

CIP-generated local currencies are also being used to obtain from local contractors specialists in computer programming and operation, telecommunications, power systems, and mobile construction equipment operation and servicing to assist and train NEC staff in use of CIP goods.

To assist NEC in timely preparation of specifications, inspection and utilization of the CIP-financed goods, needed additional U.S. engineering services are being procured under the 1984/85 CIP programs and will be available through February 1987 to assist in utilization of materials procured under this FY 1985 CIP program.

In summary, high economic returns will result from improving the reliability of the BNG transmission/distribution systems. Under the FY 1982/83 Commodity Import Programs, a successful first phase program was mounted. Under the FY 1984 CIP, an additional \$15 million has been allotted for commodities and related technical assistance/training to further reinforce the system. Appropriate technical and financial analyses have been performed under 1981/82 USAID-financed studies, as well as in the development of the plans for Power IV, thereby satisfying FAA Section 611(a) requirements. Recognizing the importance of complementing commodity support with institutional reforms within the NEC itself, Section X proposes certain covenants for the CIP Program Agreement.

#### 7. Related Technical Services

As in past CIPs, USAID proposes to utilize up to \$2 million of the FY 1985 ESF funds to finance technical services and training activities directly related to commodity purchases. Such services will be required both prior to and subsequent to commodity purchases and are viewed as essential to the effective utilization of contemplated procurement. Although not restricted to the energy sector, we envision that a significant proportion will continue to be directed towards more effective utilization of the procurement of electric power generation, transmission distribution equipment and spare parts to substantially increase the reliability of the Blue Nile Grid, which supplies 80 per cent of the power in Sudan. Additional technical services may be required in some private sector purchases and public sector agriculture, communications and transport endeavors. Our past experience has demonstrated that such provisions, in light of poor GOS absorptive and installation capacity, have a major impact on the full utility of commodity procurement.

To meet the 611(a) requirement for this technical assistance (since it exceeds the Regulation 1 limits for eligible commodity-related services), criteria for selection of services, as well as an illustrative list of an budget for the services, have been established. The criteria for selection of services are set forth in box 16, paragraph 3 of the PAAD facesheet. An illustrative budget, which demonstrates the need for the authorized \$3 million of technical services, is as follows:

Blue Nile Grid - Assistance in preparing specifications for and use of future equipment. This assistance will be subsequent to the current Ebasco contract and will be funded with FY 84 funds. (This is the \$1 million in table, page 68). 5 person/years @ \$200,000	\$1,000,000
Assistance in preparing specifications and use and maintenance of water drilling equipment/pumps. 2 1/2 person/years @ \$200,000	500,000
Assistance in preparation of specifications for and installation and delivery of telecommunication equipment. 2 1/2 person/years @ \$200,000	500,000
Assistance in preparation of specifications and maintenance of equipment, to be used for rehabilitation of Port Sudan road. 5 person/years @ \$200,000	1,000,000
Illustrative Total	<u>\$3,000,000</u>

#### 8. Regional Agricultural Inputs

Below are examples of the types of commodities we anticipate will be requested by private sector farmers/entrepreneurs in the rainfed agriculture sector. However, one of the major objectives of the allocation for regional agricultural inputs is to find out more precisely the imported input requirements needed to expand production and marketing in this sector.

a. Agricultural Tractors. Tractors are used in Sudan mainly for land preparation for sorghum, sesame, wheat, groundnuts, vegetables, broad-beans,

and spices. Agriculturalists assert that no realistic alternative technology is available for large scale land preparation. Land preparation is a critical operation which must be done when optimum moisture conditions are reached, which is usually a period of less than one month. Large land areas required for sorghum, wheat, and other crops cannot be prepared manually within the time required.

The mechanized rainfed areas have heavy, clay soils, which crack and become hard when dry, and can be prepared for planting only through the use of 70-80 hp tractors and wide-level discs. Under such conditions, mechanized farming is the only feasible method because large areas must be cultivated in a short period after the first rains.

Dryland farming is practiced on over 11 million feddans situated mainly in the central rain belt. Mechanized rainfed farming is practiced on over 5.75 million feddans of licensed or demarcated, and unlicensed or undemarcated, farming units. The area under licensed farming was about 4.3 million feddans during the 1983/84 season. These farming units are mainly private farmers who own and manage the farms themselves.

Sudan has a fleet of approximately 10,000 tractors, at least 700 of which should be retired and replaced annually. From 1969 to 1981, 14,000 tractors were imported, 6,200 by the Agriculture Bank of Sudan (ABS), an average of over 1,000 tractors annually. The tractors imported by ABS are used by non-cotton producers in the rainfed sector. The GOS normally imports tractors used by public cotton schemes. Until recently, the ABS was the main source of imported tractors in rainfed regions, non-cotton irrigated projects, and for private cotton farmers. Since no tractors from donors or official channels were available in 1983, a few tractors were imported through private dealers at the free market exchange rate. Import requirements for 1985 and 1986 are estimated in the following table.

<u>Subsector</u>	<u>1985</u>	<u>1986</u>
Mechanized rainfed	438	470
Irrigated public	145	175
Irrigated private	<u>90</u>	<u>60</u>
Subtotal	673	705
New Farmers	<u>135</u>	<u>141</u>
Total	<u>808</u>	<u>846</u>

Source: Agricultural Bank of Sudan

The ABS estimates that of 808 tractors required during 1985 in the rainfed sector, approximately 75% would be for sorghum growers and 25% for sesame production.

In 1979, 3.3 million feddans were devoted to raising sorghum. Since then acreage devoted to sorghum has increased approximately one-third.

<u>Year</u>	<u>Million Feddans</u>
1979/80	3.3
1980/81	3.6
1981/82	4.7
1982/83	4.7
1983/84	4.3
1984/85	8.7

Tractor costs are only 11% of total production costs, assuming a 7-year economic life, because weeding and harvesting are done manually. Nevertheless, in 1982, dura and sesame exports were nearly one-third of all Sudanese exports. Rainfed crops, including groundnuts, using tractors for land preparation and related uses, provide a major part of foreign exchange earnings.

Tractors are essential for the food grain security of Sudan and nearby countries since most of sorghum production is consumed either domestically or by neighbouring countries. A substantial frontier trade in grains occurs with Ethiopia, Chad, Central African Republic, Uganda, and Zaire.

Use of tractors for sorghum production raises the issue of economic feasibility. Mechanized sorghum in Sudan is based upon a land extensive, low yield production strategy. Land preparation is mechanized in order to cultivate large tracts of land. Subsequent field operations are usually done manually. Mechanized sorghum production "took-off" on large tracts of previously uncultivated land around 1980. The reasons for large increases in production can be traced to strong financial incentives created by an overvalued exchange rate which resulted in artificially low-priced tractors and fuel and an artificially high commodity price resulting from large Saudi Government subsidies on sorghum imported from Sudan. However, over the past three years, the Saudi import price has steadily declined from \$340/MT to the current price of \$180/MT. In addition, Sudan has devalued its currency and by March 1985 the cost of dollars on the free foreign exchange market had more than doubled in the past two years, thereby making tractors, spare parts and fuel more expensive. Thus, over the past two years pricing policies have put a cost-price squeeze on mechanized sorghum producers, as has three years of drought.

In order to maintain financial profitability within the mechanized sorghum industry and produce for a declining export price, normal rainfall patterns and increasing yields per unit of output will be required. Until sorghum yield increasing technology is readily available, a portion of the sorghum producers are likely, in the short-run, to shift from sorghum to sesame, which

enjoys a strong export price. However, in the short run we anticipate that sorghum producers will also attempt to intensify their production approach and save on mechanization and fuel costs by timely land preparation, increasing seed rates and more intensive weeding practices. Producers who have access to the presently limited quantity of improved sorghum seed will adopt it as increased supplies become available, thereby increasing their crop yield and incomes.

The ABS finances approximately 25 percent of the seasonal credit requirements of farmers. The remaining 75 percent must be financed by farmers from personal resources or other private sources. The ABS normally finances 70 percent of the purchase price of tractors for four years at 12 percent.

The rainfed sector does not need additional wide-level discs this year. France, Canada, and Netherlands are providing 1,084 wide-level discs, and the ABS has approximately 800 in storage or on order which will be available. However, the demand for tractors for land preparation and planting exceeds present supply.

Given the apparent shortage of tractors in the country, the importance of the mechanized rainfed sector for supplying large quantities of Sudan's staple food grain for both domestic consumption and export, and the need to sustain and possibly increase sorghum production, USAID anticipates requests for a CIP allocation for tractors.

Since the previously described price distortions on both the input and commodity sides have been greatly reduced over the past three years, USAID is of the view that more realistic macro prices will force and/or encourage the necessary changes at the farm level to increase production efficiency in the mechanized sorghum industry in the short and medium term. Such resource adjustments will reduce the land extensive production strategy, induce yield increasing production methods, increase the efficiency in capital use, reduce import dependence and lower the costs of production per unit of output. Given these anticipated micro adjustments and the need to enhance food security in food grain in the Sudan, USAID is of the view that economic assistance for the mechanized rainfed sorghum sector is justified.

