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DEVELOPMENT**



**SUDAN**

**COUNTRY DEVELOPMENT  
STRATEGY STATEMENT**

**FY 83**

BEST AVAILABLE

January 1981

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY  
WASHINGTON, D.C. 20523

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**USAID/Sudan**

FY 1983 CDSS -- THE SUDAN

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## AMBASSADOR'S OVERVIEW

The Sudan is a country of major significance for U.S. interests in Africa and the Middle East. The Sudan is astride both the African and Arab worlds and contains within itself important cultural elements of both. Its position in the Nile Valley means that developments here are of prime importance to the security of Egypt. It is potentially an important producer of food for the Middle East.

U.S.-Sudanese relations have grown increasingly close since the mid-1970's. Today the two countries' views coincide on a broad range of regional and international issues. The Sudan under Nimeiri has consistently played a constructive role in Arab and African councils. We have also found ourselves in sympathy with the Nimeiri Government's efforts to unify the country, create truly national political institutions, develop the Sudan's agricultural potential, and spread the benefits of development equitably among different regions and social groups in the country.

Unfortunately, the Sudan today is passing through a financial crisis which threatens its ability to achieve these goals. Over-ambitious development projects launched in the mid-1970's combined with inappropriate economic policies and adverse external developments, notably a massive increase in the cost of petroleum and other essential imports, have left the country with a crushing burden of external

arrears, inflation and negative growth. In 1978, the GOS turned to the IMF for assistance and, with the advice of the Fund and the IBRD, has developed a set of policies aimed at restoring economic stability during the 1980's. The program consists of fiscal restraint, concentration on increasing the productivity of existing projects, restructuring incentives in the trade and agricultural sectors to encourage greater production of export crops and reducing the role of the public sector in economic decision-making.

The Sudan's continued stability and moderate orientation are in the best interests of the United States. In the current situation, U.S. economic assistance is a crucial element of U.S. relations with the Sudan. Through our assistance programs, we not only can help the Sudan deal with its immediate financial crisis, but we can help strengthen the country's longer-term commitment to bring the benefits of development to the rural and urban poor. This CDSS outlines a five-year A.I.D. strategy aimed at:

- Providing fast-disbursing balance of payments assistance to help the Sudan surmount its immediate economic crisis;
- Emphasizing activities which directly increase productivity and which support the private sector; and,
- Maintaining and eventually increasing the U.S. contribution to long-term development with equity, which remains the goal of the GOS after the short-term financial crisis has been overcome.

January 30, 1981

I. INTRODUCTION

The Sudan, which is ranked among the world's "least developed countries", is presently in the throes of a financial crisis brought about in large part by rising import costs (primarily petroleum) and slow export growth, but also resulting from a misdirected effort during the mid-1970's to broaden its production and export bases. The crisis has had serious external (foreign exchange and debt burden) as well as internal (budgetary) ramifications.

The International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) have been collaborating with the Government of the Sudan (GOS) in constructing a framework for restoring financial stability to the economy. Recovery measures include a series of policy reforms; restraints on public expenditures, borrowings and credit; and a number of structural adjustments directed toward accelerating cotton and other export crop production and the dismantling of inefficient public enterprises. The centerpieces of the recovery effort are a GOS three-year rolling investment program, related export and tax action programs, and several major irrigated agriculture rehabilitation projects.

For foreign donors, including the U.S., the most significant aspect of the GOS recovery effort is the urgent need for: (1) additional aid in the form of quick-disbursing program assistance; (2) increased local cost financing; and (3) capital and technical assistance oriented toward the increased production and marketing of export crops. Looking beyond stabilization, the GOS will need continued assistance to insure progress toward its stated goal of balanced and equitable growth.

Over the five-year CDSS planning period, USAID/Sudan will join with the IMF and IBRD and the other major donors in providing the foreign exchange and budgetary support needed to help the Sudan survive its current financial crisis, and to bring about the structural adjustments in the agricultural sector that are essential to restoring viability to the economy and to creating a basis for sustained growth. For A.I.D. this means a continued high ratio of program over project assistance during most of the period. Development assistance will be concentrated principally on agricultural projects promising the highest returns over the short to medium-term through relief of critical production constraints in transportation, distribution and marketing. Inasmuch as the IBRD is already concentrating substantial amounts of assistance primarily on modern agriculture, both irrigated and rainfed, A.I.D. will focus on GOS efforts to expand production

from traditional rainfed agriculture. The rural poor majority should benefit substantially from such an enhancement of their productive capacity.

Also important will be our support for GOS efforts to expand the private sector's role in industrial and agricultural production and to replace ill-managed, costly and inefficient parastatal enterprises. A.I.D. will give priority in the allocation of commodity import funds to the foreign exchange and credit needs of private enterprises.