However, USAID believes that an in-depth study of mechanized sorghum production in the rainfed sector is a priority. Consequently our Agricultural Planning and Statistic Project will be conducting an in-depth study of mechanized sorghum production and marketing during the 1984/85 season in order to identify production constraints, means to increase efficiency of production, and policy reforms necessary to induce technological innovation and improve incentives in this important food grain sector. The results of this study will be used to judge the appropriateness of future CIP allocations to this important production sector.

b. Edible Oil Refineries. Edible oil refineries save foreign exchange which otherwise would be used to import vegetable oil, and by processing low value nuts and seeds into a higher value exportable in the form of vegetable oil. Additional refining capacity for both groundnuts and cotton seeds will help to supply domestic demand for refined cooking oils, substitute for imports of refined edible oils, and permit Sudan to export higher value peanut oil.

Some 32 cottonseed oil mills and 97 groundnut pressing mills operate in Sudan, producing a low quality, crude oil with a dark color, disagreeable odor and particle contamination. Unrefined groundnut oil is the most commonly used cooking oil. The combined pressing capacity of the mills is 654,000 MT of cottonseeds and 2.7 million MT of groundnuts and sesame, a capacity in excess of current production of oil crops because of recent declines in production. Still, the presses extract oil in excess of refinery capacity.

Only 16 mills have modern refinery equipment for cottonseed and groundnut oils, with a combined capacity of only 100,000 MT annually if operated at maximum capacity for 300 days. Modern refining is a purifying process, deodorizing, bleaching, and centrifuging the oil to remove particles, which is essential if the oil is to be marketed overseas. In 1982/83, 450,341 MT of groundnuts were pressed domestically to produce 200,000 tons of oil. Estimated annual shortfall in oil refinery capacity is 90,000 to 100,000 MT.

The IBS indicates that four refinery units with daily capacities of 20 tons each (6,000 MT annually) are needed, two in the Central Region, one in the West and one in the East, for a total additional annual output of 24,000 tons of refined oil. Each mill costs approximately LS 1.2 million, of which \$326,000 is in foreign exchange. Vertical integration with existing crushing mills will reduce production losses from 8 percent to 5 percent. Location in the regions puts the refineries close to production centers and pressing capacity for maximum efficiency and will demonstrate USAID's commitment to regional development.

Since procurement will involve the construction or expansion of physical facilities, a mini-feasibility study will be conducted and prior approval of the USAID Director obtained. Procurement will be by formal tender, and disbursement through a Direct Letter of Commitment.

c. Cold Storage Equipment and Refrigerator Trucks. Cold storage equipment, which extends the economic life of perishable products is an important part of the food chain in Sudan where transportation services are limited and erratic and temperatures are extremely high. A transport and distribution system, which provides cold storage and cold transport options at critical links, not only enhances the growing export trade in fruits, meat, and vegetables, but also helps to regularize flows of produce from the regions and reduce large losses from wastage which curtails producers' incomes.

The Industrial Bank of the Sudan (IBS) has requested CIP commodities for cold stores, each with 2,500-3,000 MT capacity, in Wau, Nyala, Shendi,

Khartoum, and Port Sudan. Private investors have applied for financing of these facilities. These sites are the core of an export-oriented, marketing network for high-value fresh fruits, vegetables, and fish produced in the regions. The stores will have capacity for several types of products and will improve supply responsiveness to market demand.

Sudan's international trade in fruits and vegetables transported by air is modest but has increased sharply in recent years because of high demand in the Gulf states. Mangoes have been the largest export earner, rising from 52 MT worth \$5,000 in 1979/80 to almost 2,500 MT, worth \$833,000 in 1982/83. Lemon and other citrus exports have also grown sharply, as have exports of onions, tomatoes, and other fresh vegetables.

These products, however, are grown in areas far from air distribution points at Khartoum and Port Sudan airports. Wau, for example, could serve as a collection point for fruits grown in the area, but lack of storage and erratic transport would result in large quantities of wasted produce. Nyala, close to the Jebel Marra irrigation scheme, could serve as a distribution center for long-term storage crops, such as garlic and potatoes, which are produced in sufficient quantities for the region and export or consumption in other regions. Shendi, at the center of a large fruit and vegetable area, could develop into the collection and distribution center for the whole region. Produce from this area is particularly well suited for air transport to Port Sudan and from there to the Gulf. Cold stores in Khartoum and Port Sudan would hold the fruits and vegetables for international transport.

Fish exports hold promise as an export product from Sudan, which has major fish resources. More than 30 species of fish are available in the Nile, its tributaries, and the Red Sea, and large fish markets operate in many of Sudan's rural towns. Cold stores in Khartoum, Shendi, Damazin and Port Sudan could stimulate the export of fish, as the 30,000 tons of fish netted annually could easily be increased to meet the large Gulf demand if the fish could be stored and transported. Refrigerated trucks would be important links in establishing an export market for fish. The primary beneficiaries of increased demand for fish would be producers in the regions since the principal fishing areas are Nuba Lake, Damazine on the Blue Nile, Kosti, Jebel Aulia, and the Red Sea Coast

Beef and mutton, which are in great demand in the Gulf area, are major exports, earning \$44 million in 1982/83. Most of this livestock, however, is transported by air on the hoof and will continue to be transported in this manner, making cold storage for red meat export unnecessary.

A second major economic benefit of cold storage facilities is the regularization of supply and demand for perishable agricultural goods. Cold storage can yield high returns on investment when there are seasonal price differentials for storable crops; where produce has to be transported long distances to reach the consumer; and where there is a need for short-term reserves, so that produce brought to market on a day of oversupply can be held in good condition until demand improves.

All of these conditions exist in the Sudan. Fish, for example, is in short supply in major urban consuming areas, such as Khartoum, where fish sells for LS 6 per kilo while selling for less than LS 2 per kilo in Kosti or Damazine. Surplus supplies could be transported from the production areas if refrigerated transport were available. Production of fruits and vegetables is seasonal. Cold stores can help to provide supplies beyond seasons, stabilize price variation between seasons, and increase consumption over areas and time.

Cold stores and refrigerated trucks would: (1) stimulate exports of perishable agricultural crops; (2) increase producers' incomes by cutting losses and increasing markets; and (3) stabilize the supply of perishable goods for the Sudanese consumer by holding supplies over longer periods. Development of cold storage is an important feature of regional and agricultural development, especially when developed in conjunction with transport services and utilities.

At this time, it is not known precisely how much is to be earmarked for cold storage plants, and how much for refrigerated trucks. For the former, a mini-feasibility study will be undertaken since procurement will involve the construction of physical facilities. All procurements under this heading will be by formal tender. Final disbursements are expected to take place by March/April 1986.

d. Sorghum and Rice Mills. In addition to the urban-based sorghum milling and composite flour blending equipment described in an earlier section, USAID anticipates additional requests for the import of sorghum and rice mills for regional centers.

Since sorghum is the basic food grain and kisra, which is made from sorghum, is the staple food of most of the population, there is a need for expanded sorghum milling equipment at the regional level. As part of our overall strategy to increase Sudan's comparative advantage in the production and consumption of sorghum, sorghum milling is an important factor to enhance the consumption of sorghum. High quality sorghum flour is required for kisra. The price and quality of sorghum flour clearly influences the price and demand for kisra. To the extent that shortages of sorghum flour can be averted and milling efficiencies improved, kisra prices can be maintained at realistic consumer prices. To the extent that these objectives are achieved, less consumer pressure is expressed in the market for bread made from imported wheat. This will result in foreign exchange savings for the Sudan in both the immediate future and the years ahead. Also, given the declining export price for sorghum, sorghum producers will need to depend increasingly upon an expanding domestic market for their sorghum, particularly as they increase their production efficiency and total output.

By improving milling efficiency and expanding sorghum milling capacity in the regions these results can be expected to be achieved. Domestic production and milling industries will be encouraged to expand, thereby reducing Sudan's dependence upon, or at least reduce the rate of increase in, wheat imports. By providing part of our CIP allocation for sorghum mills to the regions, USAID is demonstrating its commitment to regional and private sector development.

The sorghum mills will be financed by the Industrial Bank of Sudan, which has already conducted feasibility studies and identified private sector millers interested in importing sorghum mills under the CIP. The proposed locations for such mills are at Wau and Juba in the South and El Obeid in the Kordofan Region.

Rice has great potential as an upland crop in the Equatoria Province. However, partially because of lack of rice mills, the acreage under rice production is very small as compared to other crops. With the provision of medium size rice mills, through CIP, it is believed that the acreage of rice production will increase substantially. This will not only make more grain available to people in this province but also will cut down on consumption of sorghum grain currently imported into the Region.

e. Other Agricultural Equipment. The demand for essential agricultural implements is well above the capacity of the CIP to meet it. To fully supply annual tractor replacement and the requirements of new farmers, for example, would require approximately \$12 million annually. Besides tractors, other needs exist such as for ridgers used for groundnuts and cotton, poultry sheds and incubators, dehydration equipment, foundry equipment and machine tools for fabricating spare parts for oil mills and other agroprocessing facilities, and meat processing equipment. Outstanding applications to dealers and development banks are on hand from private farmers and businessmen in the regions, most of which probably cannot be supplied because of the shortages of foreign exchange.

The tentative implementation procedure for importing agricultural equipment is for the Agricultural Bank of Sudan (ABS) to establish a priority list of agricultural inputs for which end users have approached ABS to obtain local credit. Such end users must be located outside of Khartoum Province, the Central Region and Port Sudan, although some exceptions may be considered, i.e. for hybrid seed production. Concurrently, the ABS applies for and receives a local currency allocation from the Special Account for the purpose of making loans to potential end users for CIP-financed commodities. The ABS then would communicate its priority list to MCIC with a copy to USAID/SMO. Upon receipt of this list, MCIC and USAID would review the ABS's list and expand it as necessary to include other agricultural inputs for which a demand exists outside of Khartoum Province, the Central Region and Port Sudan.

Ministry of Commerce, Industry and Cooperation advertises through local news media the availability of commodity import funds to finance the dollar cost of agricultural inputs required at the regional level. The announcement invites private importers (traders, distributors, and end users) to submit written requests for CIP allocations by a certain deadline date. Each request must indicate a specific dollar amount, the precise description of the commodity for which a CIP allocation is sought, and the location of the point of sale and/or end use. (Per Section XI, a proposed covenant will require a standardized application form to be designed for this purpose).

The requests are reviewed jointly by MCIC and USAID. The ABS could be included in this review. Once agreement is reached, MCIC notifies individual

importers of their CIP allocations. Private importers undertake procurement according to GOS/USAID standard procedures for dollar disbursements and local currency payments. In those instances where the end user is in need of local credit to purchase a commodity from the importer, and where the latter is unable or unwilling to extend credit, the farmer is directed to the ABS to obtain a local currency loan. Disbursement of CIP dollars is effected through a Bank Letter of Commitment.

For edible oil refineries, sorghum mills and cold storage equipment which will be identified with the assistance of the Industrial Bank of Sudan, insufficient data precludes establishing a detailed implementation procedure. Tentatively, (1) a prior review of each proposed transaction will be undertaken by USAID; (2) actual procurement may be by formal tender; and (3) disbursement is likely to be through Direct Letters of Commitment.

#### 9. Seed/Seed Processing Equipment

National responsibility for agricultural research including seeds is presently vested in the Sudanese Agricultural Research Corporation (ARC), National and Regional Ministries of Agriculture, the National Seed Administration (NSA) and several other governmental entities have varying downstream areas of responsibility relating to seed development, propagation, handling, distribution, and extension. USAID along with other donors has contributed significant inputs of money and assistance towards agricultural research and the development of new higher yielding seeds.

In consideration of the adverse impact of the recent drought on Sudan, it is especially important that new actions and programs be directed towards increased food grain production. All sectors of the agricultural economy will be involved in efforts to meet new program goals and objectives. However, USAID's philosophy dictates that insofar as possible, assistance will be directed towards encouraging private sector participation in agricultural research and production. In furtherance of the private sector initiative AID provided a CIP allocation of \$50,000 in 1984 for a Sudanese businessman to import U.S. grown alfalfa seed. The same source has requested U.S. \$650,000 in 1985 CIP funding to import hybrid sorghum, Sudan grass, alfalfa and corn seed, in addition to veterinary drugs and equipment. In addition to this type of seed additional foreign exchange may be needed for other seeds such as groundnuts.

Limited quantities of a promising new Sudanese hybrid sorghum Hageen Dura No. 1 (HD-1) developed through an ARC/ICRISAT cooperative program was released in 1984 for applied trials and field testing. Results of the (HO-1) trials and tests are encouraging and show that the sorghum now merits propagation of larger seed stocks for planting by farmers with medium size farms in both the irrigated and the rainfed farming sectors. Some U.S. firms have shown an active interest in participating in joint ventures in Sudan to produce hybrid seed and have conveyed this interest to both USAID and AID/W. A major portion of the financial assistance needed to further seed research and development can be provided incountry through the use of local currency.

## 10. Emergency Relief Inputs

Coupled with the need to provide assistance which will promote economic stabilization is the need for AID to respond to requirements for emergency relief to reduce social destabilization and human suffering.

The commodities proposed fit the \$200 million positive list and satisfy Congressional and Agency concerns pertaining to the appropriate use of CIP funds. The only difference being that more of the same is needed right away. The period between April and June is critical and determines the annual performance of the economy. The level of agricultural inputs and machinery in-country during March/April determines areas to be planted in both the rainfed and irrigated sectors and consequent yields; complementary inputs and services (e.g. transport capacities, fuel, electrical power) also affect production plans and activities. Availability of drinking water and drugs not only determine the standard of health of human population but also productivity of rural people during the crop cycle. Even if normal rains resume this year drought effects will exist for the next several years with each section of the economy struggling to recover from this natural disaster.

During the implementation of the emergency drought relief program AID has noted several areas where assistance will likely be requested. The 37,000 MT of sorghum and 130,000 MT of wheat and wheat equivalent has been trucked over the 200 km Port Sudan - Khartoum road. Sections of the road are showing signs of deterioration largely due to excessive traffic and truck weights. This road link is Sudan's major export link and, therefore, its rehabilitation is critical to economic recovery and successful impact of other imports provided under the CIP. USAID is exploring the use of funds allocated for transportation under the FY 85 CIP for the rehabilitation of this vital road link.

Denuded pasture resources have resulted in a 50% reduction in livestock. Since red meat exports are a foreign exchange earner with considerable scope for expansion, USAID is considering aerial reseeded of native and introduced grasses and shrubs as a means to revitalize this area of the agricultural sector. Appropriate environmental assessments will be conducted prior to any effort of this nature.

Millions of displaced persons are suffering from malnutrition resulting from the severe drought conditions affecting the country. Eastern and Western Sudan are experiencing measles epidemics. Amoebic and bacillary dysentery have reached epidemic proportions in some areas. Though the CIP will provide base chemicals for production of pharmaceuticals locally, there is also an immediate need for finished pharmaceutical products to address the existing emergency which could be met through this program.

Without adequate access to water, the impact of improved roads, seeds and medicines is minimal. Failing water supplies in widespread areas have led to further depopulation of villages and migratory drift toward larger towns. One major bottleneck to tapping groundwater sources is the lack of water exploration equipment, drilling rigs, pipes and fittings, pumps and general spare parts due to the lack of foreign exchange. There is also a need for diesel pumps and associated spare parts to rehabilitate existing water sources and develop new areas. This year's CIP may be tapped to provide the necessary foreign exchange to provide improved water resources to those sections of the country at the greatest risk.

VI. MARKET ANALYSIS AND CIP ALLOCATION

A. U.S. Share of Imports

In 1981/82, Sudan's imports reached a peak of \$1.9 billion. Historically the U.S. has supplied a small share of imports. In 1980/81, the share was 7%, rising to 12% in 1981/82 (\$226 million). Western Europe and Arab countries have supplied over two thirds of merchandise imports. The main commodities supplied by the U.S. are:

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

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

B. CIP Pipeline

The following table summarizes the status of the FY 1980, FY 1981, FY 1982, FY 1983, and FY 1984 CIP programs. Also shown are projected disbursements for the proposed FY 1985 program.

Table 10: 22. CIP Pipeline

(\$ Million)

FY	Amount	Through FY 82		FY 83		FY 84		Est. FY 85	
		Oblig	Disb	Oblig	Disb	Oblig	Disb	Oblig	Disb
1980	40.0	40.0	39.7	-	.2	-	-	-	-
1981	50.0	50.0	31.5	-	13.8	-	4.1	-	.6
1982	100.0	100.0	25.0	-	53.8	-	16.2	-	5.0
1983	60.2	-	-	60.2	21.2	-	20.2	-	18.8
1984	102.0	-	-	-	-	102.0	-	-	80.0
<u>Proposed</u>									
1985	74.0	-	-	-	-	-	-	114.0	80.0

Source: USAID/Sudan.

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

Based on past CIPs and GOS requests, USAID has constructed a positive list of commodities with upper limits of value from which the \$71 million of CIP commodities will be drawn.

<u>Positive List of Commodities</u>	<u>Upper Limit of Value(\$ Million)</u>
Jute/Baling Hoops	20
Petroleum Products	40
Tallow	20
Spare Parts	8
Fertilizer, Agricultural Inputs and seeds	50
Transportation, Rehabilitation, Equipment and Parts	10
Telecommunication Equipment	6
Pharmaceuticals,	
Industrial Inputs and Equipment	21
Power Transmission and Distribution Systems Equipment and related technical services	20
Earth Moving Equipment	5
<b>Total</b>	<b>200</b>

Based on a preliminary analysis of specific import commodities and criteria in Section VI, USAID and the GOS have drawn up a tentative allocation of the proposed \$74 million CIP, which is provided below for illustrative purposes only.

<u>Commodities</u>	<u>(\$ Million)</u>
- Jute/Baling Hoops	15
- Lubricants/Petroleum products	7
- Tallow	2
- Tinplate	1
- Transportation, Rehabilitation, Equipment and Spares	3
- Seed, Agricultural Inputs	19
- Industrial Spare Parts	10
- Pharmaceutical raw materials	2
- Power transmission & distribution system equipment and related services	<u>15.0</u>
Total	74.0

Tentative Implementation Schedule

May 1985	Agreement Signed.
June 1985	Conditions Precedent Met.
July 1985	First Letter of Commitment Issued.
September 1985	First Shipment Made.
October 1985	First Shipment Arrived Sudan.
May 1986	Grant Fully Committed (L/COM's).
May 1987	Final Shipment.
June 1987	Final Disbursement.

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## VII. LOCAL CURRENCY COMPONENT

### A. Counterpart Generations.

Local currency proceeds generated from Sudan's Commodity Import Programs have been and will continue to be utilized for development projects supportive of our CDSS objectives. Annex D presents allocations agreed upon with the Government of Sudan from the FY 1981, FY 1982, FY 1983 FY 1984 and FY 1985 Commodity Import Programs. The great majority of these allocations have been to A.I.D.'s Development Assistance projects in the agricultural, transportation, energy, refugee and health/education sectors. Such an integration of DA and CIP local currencies concentrates resources on common development objectives, assures GOS local currency contributions to meet USAID's project portfolio requirements and also assists with the Mission's management/monitoring of the uses of these local currencies. Consequently, first priority for CIP allocations will continue to go towards complementing USAID's development project portfolio.