While not directly related to stimulating production, the current GOS effort to decentralize government also affords the U.S. an important opportunity to provide the benefit of its own two centuries' experience with federalism in maximizing the development benefit and minimizing what otherwise might be prohibitive costs of this bold venture in governmental reform.

Management training will constitute an important element in all of our assistance activities, and to the extent the Government is receptive, advisory services will be offered to the central planning and finance ministries to enhance their capacity for determining the relative costs and benefits of policy alternatives in areas such as taxation, trade and government regulation of business.

We will continue to provide modest support to GOS efforts to improve the effectiveness and efficiency of its primary health

services by concentrating on preventive medicine, including maternal and child health care and family planning, and by maximizing community participation in the establishment, operation and maintenance of facilities and services. Such community-based health services are important not only for the direct benefits they provide but also as a concrete manifestation of the Government's concern for the welfare of its far-flung constituents. Moreover, the systems developed for the delivery of health care services can serve as a foundation for further community-based efforts in education, sanitation, water supply and transport. Strengthening the capacity of local communities to undertake such activities will reduce dependence on inadequate central resources.

In this connection, as the Government's donor-assisted efforts to increase production and to stabilize the economy begin to take effect, and as there is some relaxation in the requirement for rapid-disbursing commodity import assistance, we propose to direct our development assistance efforts toward other institutional and system building projects of longer-term pay-off, in areas such as education and natural resource conservation.

## II. ANALYSIS

### A. The Development Setting

The Sudan, which covers more than a million square miles, has the largest area of any country in Africa or the Middle East. With a population of only some 18 million in an area one-third that of the continental United States, it has one of the lowest person/land ratios in the world. Roughly one-half the population lives in the East-Central region of the country, nearly 30 percent are in the West, and most of the remainder live in the Southern region. The Northern section of the country is sparsely populated.

The Sudan is traversed from south to north by the Nile River and its tributaries. The Northern third of the country is mainly desert (except for the Nile Valley). Inasmuch as rainfall and vegetation increase from north to south, much of the other two-thirds is suited to livestock and crop production. Tropical rain forest is found in the Southwest.

Agriculture is the leading economic activity in the Sudan. It accounts for 40 percent of Gross Domestic Product (GDP) and over 50 percent of Government revenues, employs about 80 percent of the labour force, and contributes nearly 95 percent of all exports.

#### 1. Regional investment disparities

A significant change in the economy was brought about by the introduction of modern large-scale irrigation schemes along

the Nile, starting with the Gezira scheme in the 1920's. This led to the greatly increased production of cotton, and more recently, groundnuts, wheat and sugar cane. A second spur to expanded production occurred in the 1950's when large tracts of rainfed crop lands were brought under mechanized cultivation, primarily for the production of sorghum (dura), cotton and sesame. Both these developments, which took place largely through private sector initiatives, were concentrated between the two main branches of the Nile River (south of Khartoum) and the adjoining plains of East-Central and Western Sudan. Elsewhere, except for the South, where the regional infrastructure necessary to support plantation agriculture had been installed during the colonial era, the effects of modernization have barely been felt and traditional modes of crop and livestock production prevail.

The provision of public services such as education, health, power and transport has also historically been concentrated in the East-Central region, and to a lesser degree in the South, thereby accentuating the regional disparities. While this followed largely from the concentration of agricultural investments and population in these regions, it also reflects the high cost and difficulty of extending infrastructure and basic services to the vast, sparsely-populated rural areas which characterize most of the rest of the country. Infrastructure is generally rudimentary throughout these outlying regions and social services for the

majority of the Sudanese people who inhabit these areas are generally inadequate.

2. The burden of widespread poverty

With a per capita income averaging \$320 annually, the Sudan is classified by the United Nations as one of the world's "least developed countries". Data on the distribution of income by social class and region are scanty; however, the data that are available reflect generally low levels of income throughout the country, particularly in traditional rainfed farming areas. A household budget survey conducted in 1967/1968 (which did not cover the South) indicated that some 80 percent of rural families can be classified as poor,<sup>a/</sup> compared to 30 percent of urban families. On this basis, over two-thirds of the country's total population (or around 12 million people) fall below poverty levels of income.

Other indicators bear out the generally low development status of the majority of the population. Adult literacy is estimated to be 20 percent in the country at large; female literacy is only around 8 percent. Only about one-third of the total population has access to safe water. This ratio falls to one-quarter in the rural areas. Roughly one-quarter of household dwellings have access to electricity. Caloric intake is currently

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<sup>a/</sup> In accordance with applicable poverty/income standards established by the World Bank.

averaging 88 percent of requirements. Primary school enrollment is presently running at one-third of those eligible.