There are limitations in the need for local currencies to support USAID's project portfolio. This is especially true because local currencies are also being generated from the FY 1980-84 \$100 million PL 480 Title III Agreement and the FY 1984 \$30 million and FY 1985 \$50 million PL 480 Title I Agreements that are also earmarked to support our agricultural/rural development program and to cover expenses arising from purchasing and distributing emergency food, seeds for planting in 1985 and supplies to the drought victims in Western Sudan. Programming of local currencies within the GOS's development budget in accordance with the Three Year Public Investment Programs will give priority to supporting other donor-financed activities, particularly those of the World Bank. The funded line items will reflect the priorities which USAID holds in high regard, and also provide for sufficient flexibility in the Government of Sudan's budget to deal with its own internal financing program.

The FY 1985 CIP Program will once again specify in a special covenant that all commodity transactions must generate local currency. Only technical assistance provided under the commodity import program will be excluded. These counterpart generations will be equal to the dollar value of the transaction converted to Sudanese pounds using the commercial bank foreign exchange rate prevailing on the date of deposit. All generations attributable to a transaction must be deposited prior to receipt of the commodities; 30 percent upon opening of the letter of Credit and the balance prior to securing the shipping documents. In those instances where the implementing public sector corporation or agency or parastatal is unable to secure the necessary local currency at the time the deposit is to be made due to a cash flow problem, the Ministry of Finance and Economic Planning will make a subsidiary loan to the GOS implementing agency to ensure timely deposit of local currency.

The FY 1985 CIP Program Agreement will require both parties to agree to program CIP generations within sixty (60) days of their deposit into the special account, unless, in a special case agreed to by USAID in writing, a longer period is justified. In no case will USAID allow any of the generations to be attributable to general budget support.

As with other USAID CIPs, the programming of local currencies generated is a continuing process due to uncertainties of the timing and amount (not formula amount) of counterpart deposits. To determine the status of the programming at a given point in time, projected disbursements from the CIP special account are compared with anticipated generations (formula amount). A cumulative unprogrammed balance is left as a cushion necessary to absorb possible shortfalls in counterpart deposits. An innovation to this year's local currency programming will be the targeting of some local currency to the National Electricity Corporation. The uses of local currencies requested by the GOS will be coordinated with the goals of financial and managerial reforms, recommendations of the DA-financed Planning and Management Project and the uses of the foreign exchange component of this CIP. This pilot approach will be modeled after Title II and the Petroleum Initiative and will provide the basis for determining whether to develop a parallel Electricity Initiative for Sudan.

To assure satisfactory management and monitoring of generated local currencies, USAID has issued PILs outlining a semiannual financial/physical reporting system to monitor the use of CIP counterpart funds, which is similar to the one adopted for the PL 480 Title III Program. This reporting system will continue to be required on a semiannual basis for those projects which are DA financed and on an annual basis for those CIP local currency projects which are not tied to USAID's development portfolio to ensure the timely provision and utilization of local currencies. For projects funded in the Three Year Public Investment Program, USAID will require the GOS to submit an annual audit report listing the disbursements made for these projects, but will not insist on a fuller accounting for the disbursements and the physical benchmarks achieved. As many of these other development projects will be managed by other donors and the GOS itself, USAID feels it should be the responsibility of the GOS and the other donors to track those disbursements.

As in the past, a proportion of the FY 1985 CIP local currency generations will also support Mission operations in Sudan. Within this Trust Account, funds will be utilized to meet the costs of arrival accounting being performed by a private firm under contract with USAID.

#### B. Trust Account Deposit

The Government of Sudan 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 GOS. Deposits in this Trust Account will be in local currency at levels proposed by USAID and agreed to by the GOS. 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.

## VIII. PROGRAM IMPLEMENTATION

### A. Overview.

Until recently each of USAID's divisions that have implementation responsibilities did not have the depth of staff to adequately monitor the CIP. To correct this weakness, USAID has strengthened each of the offices which participate in the CIP implementation. The Supply Management Office is now staffed with a Senior Supply Management Officer, an Assistant Supply Management Officer and a Foreign Service National International Trade Specialist. The Office of Project Operations, General Development Division, employs a PSC Project Officer whose duties include primarily programming and monitoring local currency generated by the program and monitoring deposits and withdrawals from the Special Account. The Controller's Office has employed a TCN Accountant, whose primary duties include monitoring the arrival accounting system, performing end-use examinations, and reviewing AID/W accounting reports. The Economic Policy Program Officer has assigned economic analysis responsibility to a full-time US PSC economist. In addition, under the Energy Planning and Management Project, consultants have the task of monitoring and coordinating the technical elements of certain aspects the proposed Electricity and Rehabilitation Program for the GOS. The full team is now on board and will provide in-depth guidance and adequate monitoring of all phases of the implementation of the program.

### B. Implementation Procedures.

1. GOS. The major GOS entities responsible for administering and implementing the CIP grant will be the Ministry of Finance and Economic Planning (MFEP), the Ministry of Commerce, Industry and Cooperation (MCIC), and the Bank of Sudan. Within MFEP's Finance Division, the Commodity Aid Committee (CAC) is responsible for making all allocations to the public and private sectors, and has overall responsibility for grant administration. MCIC is responsible for issuing all import licenses. The primary role of the Bank of Sudan will be to provide payment instructions to the local commercial banks acting as approved applications under the Bank Letter of Commitment method of financing. The National Export and Import Bank is responsible for the management of the Special Account for counterpart generations. Annex G provides procedures for payment of local currency counterpart funds established by the National Export and Import Bank.

2. AID. The USAID/Sudan Office of the Controller will be the overall coordinator for the Commodity Import Program, responsible for monitoring the performance of the three other USAID offices which share CIP responsibilities. The USAID/Sudan Supply Management Officer, seconded by one Assistant Supply Management Officer and one FSN International Trade Specialist, in cooperation with support officers in AID/Washington, will have direct responsibility for USAID coordination with CAC and MCIC in monitoring and expediting procurement of commodities and related services under the Commodity Import Program. The USAID/Sudan Economic Policy and Program Officer, under the direction of the Mission Director, and in coordination with

the Embassy Economic Counselor, will be responsible for reviewing Sudan's economic situation, specifically its balance of payments position, so as to determine the most appropriate allocation of ESF funds and the most essential commodity requirement. The USAID/Sudan Project Operations Office will be responsible for programming counterpart funds generated by the CIP, and reviewing proposed CIP transactions in excess of \$1 million which involve the construction, equipping, or alteration of a physical facility. The USAID/Sudan Controller will be responsible for monitoring the generation of counterpart funds due the Special Account, performing reviews of arrival accounting and end-use monitoring to ascertain the effective arrival and utilization of CIP-financed commodities. The Mission Order detailing respective responsibilities is included in Annex E.

#### C. Procurement Financing Procedures and Financial Analysis

Procurement and financing procedures under this CIP will be those set forth in AID Regulation 1. A review of Sudan purchasing practices indicates that procurement by the public sector will include a mixture of formal competitive-bidding and proprietary procurement, while the private sector will follow AID's negotiated procurement procedures. The method of financing normally will be through Bank Letters of Credit for transactions valued at less than \$1 million, and Direct Letters of Commitment over \$1 million.

#### D. Eligible Commodities

Commodities eligible under the AID Commodity Eligibility Listing will be eligible for AID financing and will be included in all Commodity Procurement Instructions. However, commodities actually financed will be determined largely by the allocations made by the Commodity Aid Committee (CAC) and transmitted to AID by the Ministry of Finance and Economic Planning.

The Ministry of Commerce, Industry and Cooperation, 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-essential, household appliances and consumer goods normally considered ineligible under AID eligibility criteria. Review of these procedures and their application to past CIP programs has revealed that they are effective in combination with the additional requirement that a separate import license must be approved for each CIP funded import.

#### E. Procurement Restrictions/Limitations

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

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 PD 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 85 CIP will be the date of the signing of the Agreement.

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. USAID will make its best effort to commit the bulk of the grant to actual purchases in the first 12 months.

H. Port Clearance and Inland Transportation

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

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

I. Methods of Implementation and Financing

<u>Method of Implementation</u>	<u>Method of Financing</u>	<u>Approximate Amount (\$000)</u>
Commodities, Host Country Procurement		
Transactions under 1 Million	Bank L/COM	19-20.0
Transactions over 1 Million	Direct L/COM	50.0
Technical Assistance	Direct Reimbursement	2.0

The Government of Sudan does not have the financial resources to make initial payments and seek reimbursements from AID. Up to FY 1982, we elected to use direct letters of commitment for all CIP transactions. The volume of paper that was generated from the smaller transactions required us after consultation with AID/W to use Bank Letters of Commitment for all transactions less than one million dollars.

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 offices at Port Sudan that are charged with expediting their own organizational cargo through the port and on to inward transportation. The Ministry of Commerce, Industry and Cooperation also maintains a cargo accounting unit at both the port and Khartoum for monitoring imports within the Ministry's concerns.

The Mission has determined that records maintained by the GOS are not adequate for our purposes. Therefore, we have established a system that adequately tracks commodity arrival, movement through the ports, indicating shortages and breakage and distribution to the ultimate end user. Up to this point in time we have records on approximately 40% of all CIP transactions under FY 81 through FY 83 programs. This will be expanded and will include most of the high cost items under these programs. The Mission randomly selects the transactions to be accounted for. Our contractor performs the detailed work and prepares reports that indicate arrivals, compared to shipments, and reflects overages, shortages, and breakage. These reports are transmitted to the Supply Management Office for any necessary action. The contract is funded from local currency generated under the program.

In fiscal year 1983 USAID initiated a program of end use examinations of both private and public sector end users. A report of findings is prepared for each examination. The report is forwarded to Mission senior management for information and to the Supply Management Office for any action that might be indicated by negative findings.

The Regional Inspector General in Nairobi is currently planning to include an audit of the Commodity Import Program in this FY 85 audit schedule. We are of the opinion that this audit in conjunction with the FY 84 evaluation, existing arrival accounting system and program of end use examinations will provide necessary assurances that procured commodities are effectively used.

#### J. Import Controls

1. Private Sector. The MCIC is responsible for establishing and implementing an annual import program in coordination with the Ministry of Finance and Economic Planning, 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 MCIC, the Bank of Sudan and Ministries having national jurisdiction over the 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. Revised "Open General Licensing System" (OGL) permits only restricted imports of any commodity or product. Limitations and classes of commodities or products are dependent upon decisions of the Minister of Finance and Economic Planning, and are presently set forth in List "B" of 40 prohibited categories of imports.
- b. The new version of the old "Consultation System" (CS) whereby import licenses for a specific purchase are issued according to guidelines provided and administered by the Ministry of Commerce, Industry and Cooperation.
- c. "Special" Import Licenses issued by the Ministry of Commerce Industry and Cooperation for either a class of commodities or a specific purchase when funding of international payments is not a demand on GOS owned resources. 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 AID foreign exchange accounts/allocations for the private sector will be maintained by the MCIC in coordination with the MFEP, which is responsible for approval of GOS import licenses.

Actual disbursement of any funds by AID 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 AID Supplier's Certificate attesting to compliance with a number of AID 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.

IX. OTHER CONSIDERATIONS

A. Impact on U.S. Balance of Payments.

The continuation and increased size of the CIP program will have a modestly positive impact on U.S. exports and balance of payments by reinforcing commercial links and enhancing the likelihood of the need for spare parts and reorders. Although U.S. exports to Sudan of \$226 million in 1981/82 were only about 0.1% of total U.S. exports, the strengthening of trade with Sudan is important to individual U.S. exporting firms. The U.S. share of Sudan imports, however, probably will increase somewhat from 12% in 1981/82.

B. Internal Financial Effects

The generation and expenditure of local currency under the CIP program probably are somewhat deflationary in that the sale of imported commodities absorbs excess liquidity, and expenditures of local currency lag behind generations from sales. To the extent that CIP commodities are sold to the private sector with local currency accruing to the GOS, resources are diverted from the private to public sector.

C. 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.

D. 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.

Two small Foreign Credit Insurance Association (FCIA) loans were completed in 1980, based upon long standing past acceptances. However, nothing new has been considered. The CIP grant for FY 1985 will complement, not conflict, with the Ex-Im Bank activities.

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

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

As of March 31, 1984, OPIC had 15 active contracts with six companies with insurance coverage ranging from \$415,000 to \$125 million. Applications to cover \$30 million of investment were pending.

This CIP is not expected to directly assist firms which have an existing contract or pending application but complements OPIC support of the private sector.

X. Recommendation Terms and Conditions

It is recommended that a grant to the Government of the Democratic Republic of the Sudan of seventy-one million dollars (\$71,000,000) be authorized for financing the importation of selected commodities and commodity related services.

A. TERMS AND CONDITIONS

1. Conditions Precedent to First Disbursement. Prior to the first disbursement under the grant, or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the grantee will, except as the parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

- a. An opinion of the Attorney General of the Democratic Republic of Sudan that this agreement has been duly authorized and/or ratified by, and executed on behalf of the grantee, and that it constitutes a valid and legally binding obligation of the grantee in accordance with all of its terms; and
- b. A statement representing and warranting that the named person or persons have the authority to act as the representative or representatives of the grantee pursuant to Section 8.2, together with a specimen signature of each person certified as to its authenticity.

2. Disbursement for the Loan Guaranty. Prior to disbursement under the grant for a guaranty of a short-term loan to the grantee, or to issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the grantee shall, except as the parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

- a. Evidence that the grantee has entered into a comprehensive economic reform program, satisfactory to A.I.D., which requires guarantee of a short-term loan to the grantee to make it viable;
- b. Evidence that the grantee has solicited several lenders and has obtained the most favorable terms for the loan, interest rate and other factors considered; and
- c. A signed loan agreement.

B. COVENANTS. The grantee shall covenant, except as A.I.D. may otherwise agree in writing, that:

1. During the course of this grant the National Electrical Corporation will have in place qualified staff for the positions of director general, senior directors and directors.

2. It will pay, or cause to be paid, all outstanding counterpart arrears including, but not limited to, those listed in Annex G of this PAAD.

3. It will rationalize imports by maintaining a system of import license issuance which favors essential inputs in foreign exchange allocation over non-essential consumer items. It will also fully implement a plan to record on a regular basis categories of licenses actually used. The Ministry of Finance and Economic Planning will seek technical advice and expertise to develop this system through economic assistance agencies. The Grantee covenants to coordinate its administration of import licenses with its administration of foreign exchange allocations.

4. It recognizes that cotton constitutes its single most important source of export earnings. It also recognizes that this resource must be sold abroad under terms which assure the maximum cash payment. It agrees that conditions on the international cotton market have become more competitive in recent years while Sudan's production has suffered in quality due to honeydew caused by white fly infestation. In order to overcome these problems and test the international cotton market, the grantee will:

- a. As a means of testing the market, offer 100,000 bales of medium staple on tender at an open price for prospective purchasers with shipment and payment under the tender to be required in by March 31, 1986 with cash payment. As an incentive for earlier payment, the grantee will consider a discount of up to 4 percent for shipment and payment in CY 1985. Offers under this tender need not be accepted, but by comparison with prices offered other suppliers, the CPC will be able to determine the current value of Sudan's crop.
- b. Market its cotton more aggressively, first by contacting no less than five major brokers with a view to developing a marketing policy that reflects current prices and marketing conditions.
- c. As a means of stimulating sales, and in recognition of the recent quality problems CPC has experienced with the cotton crop, develop a system with dealers for guaranteeing cotton quality. As a trial, and on a single consignment of a 100,000 bale lot, three quarters of the stipulated price will be paid by the purchaser to CPC and one-quarter will be paid into an escrow account at a recognized international bank. Upon sale by the purchaser/dealer to a mill, the cotton will be subject to testing if the mill objects to quality on the ground of excessive honeydew. If upon testing, particular bales are found to possess more than 0.3 of one percent honeydew by the Perkins Standard, those bales (but not the entire lot) can be repossessed by the dealer for resale. Testing may be performed by any of four laboratories, depending upon the location of the cotton and the availability of services. These laboratories are located at Bremen, Montpellier, Milan, and England (Shirley). Any losses experienced by the dealer in repossession will be met from the escrow account. In any resale procedure, CPC will have the option of repurchasing the cotton from the dealer. Upon the processing of the full 100,000 bale lot, or two months after the final sale to individual mills, the remainder in the escrow account will revert to CPC.

- d. In conjunction with such an arrangement, CPC will seek outside assistance of a technical nature in combatting white fly, either from pesticide manufacturers or from other scientific establishments. CPC will also attempt to develop arrangements through its dealers for promotion of Sudan's cotton and for the improvement of CPC marketing practices. Quarterly reports will be provided to the grantor on actions taken in these attempts.
5. It will appoint a high level advisory committee on private sector initiatives. Of this committee, at least half of the members will be selected from the private sector. The purpose of the committee will be to study ways of encouraging private business investment. The panel will consider the benefits of reducing government regulatory costs and uncertainty. Illustrative examples of such changes are easing restrictive laws and simplifying price control mechanisms as well as clarifying and maintaining consistency in tax, banking and trade laws. The final panel report will be submitted to the joint monitoring committee not later than by December 31, 1985. It will contain a plan and schedule for implementation, citing specific measures to be adopted with proposed dates for adoption.
6. It will develop a schedule not later than January 1, 1986, under which all remaining unincorporated parastatals will be incorporated under the companies act of 1925. For each incorporated parastatal, the grantee will prepare a semiannual report on its financial status which includes details of operation under the credit and foreign exchange requirements of the companies act and other existing laws and regulations as these apply to the private sector. The grantee will further prepare a report by February 1, 1986, detailing which parastatals the grantee has identified as most suitable for divestiture and including a plan for determining a sales process and financial terms.
7. Recognizing the need to assure the reliable supply of electricity to the economy, it will obtain the services of a reputable management firm experienced in power personnel management systems. This firm will review and make recommendations for assigning responsibilities and delegations of authority for the various corporate officers of the National Electric Corporation as a high priority matter. Recommendations of this firm will address activities of the Board of Directors, Chairman of the Board of Directors, Director General, Senior Directors and Directors. The purpose of obtaining the services of this firm will be to assure the efficient use of the best available human resources so that qualified professionals are obtained for key management positions and unqualified incumbents are replaced. The resultant study and recommendations will also address other productivity measures such as working hours, staff production and staff benefits to encourage and provide incentives for improved performance.
8. It will prepare and submit to USAID an updated study and plan for the National Electric Corporation, no later than December 31, 1985, which addresses (1) staff reduction and staffing operations carried out in the previous 6 months, (2) targets for staff reduction in the next 12 months, and (3) personnel compensation packages (including performance evaluations and merit increases) required to recruit and retain qualified personnel at all

levels of the corporations. The plan shall also deal with the training and certification, through practical and theoretical examinations based on industry standards, of personnel for operating and maintaining NEC equipment, particularly the materials procured under the Commodity Import Program.