3. The country's resource base

The mineral resources of the Sudan have not yet been fully surveyed. Some deposits are known to exist, including iron ore, copper, gold, chromium, lead, zinc, gas and petroleum, but there has been very little commercial exploitation to date. Of considerable potential significance is the recent discovery of petroleum in the Southwestern part of the country. Exploratory drillings have indicated assured production of some 40 percent of current domestic demand. Commercial exploitation is expected to begin within the next several years.

Industrial development to date has been directed mainly to import substitution for domestic needs. Presently, the chief industries are textiles and the processing of agricultural products, e.g., edible oil extraction, sugar processing, grain milling and tanning. Manufacturing's share of total output doubled from about 5 percent of GDP in 1956 to about 10 percent in 1975, but performance has been poor in recent years. The major contributing factors have been an inadequate and unreliable power supply, transport problems, a general lack of foreign exchange for imported raw materials, spare parts and equipment, and the sustained loss of skilled managers and technicians to the oil exporting countries. Capacity utilization at present is estimated at around 30 percent.

#### 4. The potential for agricultural production

The Sudan has about 200 million feddans suited to agricultural production (roughly one-third of its total area), of which about 120 million feddans are suited to livestock and about 80 million feddans to crops.<sup>a/</sup> At present only about 17 million feddans are under cultivation, including 4 million irrigated and 13 million rainfed. This enormous untapped crop potential combined with the vast livestock grazing areas located in the West has drawn considerable attention to the Sudan, particularly from its oil-rich, food-short Arab neighbors who view the country as a major potential source of food for the Middle East.

#### B. The Present Financial Crisis

The Government attempted to cash in on the country's food production potential in the early 1970's when it undertook an ambitious development program aimed at making Sudan "the breadbasket of the Middle East". Key objectives of the program were the removal of infrastructural bottlenecks to expanded agricultural production, increased emphasis on wheat, rice and sorghum production to ensure domestic food self-sufficiency, and a broadening of the agricultural export base through diversification into food crops and de-emphasis of cotton production.

The Government launched its program in the wake of the 1973

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<sup>a/</sup> One feddan is equivalent to 1.04 acres.

oil price boom, amidst high expectations of large-scale development aid, particularly from neighboring oil producing countries. To a large extent, these expectations were realized. Foreign assistance commitments rose rapidly in 1974 and 1975, and plans were made for even larger inflows, including specifically a proposal by the Arab Authority for Agricultural Investment and Development (AAAID) to commit up to \$2.5 billion for Sudanese agricultural expansion. However, domestic funding delays and transport and coordination problems impeded implementation of the program causing a virtual logjam in the use of foreign funds. Disbursements from foreign public loans fell from \$563 million in 1974 to \$156 million in 1977. By the end of 1978, undisbursed funds totaled \$1.4 billion.

While large sums of foreign funds were committed to projects that had become bogged down, the Sudan began to experience a steady deterioration in its trade and balance of payments situation. In 1974 prices of imported products, particularly petroleum, recorded sharp increases. Sudan's import bill tripled between 1973 and 1978, reaching a total of over \$1.4 billion in 1978. In contrast, exports grew little during the five-year period and by 1978 had barely reached \$700 million. By 1980 the trade deficit had exceeded \$1 billion.

In the light of annual shortfalls in expected export earnings and rising import costs, the Government turned to increased foreign

borrowing to support its development program. Sudan's external public debt rose from a little less than \$600 million at the beginning of 1973 to over \$3.4 billion by the end of 1978. As the debt rose, so too did the debt service. By 1978, the country found itself unable to meet its debt service obligations which by then had risen to \$300 million. By 1979, arrearages had reached a level close to one and one-half year's export earnings.

The Government's ambitious development program had serious domestic implications as well. Increased development expenditures, coupled with stagnating GOS revenues, resulted in growing budgetary deficits which by 1979 had reached 9 percent of GDP. To finance these deficits, the Government borrowed from the domestic banking system, thereby increasing the domestic money supply and driving the rate of inflation to an annual rate of over 40 percent by the end of 1979. Even so, the Government continued to experience difficulty in sustaining its development momentum. Poor project planning, a continuing shortage of critical inputs, infrastructural bottlenecks, and poor management contributed to delays in implementation, and cost overruns became common. In addition, despite the high rate of domestic inflation, Sudan's exchange rate remained unchanged and the Sudanese pound became increasingly overvalued. This further increased the demand for imports while discouraging the production of agricultural exports, adding further to the country's balance of payments problem.

By 1978 the situation had reached crisis proportions and the GOS called upon the IMF for assistance in reversing the country's downward economic spiral. The IMF responded by helping the Government in the formulation of an economic reform package. This package was followed a year later by a comprehensive 3-year stabilization program which is currently being supported by the IMF under its Extended Fund Facility.<sup>a/</sup>

C. The GOS/IMF Three-Year Stabilization Program

The main objectives of the three-year program are: (1) to raise the rate of economic growth, from a minus 1 percent in 1978/79 to 4 percent per annum by 1981/82; (2) to lower the domestic rate of inflation to 10-12 percent by 1981/82; and (3) to reduce considerably the budgetary and balance of payments deficits. These objectives are to be achieved through a series of structural reforms accompanied by fiscal and monetary restraints and changes in trade and exchange policies.

The structural reforms aim principally at revitalization of the agricultural sector so as to increase output and exports. The measures to be taken include adjustment of cost/price relationships for the various crops produced in the Gezira scheme, in favor of cotton (which since 1973 had been bearing by itself the burden of all land use and water charges). Second, the cropping pattern

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<sup>a/</sup> The program covers the 3-year period from June 30, 1979 to June 30, 1982.

in the irrigated public agricultural schemes will be oriented toward those crops in which Sudan has a comparative advantage, i.e., cotton and groundnuts. Third, will be a concerted effort to improve the maintenance of facilities and to rehabilitate agricultural production and marketing infrastructure.

The stabilization program also calls for strengthening the Government's financial position through increased revenue collections and strict control over expenditures. Major reforms are also to be undertaken with respect to public and parastatal enterprises that had begun to rely heavily on domestic bank credit to finance their current operations.

In the external sector, the 3-year program calls for periodic examination of exchange rate policy, greater control over foreign borrowing, and orderly rescheduling of Sudan's external debts and arrearages.

On the basis of its assessment of GOS performance during the first year of the program, the IMF is forecasting gradual improvement in the Sudan's balance of payments, beginning around 1983. However, large current account deficits of around \$750 million or higher are expected in 1981 and 1982. After taking into account known and likely capital flows, the IMF estimates that there will still be an unfinanced gap of around \$300 million in both these years (before the use of IMF funds). Some improvement is also anticipated on the budgetary front although an overall deficit

equivalent to around 8 percent of GDP is expected in 1980/81. It appears likely, however, that the Sudan will continue to experience sizeable current account and budgetary deficits well into the 1980's.

D. Beyond Stabilization: The Government's Approach to Economic Growth and Development

1. An historical perspective

Since independence in 1956, the Government of Sudan has systematically employed formal planning techniques in its efforts to chart the course of the nation's economic development.

Immediately following independence, the Government embarked on a series of annual development programs. These programs gave high priority to social services; however, sizeable investments were also made in the agricultural sector. Transport and communications received a comparatively low priority.

In 1961, the Government made its first attempt at a comprehensive multi-year investment program, formulating the Ten-Year Plan of Economic and Social Development. The plan continued the Government's emphasis on the expansion of social services, particularly education and health. However, agriculture was also accorded high priority, and increased attention was given to infrastructural development. Although plan targets continued to be used during the balance of the decade, the plan itself was virtually abandoned by 1965.

In 1971, the GOS launched a second plan, the Five-Year Plan. Agriculture and social services continued to receive high priority, with transport and communications relatively low. In 1972 the Addis Ababa Accord was signed, ending the civil war between the North and the South. The renewed sense of nationhood that followed the Accord produced a growing sensitivity to regional and sectoral imbalances. Seeking to overcome these imbalances, the Government formulated a Phased Action Program (PAP) early in 1973, then superimposed it on the Five-Year Plan. The net effect of the PAP was to nearly double the volume of Plan investment. More importantly, it generated an ambitious and optimistic atmosphere among Government agencies that led many agencies to unilateral action, away from budgetary discipline and central financial control. In addition, implementation of resettlement and rehabilitation programs for the South greatly increased Government expenditures on administration and social services. Unfortunately, these internal events coincided with other external events which would also impact heavily and unfavorably on Sudan's terms of trade. Joined with the decline in exports, they would bring the Sudan to the brink of bankruptcy by the end of the 1970's.

The consequences were equally severe for Sudan's planning effort. The ambition and optimism that underlay the PAP, the

Government's concern for equity and its eagerness to promote balanced growth and deliver on Sudan's potential of becoming the "breadbasket of the Middle East", all carried over to the Six-Year Plan promulgated in 1977. The planning horizon was broadened to accommodate these somewhat far-flung objectives, with apparent indifference to the financial difficulties and absorptive constraints that were seriously impeding ongoing development programs. Consequently, as of 1977, the Government's long-term planning process had ceased to provide a useful framework for long-term development.

Eventually, however, the failure of the Government's planning system led to a reversal of its policy to "socialize" the management of the country's productive systems. At the onset of the 1970's, the Government had begun to emphasize state ownership of the modes of production. This led to the creation of a variety of public and quasi-public institutions including parastatal corporations, production and marketing boards, and nationalized banks. It also led to the decline of private sector participation in the management of major enterprises in several key economic sectors including agriculture, industry and transport. The policy of promoting state ownership was vigorously adhered to until the late 1970's, when the inefficiency that it bred was finally recognized. Poor management of the State-owned productive enterprises is now generally

regarded as one of the key contributing factors to the failure of the Government's ambitious development program in the mid-1970's.