9. It will reduce electricity losses in the system incurred between generation and consumers to 25 percent or less no later than November 1, 1985. The confirmation of the effort, both generation figures and independent sales audit, will be presented to USAID prior to October 30, 1985.

10. It will improve the commercial operations of NEC through the initiation of no fewer than 16 branch commercial/customer service offices by December 31, 1985, and will place into operation improved billing and collection procedures in the same time frame. The NEC will improve procedures for receiving, storing, issuing, operating and maintaining CIP-supplied goods.

11. It will, except as A.I.D. may otherwise agree in writing, repay any loan guaranteed in whole or in part with grant funds, in accordance with the terms of and at the time specified in the loan agreement.

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Initial Environment Examination  
or Categorical Exclusion

Country: Sudan

Title: Sudan Commodity Import Program Grant  
SU-K-608

Funding: FY 1985 (ESF account) \$74,000,000

Period of Assistance: The terminal date of requesting u  
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: USAID/Sudan

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

Bureau's Environmental Officer's Decision:

Approved: *David L. Bayl*

Disapproved: \_\_\_\_\_

Date: *October 4 1985*

Clearance: GC/AFR *James Allen King* Date: *June 11 1985*

## Examination of Nature, Scope and Magnitude of Environment Impacts:

### I. Description of the Project.

The project proposes to provide a commodity import grant of \$74 million to the Government of Sudan (GOS) from the Economic Support Fund on standard A.I.D. terms. The principle objective of this grant is to provide Sudan with urgently needed imports of the highest economic importance and political sensitivity, thereby permitting the GOS to undertake an array of difficult policy reforms. A second objective is to increase support to the private sector where feasible.

Commodities will be selected from the list of eligible commodities (Handbook 15, Appendix B), all of which have been screened for any adverse effects they may have on the environment. No pesticides will be imported under the proposed grant and USAID/Sudan will inform the GOS and AID/W prior to the purchase of any potential hazardous materials or uses once these become known. Although the PAAD lists and describes various commodities, these have been provided for illustrative purposes only. The final allocations could vary substantially.

### 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.

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?

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

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

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

In FY 1985 Congressional Presentation.

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

Yes.

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, 619. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or in accordance with multilateral plans to the maximum extent appropriate?

N/A

4. FAA Sec. 601(a); (and Sec. 201(f) for development loans). 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) Assistance will support private sector production.
- c) N/A.
- d) Program utilizes rational resource allocation among productive sectors thru Ministry of Commerce and Supply.
- e) Imports provided would allow fuller utilization of industrial and agric.capacity.
- f) N/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 of foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

To the maximum extent possible commodities will be for private sector, which includes some US companies. Where available many commodities will be purchased from US sources.

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

GOS and USAID have now established systems whereby CIP local currency generations are jointly programmed; and monitored by means of both GOS and USAID quarterly accounting of deposits and disbursements.

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 NON PROJECT ASSISTANCE**

**1. Nonproject Criteria for Security Supporting Assistance**

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.

N/A

**2. Nonproject Criteria for Development Assistance**

a. FAA Sec. 102(c); Sec. 111; Sec. 281(a). 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?

N/A

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.]

N/A

(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; [103] 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.

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.

N/A

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.

N/A

e. FAA Sec. 201(b)(2)-(4) and -(8);  
Sec. 201(e); Sec. 211(a)(1)-(3) and -(8).

N/A

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 Section 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.

N/A

3. Nonproject Criteria for Development Assistance (Loans only)

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.

N/A

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

N/A

[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? N/A
5. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will agreement require the 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

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 requirements 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 Yes
- 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?

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 or motor vehicle manufactured outside the United States? Yes
3. Will arrangement preclude use of financing:
- a. FAA Sec. 114 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.
- e. App. Sec. 103. to pay pensions, etc, for military personnel? Yes.
- f. App. Sec. 106. to pay U.N. assessment? Yes.
- g. App. Sec. 107. to carry out provisions of FAA Sections 209(d) and 251(h)? (transfer to multilateral organization for lending). Yes.
- 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? Yes.
- 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. Country Checklist, Part A-General Criteria for Country Eligibility

1. FAA Sec. 481, FY 1985 Continuing Resolution. Has it been determined or certified to the Congress by the President that the government of the recipient country has failed to take adequate measures or steps to prevent narcotic and psychotropic drugs or other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse and Prevention Control Act of 1971) which are cultivated, produced or processed illicitly, in whole or in part, in such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully? No.
  
2. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor or 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? No.
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 country has spent on military equipment?  
 (Reference may be made to the annual "Taking into Consideration" memo "Yes, taken into account by the Administrator at time of approval of OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)
11. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?
12. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)
13. FAA Sec. 620A; FY 1982 Appropriation Act Sec. 520.

Yes, taken into account by the Administrator at time of approval of Agency OYB.

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

Sudan was not considered to have been in arrears on payments of its U.N. obligations at the time that the A.I.D. administration approved the FY 85 OYB.

Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism?

No.

Has the country aided or 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. 602E 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 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.) Sudan was represented at this meeting and to date has not disassociated itself with the communique in question. This action on the part of Sudan has been considered by the U.S. Government (see Taking into account memo dated January 15, 1982) in approving the Agency's FY 85 OYB.
17. ISDCA of 1981 Sec. 721. See special requirements for assistance to Haiti. N/A
18. FY 1985 Continuing Resolution. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States? No.
- 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?

N/A

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 Government 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.?

N/A

This activity will provide assistance using FY 85 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 Government of Chile has made significant progress in human rights; (2) it is in the national interest of the U.S.; and (3) the Government 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?

N/A

This activity provides assistance using FY 85 ESF to Sudan.

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Khartoum: January 1982
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Commodity Import Program FY 1983, (650-K-604)  
Khartoum: November 30, 1982

Annex D

Prepared: GO/PO, USAID  
01/15/85U.S. COMMODITY IMPORT PROGRAM  
BUDGETED FLOW AND UTILIZATION (LS)

Item	Actual 81-83	Actual 83/84	84/85	85/86	86/87	Total
<b>Local Resource Generation</b>						
650-K-602	23,303,589	6,101,878				29,405,467
650-K-603	35,878,490	10,367,893				46,246,383
650-K-604 (\$61.2 ml)		38,609,133	59,595,867			98,205,000
650-K-606A FY 84 (\$40.0 ml)				84,000,000		84,000,000
650-K-606B FY 84 (\$62.0 ml)			61,110,000	69,090,000		130,200,000
650-K-609A FY 85 (\$40.0 ml)				84,000,000		84,000,000
650-K-609B FY 85 (\$74.0 ml)				46,620,000	108,780,000	155,400,000
<b>Total Generated</b>	<b>59,182,079</b>	<b>55,078,904</b>	<b>120,705,867</b>	<b>283,710,000</b>	<b>108,780,000</b>	<b>627,456,850</b>
<b>Projected Disbursement</b>						
Attachment A	1,570,000	20,967,248	50,731,242	29,089,805	3,272,765	105,631,060
Attachment B			9,237,941	17,658,360	33,210,400	60,106,701
Trust Fund	7,693,900	17,385,000	63,379,200	28,750,000	20,250,000	137,458,100
<b>Total Programmed</b>	<b>9,263,900</b>	<b>38,352,248</b>	<b>123,348,383</b>	<b>75,498,165</b>	<b>56,733,165</b>	<b>303,195,861</b>
<b>Unprogrammed Balance</b>	<b>49,918,179</b>	<b>66,644,835</b>	<b>64,002,319</b>	<b>272,214,154</b>	<b>324,260,989</b>	<b>324,260,989</b>

U.S. COMMODITY IMPORT PROGRAM  
COUNTERPART TRUST ACCOUNT (LS)

Item	Actual 81-83	Actual 83/84	84/85	85/86	86/87	Projected Requirement
<b>— CIP Funded —</b>						
USAID Administrative Costs	4,435,000	12,473,100	31,000,000	18,000,000	19,000,000	84,908,100
<b>Program Costs:</b>						
Program Support	350,000	400,000	300,000	250,000	250,000	1,550,000
Ag. Planning & Statistics	640,000		— Title III Funded —			640,000
Rural Renewable Energy	90,000		— Title III Funded —			90,000
S. Manpower Development	298,200			— Completed —		298,200
Yambio Agricultural Research	40,000	40,000		— Completed —		0
Energy Planning & Management	1,410,000	770,000	6,428,000			8,608,000
Blue Nile Grid Rehabilitation	200,000	200,000	200,000			600,000
Health Constraint to R. Prod.	125,700	131,300	227,000			484,000
Energy Policy & Planning	105,000			— Completed —		105,000
Gedaref Water Supply		400,600	950,000			1,350,600
SORMAR I		2,000,000	3,720,000			5,720,000
Policy Analysis & Implementation			250,000			250,000
Roseires Dam S. & D. Control		900,000	54,200			954,200
Mat. Health Feed/Nut Ed. - SAWS		150,000	500,000			650,000
Policy Studies			1,000,000	500,000		1,500,000
Emergency Programs			15,050,000	10,000,000	1,000,000	26,050,000
B.N.G. Operation & Maintenance			3,500,000			3,500,000
Computer Center TA Project			200,000			200,000
<b>Total CIP</b>	<b>7,693,900</b>	<b>17,385,000</b>	<b>63,379,200</b>	<b>28,750,000</b>	<b>20,250,000</b>	<b>137,458,100</b>