The years since 1977 have been beneficial, in lessons learned and hopes restored. From its recent adversities, the Government appears to have quickly gained an appreciation of the shortcomings of its past approach. It is now less inclined to lean as heavily on public sector control of production and commerce. It is much more aware of the limits of its capacity to absorb foreign assistance. It has a greater sense of priorities and a more realistic grasp of what might be achieved in the way of equity and balanced growth within the near future. And, as demonstrated in the case of the 3-year stabilization program, the Government has shown a willingness to undertake the reform measures needed to put the Sudan onto a sound development track.

2. The Government's commitment to equitable growth

The present Government is clearly committed to economic growth with equity; however, as the preceding review demonstrates, the magnitude of the economic crisis it faces, and the measures that it has been called upon to initiate in attempting to deal with the crisis, have had serious negative impacts on the equitable distribution of public resources.

a. Macroeconomic factors inhibiting the ability of the poor to raise their income

Inflation is currently running at a 25-40 percent

annual rate, there is a massive balance of payments deficit, efforts to mobilize domestic savings have made little headway, and fiscal and monetary reforms instituted since 1977 have adversely affected economic and social services for the majority of the population. The GOS is struggling with massive macro-economic problems which require major structural and policy reforms. Political realities, especially the need to retain the support and confidence of the civil service, military and powerful trade unions, have dictated that several other potentially significant remedial actions (such as reducing the size of the civil service or divesting of parastatal enterprises) be approached slowly. In restructuring the agricultural sector, the GOS cannot afford to risk the short-term disruptions to production which hasty action, provoking opposition from entrenched interests, might produce. The present regime's very survival may well rest on its ability to surmount the present economic crisis. Against this background, any trade-offs between growth and equity must be especially carefully considered.

b. Employment generation and pricing policy

The vast majority of the Sudan's population are engaged in traditional agriculture; while the industrial sector has grown during the past two decades, it does not offer employment opportunities equal to the growth of the urban work force. Hence,

underemployment and unemployment are major problems in urban areas. The entry into Sudan during the past five years of upwards of 400,000 Ethiopian, 40,000 Ugandan, and tens of thousands of Chadian, Zairian and Central African refugees further exacerbates the unemployment problem.

An overvalued exchange rate, absence of hard currencies for capital goods, and the confiscations of privately-owned industries in 1969/70 work in different yet reinforcing ways to curtail employment generation in the industrial sector. The mechanized agricultural schemes undertaken in the 1970's offer little but seasonal employment.

The GOS is attempting to stimulate the industrial sector's expansion by lifting controls on ownership and use of hard currency, by returning to private hands previously nationalized properties, and by locating large public investments, such as sugar refineries, outside the Khartoum area. Yet minimum wage laws, pro-labor labor codes, and other restrictions on the industrial sector which reflect the ideological bias of the early 1970's remain -- largely as a result of the political muscle of trade unions and the volatility of the working class.

c. Access to productive resources

The Sudan is blessed with an abundance of two agricultural resources: land and sun. Everyone has access to both. Water,

improved seeds, credit, transportation and other productive resources, however, are largely concentrated in the modern subsector in the East/Central region. Because of the prospect of greater returns over the short-term from this sub-sector, the GOS is following a policy of concentrating its available resources here. Nevertheless, efforts are being made to improve transportation, agricultural extension services, marketing systems and other services which will have a positive impact on the traditional agricultural sub-sector. The Southern Regional Government is attempting to expand the supply of productive resources available to traditional farmers and despite severe constraints is perhaps further ahead than is the Government in Khartoum. International donors are playing a major role in both the North and South in the struggle to upgrade and to create new opportunities for popular access to productive resources. The recently-decreed advent of five regional governments in the North may result over the next five years in greater allocations of resources to the traditional sector, especially as increased production and easing of the macroeconomic crisis generates more revenues.

d. GOS allocations to health and education

Allocations to health and education, as well as all economic and social services, have been adversely affected by the macroeconomic crisis. With limited resources available to it, the

GOS has launched an extensive primary health program based on paramedical providers in each village or area. This program emphasizes preventive medicine, maternal and child health programs, and local self-help in the recruitment of community health workers and the building and operation of primary health posts. While major logistic and administrative problems curtail the effectiveness of this program, the last two years have witnessed the appearance of trained midwives and other modern paramedics throughout the country for the first time.