Prepared: GDO/FO, USAID  
01/15/85

Attachment A

U.S. COMMODITY IMPORT PROGRAM  
COUNTERPART PROJECT ACCOUNTS (LS)

Name of Project	Actual 82/83	Actual 83/84	84/85	85/86	86/87	Projected Allocation
Ag. Planning & Statistics	255,000		Title III Funded			255,000
Sudan Seed Propagation		900,000	700,000	500,000		2,100,000
Yambio Training Institute	180,000			Completed		180,000
Energy Planning & Management		200,000	356,000	76,000	69,000	701,000
Health Constraints to Rural Prod	135,000	340,000	450,000	515,000	560,000	2,000,000
Port Sudan Water Supply	1,000,000	1,100,000	500,000	No Further Funding		2,600,000
SORMAR I			1,000,000	5,500,000		6,500,000
Juba Water & Sanitation		140,350	206,450	230,100		576,900
Literacy Training		116,303	190,948	No Further Funding		307,251
Policy Analysis & Implementation			1,317,000			1,317,000
Remit of Sud Nat Abroad		47,000				47,000
Princeton Studies			400,000			400,000
Sudan Rural Develop. Corporation		1,250,000	1,250,000			2,500,000
Roseires Dam S. & D. Control		3,345,600				3,345,600
Jonglei Canal		250,000				250,000
Admn. Support for Planning		240,000	10,000	No Further Funding		250,000
Malakal/Nasir Infrastructure		2,088,890		1,059,930	2,277,540	5,426,360
Upper Talanga Tea Project		119,000				119,000
Upper Talanga Afforestation		100,000		138,775	96,225	335,000
Central Region Water Supply		2,000,000	3,018,000	No Further Funding		5,018,000
Improved Seed Production Program		255,000	300,000	300,000		855,000
Emergency Power Generation		6,015,727				6,015,727
Emergency Food Transport		870,000	37,882,544	16,500,000		55,252,544
Kordofan Standby Generator		1,500,000				1,500,000
Dura & Oilseeds - Bahr El Ghazal			150,000			150,000
Small Holder Vegetable Prod -BEG			200,000			200,000
Small Holder Reforestation - BEG			358,150	150,000	150,000	658,150
Composite Flour Trial			227,500			227,500
Increased Sorghum Consumption - FRC			390,000	120,000	120,000	630,000
Darfur Water Spreading			450,000			450,000
Micro Project Support - EEC			400,000			400,000
Data Analysis for Pop Census		42,000	108,000			150,000
El Obeid - En Nahud Road				4,000,000		4,000,000
Sharaf Pharmaceuticals		47,378				47,378
Dept. of Stat. Computer Center			70,000			70,000
Kinyetti Hydro Power Project			796,650			796,650
<b>Total Programmed</b>	<b>1,570,000</b>	<b>20,967,248</b>	<b>50,731,242</b>	<b>29,089,805</b>	<b>3,272,765</b>	<b>105,631,060</b>

Attachment B

U.S. COMMODITY IMPORT PROGRAM  
ALLOCATION TO PROJECTS IN THE DEVELOPMENT BUDGET (LS)

Project Code	Name of Project	84/85	85/86	86/87	Projected Allocation
1.8.2	Northern Region Ag. Scheme	500,000	1,000,000	1,400,000	2,900,000
1.8.4	Nuba Mountain Rural Development	1,289,081			1,289,081
1.4.2	Jebel Marra Rural Development	498,860	608,360	188,400	1,295,620
1.13.4	Develop of Gum Arabic Project	250,000	750,000	500,000	1,500,000
5.11.1	Livestock and Meat Market	200,000	600,000	900,000	1,700,000
7.1.10	Sennar/Singa/El Damazin Road	4,000,000	9,700,000	18,222,000	31,922,000
7.2.19	Extra Ordinary Maintenance	2,500,000	5,000,000	12,000,000	19,500,000
<b>Total Programmed</b>		<b>9,237,941</b>	<b>17,658,360</b>	<b>33,210,400</b>	<b>60,106,701</b>

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USAID KHARTOUM, SUDAN  
MISSION ORDER

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USAID Order Number: ADM - 9                      Original Issuance: February 23, 1983  
Amendment No.: 1                                      Amendment Date:  
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Subject: Commodity Import Program - Mission Responsibilities.  
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This Mission Order, as amended, designates the Office of the Controller as the overall coordinator for the Commodity Import Program, responsible for monitoring the performance of the four offices which share CIP responsibilities within the Mission. Each office will establish a listing of specific procedures for fulfilling these responsibilities.

Economic Policy and Program Office (EPP)

EPP is responsible for preparing the Program Assistance Approval Document (PAAD). In carrying out this responsibility, the Program Office reviews Sudan's economic situation, specifically its balance of payments position, so as to determine the most appropriate allocation of ESF funds and the most essential commodity import requirements. EPP also prepares any special covenants or conditions precedent to be included in the Program Assistance Grant Agreement (PAGA) which will enhance achievement of U.S. objectives.

Project Operations Office (PO)

PO is responsible for the issuance of the PAGA. This includes drafting, negotiating, issuing, and distributing the PAGA. In regard to implementing the PAGA, PO has the following responsibilities:

-- In accordance with guidelines contained in STATE 42612 (dated 2/15/83), reviews proposed CIP transactions in excess of \$1 million which involve the construction, equipping, or alteration of a physical facility, and assists the Supply Management Office in determining their economic, financial and technical viability.

-- Programs counterpart funds generated from CIP procurement. This includes identifying, developing, monitoring, and non-financial reporting on projects and activities for which these funds are used. Financial reporting of counterpart funds not disbursed through the Trust Account is also the responsibility of PO.

In addition to the above, PO also reviews and clears the PAAD and implementation letters.

### Office of the Controller

The Office of the Controller is responsible for performing reviews of arrival accounting and end-use monitoring to ascertain the effective arrival and use of CIP-financed commodities. The result of these reviews are reported to the Supply Management Office for action.

The Office of the Controller is also responsible for monitoring the generation of counterpart funds due the Special Accounts. This includes issuing billing documents to the GOS and establishing requirements for and receiving GOS reports on deposits to/disbursements from the Special Account.

In addition to the above, the Office of the Controller reviews and clears the PAAD, PAGA, and implementation letters.

### Supply Management Office (SMO)

With the exception of those responsibilities assigned to other offices as discussed above, SMO is responsible for implementing the PAGA. SMO also reviews and clears the PAAD and PAGA. Specific SMO responsibilities include:

- Initiate, control, and distribute Implementation Letters and Commodity Procurement Instructions.
- Process Financing Requests for the issuance of committing documents.
- Negotiate with the GOS specific allocations of CIP funds, including reallocation of unutilized funds and/or residual balances, prior to expiration of the PAGA.
- Approve individual transactions as a prior condition to issuing committing documents.
- Provide guidance to importers in developing formal invitations for bids, informal requests for quotations, and, as necessary, prepare waivers.
- Assist the GOS in developing or amending import procedures and banking requirements, as necessary, to ensure effective procurement of CIP-financed commodities.
- Maintain files for all CIP-financed transactions, including files for importers, suppliers, and specific commodities.
- Assist PO in meeting STATE 42612 guidelines.
- Investigate complaints by suppliers or importers regarding procurement irregularities (e.g., restrictive specifications, improper solicitations, unjustified awards, etc.) and recommend corrective action to be taken.
- Monitor the availability of USG excess property in regard to possible financing under CIP.
- Review Office of Controller reports on arrival accounting and end-use monitoring and take necessary action.

## Distribution of CIP Documents

The distribution of CIP-related documents is described below.