There is a dual educational system through Islamic Sudan: the Government school and the traditional Koranic teacher. Both produce functional literacy; yet they are not now adequate to reduce substantially the nation's illiteracy rate of nearly 80 percent. The public school system tends to be "academic" rather than vocational and is designed to produce candidates for the university system. On the other hand, admission to the university and post-secondary institutions is based on achievement and there are markedly high standards that are applied with little regard to socioeconomic status. While offspring of the established middle and upper classes have inherent advantages, the composition of the post-secondary student population reveals a wide array of ethnic, regional and social backgrounds. And although women are segregated traditionally and have less opportunity to prepare themselves for

university admission, at least 25 percent of the university enrollment is women with a higher percentage in the socially esteemed faculty of medicine.

e. Government population policy

In the GOS view, the Sudan does not have a population problem. Many economists point to the difficulty of securing seasonal labor and the vast uncultivated space of the country, as proof that a pronatalist position is needed for economic growth. Moreover, traditional cultures both North and South place a high premium on children as an indicator of sexual power and as a source of labor in traditional agriculture. While Government statistics show a population increase of 2.2 percent per annum, there has been no recent national census. Limited but reliable demographic studies indicate higher rates; in the South and some areas of the North these studies place the growth rate at around 3.0 percent with levels as high as 3.5 percent in certain places -- especially in the South. The GOS permits the distribution of contraceptives through its health program, and in urban areas their use is widespread. There is a growing number of technocrats and middle class who are concerned about the population increase because of the implications it has for public social services.

Female circumcision is widely practiced in the North and is attracting increasing concern from the medical profession

and modern women. The GOS has outlawed radical (Pharonic) circumcision, but enforcement of this regulation is ineffective. The issue of female circumcision is dealt with openly in public schools where teachers and visiting physicians stress its health dangers. While recognizing that this practice is deeply imbedded in traditional culture, representatives of international donors are working to reinforce progressive elements who are struggling to educate the population to its multiple pathologies.

f. Social mobility

Thanks to an excellent secondary and university system, children of the masses are able to enter the professional, managerial and commercial classes; there is no economic or political oligarchy. While Southerners and women remain under-represented and suffer informal if harsh discrimination in some quarters, both have made progress in overcoming their traditionally inferior and subordinate status. Rapid population growth over the past two decades (approximately 54 percent of the population is under 20 years of age) plus the stagnation of the economy have reduced the opportunities for individual mobility by creating more competitors for fewer positions. Structural and attitudinal reforms since independence, as well as the GOS' progressive posture, however, should result in increased opportunities for upward mobility to previously disadvantaged in future years.

g. Responsiveness of political structure

Popular political participation is reasonably open and widespread given the constraints of illiteracy, tribalism and the presence of an official mass-mobilizing single party system. Under President Nimeiri's national reconciliation policy since 1977 opposition candidates are regularly elected to legislative bodies, and key members of the opposition hold important ministerial positions. By Sudan's constitution, 25 percent of all seats in most representative organs are reserved to women and in most instances they do in fact occupy them. The extent of popular power in the Southern Region is revealed in the defeat of the incumbent party in each of the past two regional assembly elections. The advent of five regional governments in the North with autonomous legislatures should place local and regional interests closer to the seat of allocative decision-making and implementation.

h. Control on free flow of information

The mass media practice limited self-censorship; nevertheless, information and alternative points of view are relatively freely and widely expressed. Indeed, publications such as the official "Sudanow" are remarkably candid and critical. International publications and news are freely available. Popular dissent has brought about the replacement of provincial commissioners; even cabinet members have been removed when their actions have been

ineffective or have aroused popular dissent. The slowness with which the GOS has implemented certain reform measures pressed on it by the IMF, particularly the withdrawal of subsidies on sugar, bread and gasoline, reflects the regime's unwillingness to challenge public dissatisfaction.

i. Administrative effectiveness

Although the GOS has engaged in economic planning since independence, its planning establishment lacks an adequate data base, analytical capability, and implementation and review procedures. Many economists, planners and other technicians have emigrated to the oil states. While there is a cadre of seasoned, well-trained senior administrators in Khartoum, quality declines rapidly as one descends the hierarchy, and both quality and quantity decline outward from the capitol. The Southern Regional Government is especially affected by personnel shortages and shortcomings at all levels. Although some official corruption exists, it is neither widespread nor particularly onerous; certainly no substantial resource loss is inflicted upon the poor. The creation of five new regional governments may have far-reaching effects on the public bureaucracy. We shall return to regionalization below.

j. Natural resource management

Desertification and deforestation, and their corollary, water management, are major concerns in the Sudan. The real magnitude of these problems only began to be discerned as the economic

crisis rose to its present dimensions. Consequently, although protective legislation has been enacted and game parks and other institutions established on paper, the current budgetary squeeze has inhibited implementation of policies to deal with natural resource depletion.

### 3. The pull of regionalism

A cardinal factor in formulation of development strategy for the Sudan is the interplay among economic and political features of the country's regional structure. Nearly all economic and political issues are regionally circumscribed. In keeping with its size, even more than other African countries, Sudan is a nation of widely diverse and divergent tribal, ethnic, religious, cultural and economic sub-communities. The current regime has recognized this explicitly in its policymaking.