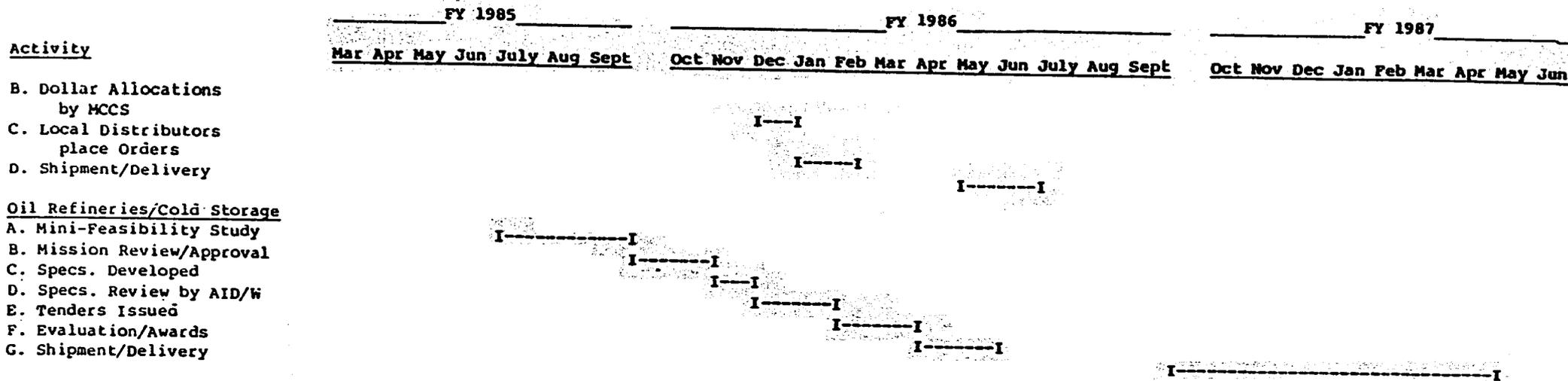
<u>Document</u>	<u>Responsible Office</u>	<u>Distribution</u>
PAAD	EPP	Forward draft to AID/W for issuance and distribution <sup>1/</sup>
PAGA	PO	Original - PO 1 - EPP 1 - SMO 3 - Controller 2 - AID/W GC 5 - AID/W AFR/PD/EA 2 - AID/W AFR/EA (Desk) 2 - REDSO/EA Director 1 - RIG/IG/EA 2 - GOS
Implementation Letters	SMO	Original - SMO 1 - Controller 1 - PO 3 - AID/W SER/COM 3 - GOS
Financing Requests	SMO	Same as Implementation Letters
Commitment Documents (L/COMs, PA/PRs, etc.)	<u>2/</u>	<u>2/</u>
Shipping Documents	<u>3/</u>	<u>3/</u>
Arrival Accounting/ End-Use Reports.	CONT	Original - Controller 1 - Director 1 - SMO

1/ EPP ensures that copies within the Mission are distributed:  
1 - SMO; 1 - Controller, 1 - PO.

2/ Committing documents are generally issued by AID/W. Copies forwarded to the Mission should be routed to the Controller and SMO. Committing documents issued by the Mission are issued and distributed by the Controller.

3/ Shipping documents are distributed by the supplier. SMO should ensure that the Controller is included in the committing document for distribution of a copy of all shipping documents.





Activity	FY 1985							FY 1986							FY 1987												
	Mar	Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May

- 8. Jute Products
  - A. Tender Issued
  - B. Evaluation Award
  - C. Shipment Delivery

I---I  
 I---I  
 I-----I

- 9. Baling Hoops
  - A. Tender Issued
  - B. Evaluation/Award
  - C. Shipment/Delivery

I---I  
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- 10. Sorghum Milling Equip.
  - A. Mini-Feasibility Study
  - B. Mission Review/Approval
  - C. Specs. Developed
  - D. Specs Review by AID/W
  - E. Tenders/Issued
  - F. Evaluation/Awards
  - G. Shipment/Delivery

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- 11. Regional Ag. Inputs
  - A. Ag. Bank/MCCS Develop. Requirements

I-----I

Prepared May 4, 1985

Annex 6

## PRELIMINARY ESTIMATES OF AMOUNTS DUE FROM CIP IMPORTERS

IMPORTER	DISBURSED \$	COUNTERPART REQUIRED	DEPOSITS L.S.	SALANCE DUE L.S.
AGRICULTURAL BANK OF SUDAN	444,985	578,481	0	578,481
BLUE NILE SPINNING AND WEAVING	217,500	332,775	269,322	63,453
EL-SUKI AGR. PROD. CORP.	369,160	332,244	331,247	997
G. D. PASGIANAS	159,587	203,728	128,536	75,192
GANDOUL LIVESTOCK CO.	98,000	191,400	104,940	86,460
GOVERNMENT OF SUDAN	2,765,921	2,876,902	0	2,876,902
MECHANIZED FARMING	32,924	29,632	0	29,632
MINISTRY OF COMMUNICATIONS	61,779	80,313	0	80,313
MIN. OF COOP., COMMERCE & SUP.	34,598,108	43,072,656	38,670,794	4,401,862
MIN. OF FIN. & ECON. PLANNING	40,669	52,870	0	52,870
MINISTRY OF HEALTH	530,886	477,797	0	477,797
MINISTRY OF IRRIGATION	3,500	3,150	0	3,150
NATIONAL ADMIN. FOR WATER	381,983	496,578	0	496,578
NATIONAL ELECTRICITY CORP.	15,304,469	19,897,718	18,885,026	1,012,692
THE NEW INDUSTRIES	587,312	898,587	853,557	45,030
NILE PAINT WORKS	997,884	1,567,170	1,436,694	130,476
NUBA MOUNTAINS AGR.	167,464	150,718	0	150,718
PEOPLE'S PHARMACIES	34,967	31,470	0	31,470
RAHAD AGR. CORP.	30,200,255	45,343,753	20,504,944	24,838,809
RED SEA SPINNING	551,699	496,529	7,256	489,273
SAEED FOOD FACTORY	514,386	462,948	0	462,948
SUDAN AIRWAYS	4,421,430	5,328,713	2,176,638	3,152,075
SUDAN BROADCASTING	38,976	35,078	0	35,078
SUDAN GEZIRA BOARD	11,234,433	16,320,750	5,736,735	10,583,815
SUDAN KUWAITI POULTRY	546,826	879,240	626,318	252,922
SUDAN REN CHEMICALS	199,868	179,881	0	179,881
SUDANESE OIL SEEDS	745,577	1,192,456	1,102,361	90,095
SUDANESE TRACTOR	6,983,534	6,285,181	0	6,285,181
UNION CARBIDE SUDAN LTD.	982,532	1,503,274	914,965	588,309
UNITY CO. FOR INDUSTRIES LTD.	5,113,979	9,205,162	4,000,000	5,205,162
UPPER TALANGA TEA	457,793	595,131	0	595,131
WAD MEDANI TEXTILE	63,748	97,534	48,195	49,339
WAGIE INDUSTRIES & ENGINEERING	3,540,964	6,373,735	0	6,373,735
WALIAB OIL MILLS	7,855,292	7,069,763	2,951,842	4,117,921
TOTAL	130,248,390	172,643,317	98,749,570	73,893,747

Ministerial Resolution No. 37  
Concerning Procedures for Payment of  
Local Counterpart of Commodity Aid

In order to safeguard collection and payment of the local counterpart Commodity loans and grants, in full and without delay, it has been resolved that:

First: The National Export, Import Bank should collect and balance the local counterpart for all commodity loans and grants,

Second: The National Export, Import Bank should deposit what has been collected of the local counterpart within a week in the Government accounts according to the directions of the Under-Secretary for Finance.

Third: In execution to the contents of the above paragraphs (first and second), we request sticking to the following procedures in the stages of signing and executing the various commodity aid protocols.

(1) Stage of Signing Commodity Aid Protocol:

In case there are articles in the agreement on the method of payment stipulating forwarding of loading documents to NEIB.

(2) Stage of Clearance:

Secretariat of the Commodity Aid Committee shall send out letters allocating commodity aid protocols to benefitting quarters in both public and private sectors with photo-copies to: NEIB, Ministry of Cooperation, Commerce and Supply, Under-Secretary of Finance, Under-Secretary of Planning and Guardian General of the Customs Forces.

(3) Contracting Stage:

It shall be stipulated in execution contracts of the private sector, which are financed by commodity aid protocols, that Credit Letters shall be opened through NEIB and that the original loading documents shall be sent to it.

(4) Stage of Securing Import License:

No approval shall be given to an import license, which is financed by commodity aid protocols, for both public and private sectors, unless the commodity aid committee sends a letter - properly endorsed - confirming the financing. On a conspicuous part of the license there should be a stamp indicating that the goods are financed by commodity aid protocols.

(6) Stage of Clearing Goods from Customs:

Customs Forces shall not clear any goods - which are financed by the Commodity Aid protocols for both Public and Private Sectors - unless they receive a Certificate (or letter) from NEIB confirming that the local counterpart has been paid on all amounts stated in the import license and other loading documents.

Fourth: The Exchange rate, by which the local counterpart of Commodity Aid protocols is remitted, is the exchange rate as determined by commercial banks from time to time. [At present it is 210 piastres for the dollar.]

Fifth: NEIB shall send a monthly statement to the Secretariat of Commodity Aid Committee showing Credit Letters which have been opened, details of loading documents which have been received and the amounts of local counterpart which have been collected during the month with a photo-copy to the Under-Secretaries of Financing and Planning.

ues under my signature on Nov. 20, 1984.

Abd Al Rahman Abd Al Wahab

ster of State for Finance & Economic Planning, And  
rman, Commodity Aid Committee.

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**(5) Stage of Payment to Importer:**

**(a) Public Sector:**

(1) In case of payment through Credit Letters, NEIB shall open the credit letters and collect the local counterpart in accordance with the current banking procedures (that is: collecting a certain proportion of the value of the credit letter at opening it, and the remainder at receiving of the loading documents.)

(2) In case of direct payment to the importer - that is direct drawing applications issued by the Secretariat of Commodity Aid Committee, it shall be stipulated that loading documents shall be forwarded to NEIB.

**(b) Private Sector:**

The Private Sector shall open Letters of Credit either through NEIB or through the commercial banks in which case these banks shall collect the local counterpart for the letters of credit which are opened through them in accordance with the current banking procedures. These banks shall transfer the collected amounts to the NEIB within one week. NEIB shall carry on a perpetual following-up of the collection of the local counterpart at the commercial banks via allocation letters to the private sector which come to NEIB from the Secretariat of the Commodity Aid Committee.