As a geographic entity, the Sudan is an artifact of colonialism; well into the present century independent and functionally autonomous empires existed such as the Empire of the Fur (in the western provinces of North and South Darfur). The British concentrated their infrastructure and investment programs in the region adjacent to the two Niles; the South was administered autonomously and infrastructure was created which linked it to Uganda and Kenya rather than the North. English language and Christianity were cultivated by the British in the South while

Arabic and Islam were recognized in the North. Not surprisingly, post-1957 Sudan has been beset by these legacies which found their most violent expression in the 17-year Southern civil war, one aim of which was an attempt at secession and independence. This struggle was concluded in 1972 through an agreement between the rebels and the GOS that established the semi-autonomous Southern Regional Government.

a. Economic regionalism

There are essentially four basic economic cum agricultural regions of Sudan. Each has unique productive potentials and problems.

(1) The East Central Region incorporates the area south of Khartoum between the two Niles and includes the eastern province of Kassala. Here are found the major modern irrigated schemes and a substantial percentage of the large-scale modern rainfed plantations. The country's only modern port is connected to this region by an all-weather road and by rail. Cotton, sorghum, wheat and groundnuts are major commodities. Several of these modern schemes are based on tenant farmers who are in effect sharecroppers. The bulk of GOS resources for agriculture are committed in the East Central region. Social services are relatively well-established.

(2) The Western Region is less a geographic entity than a socio-economic zone; while it encompasses the Darfurs and

Kordofans, the same crops, social institutions and cultural practices are found clear across Sudan from approximately 16° to 12° north latitude. Sorghum, cotton, gum arabic, sesame and livestock are major products. Although there are large modern mechanized holdings in this zone, the predominant mode of agriculture is traditional family holdings. Nomads, who constitute roughly 40 percent of this region's population, hold substantial numbers of cattle, camels and goats, and seasonally produce sorghum and other foodstuffs. Lacking in transportation, social services, extension services, credit, market information and modern inputs, the Western Region nevertheless produces a surplus and has the potential, once these obstacles are reduced, to increase substantially its production for export.

(3) The Northern Region: From approximately 16° north latitude to its frontiers, the Sudan is largely desert. Along the Nile north of Khartoum there are traditional irrigated small farms and a few modern "schemes" of relatively modest size. Both the scarcity of population and development potential reduces the significance of this large but inhospitable area.

(4) The Southern Region incorporates roughly one-third of the country and population. From an economic perspective, the South has a rich and varied potential: cattle, sorghum, coffee, cotton, fruits and vegetables, plus minerals and timber. Wildlife is still in relative abundance, and currently generates some

millions of dollars annually from a nascent tourist industry. However, the ravages of the recent civil war have been compounded by extreme shortages of trained managers and technicians, transport infrastructure and capital. Consequently, the South, which was once a major food exporter must now import food. Perhaps 90 percent of the Southern population are traditional farmers or pastoralists, and the region contains the largest concentration of desperately poor within Sudan. To exploit its potential and promote development, the South will require massive investments in basic infrastructure and institution-building, especially in agriculture and social services.

b. Political regionalism: decentralization

The economic crisis of the late 1970's has exacerbated historic regional inequities and sectional political feuds. No sooner was the Southern civil war ended than a major challenge to the regime arose from essentially Western factions. A 1976 coup attempt by followers of this counter-elite was bloodily suppressed. In part, this dissatisfaction has arisen as a result of the Government's current priority on investment in modern agriculture, which has generated considerable opposition from interests outside the favored East Central region.

Beginning with a series of administrative reforms in 1977 the GOS has sought to reconcile regional claimants on public

resources by decentralizing and devolving public authority. This process culminated in the Regional Government Act of 1980 which established five new regional governments: one for the Darfurs, one for the Kordofans, one for the North, one for the East and one for the central provinces of White Nile, Blue Nile, and El Gezira. The GOS has appointed regional governors and announced the creation of regional ministries. Regional assemblies will be popularly elected during 1981.

This ambitious undertaking is perhaps unique in Africa; few if any relatively strong central regimes have willingly devolved authority. Even more noteworthy and rarer, is the fact that individuals and factions who only a few years ago spilt considerable blood to overthrow the self-same regime are now being given governorships and a structure of political participation that all but guarantees their domination of at least three of the five new regional governments.

It should be stressed that this move to democratize government and bring real political power closer to the grassroots is still to be implemented; substantial administrative actions must be taken to flesh out the enabling legislation. And given the prevailing economic constraints, regional services and personnel probably will be set in place slowly.

Nevertheless, it is clear that there are major personnel recruitment, training and management issues. A need exists to work

out and establish effective intergovernmental relations concatenating<sup>a/</sup> local, provincial, regional and national institutions and processes, and fresh opportunities arise to reform revenue raising and public finance (especially the levying and collection of local taxes). Since regional planning will play a central role in the effective and efficient implementation of these tasks, particular attention must be given to staffing this component at the five regional capitols. A good deal of administrative confusion and trial and error may be avoided if lessons learned from the operations of the Southern Regional Government can be disseminated in the North. Given the resource constraints on the Khartoum government, the international donor community has an important opportunity to assist regionalization with both technical assistance and capital resources.

#### 4. Sectoral investment priorities

The Government's current sectoral priorities are generally consistent with the present needs of the economy. Agriculture is given highest investment priority, because of its potential through export earnings and import substitution to contribute substantially over the short-run to stabilization and recovery, and also to provide the economic base over the longer term for sustained growth and development. Within agriculture, the Government presently

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<sup>a/</sup> "Concatenate" means to link together in a series or chain, and is USAID/Sudan's nomination for bureaucratic cliché of 1981.

favors investment in the rehabilitation of the modern irrigation schemes along the Nile, which are the main sources of the country's cotton and other major export crops. Mechanized farms in the rainfed areas have second priority, especially those areas producing export crops. Traditional farms in the rainfed areas rank third (infrastructural constraints preclude a higher ranking). Traditional livestock areas rank fourth.

Closely behind agriculture in GOS sectoral priorities, and closely related to it, is the physical infrastructure/economic services sector (transport, storage, communications and power). In contrast to twenty years ago, when infrastructural development was given a low priority, the GOS is now very much aware that the lack of adequate infrastructural facilities is one of the country's most serious constraints to increased production and export.

Industry, especially lines of production with low import requirements and high import substitution potential (e.g., agricultural processing, light manufacturing) is the third GOS sectoral priority.

Social services, specifically education and health, which twenty years ago ranked highest among the sectors in investment priorities, now ranks lowest. This ranking reflects the Government's present disposition to focus on those sectors which promise

immediate foreign exchange earnings. It also stems from the Government's realization that providing social services to the country's widely dispersed population will be well beyond the financial and technical capabilities of the Government for some years to come and that the effectiveness and efficiency thereof are heavily dependent on expanded transport and communications infrastructure.

Within education, emphasis is currently being given to managerial and technical training as part of the Government's efforts to replace skills lost to emigration but needed to maintain existing productive plant. Within health, priority is being given by the GOS to primary health care and preventive medicine, immunization in particular.

#### E. An Assessment of the Sudan's Development Prospects

##### 1. The constraints to development

Viewing development as a process incorporating growth (i.e., increased national output, employment, and income) and equity (i.e., equitable sharing of the benefits of growth), the constraints to development in the Sudan can be categorized as: (a) those that are inhibiting economic stabilization and growth and (b) those that are inhibiting equitable participation in the benefits of such growth by the various major segments of the population.

The impediments to economic stabilization and growth have been identified in the analysis presented in Sections II. A. and B.

above. These include the country's limited mineral resource endowment; the Government's current and continuing shortage of foreign exchange; inappropriate pricing and trade policies; poor coordination and planning; over-dependence on inefficient public enterprises; and the lack of appropriate production and marketing incentives for private sector expansion.

The constraints to a more equitable sharing of the benefits of economic growth, including benefits such as increased literacy, appropriate training, improved nutrition and health, greater participation in relevant decision-making processes, and ultimately increased productivity, job opportunities, and incomes, have been discussed in Section II.D. above concerning the Government's commitment to equitable growth.

Under current circumstances, the extent to which the Government effectively removes some of the constraints inhibiting stabilization and growth will largely determine the rate at which it can then proceed to tackle the constraints to development.

2. Some major "uncertainties" affecting development prospects

In addition to constraints, there are several areas of "uncertainty" obscuring the country's development horizons. These constitute areas wherein future progress or the lack thereof could appreciably enhance or deter the country's progress towards development.

a. Arab aid and investment

One such area concerns the future availability and volume of Arab aid to the Sudan. There is genuine interest on the

part of Saudi Arabia, Kuwait and the oil rich Arab countries in the development of Sudan's agricultural potential. The mid-1970's idea that the Sudan could become "the breadbasket of the Middle East" is not an unfounded one. The fact that the first attempt in this direction was substantially frustrated, hardly forecloses the possibility that a second attempt will be made and that Arab funds will become available to finance it. Economic stabilization would probably be a precondition to any such second attempt, and the Sudan would need to be able to demonstrate convincingly in advance that the obstacles which undermined the first attempt had been removed. Nevertheless, the initiation of a broad-scale, Arab-supported agricultural development effort would enhance considerably the country's efforts toward economic recovery and development.

b. Remittances

The degree to which the Government effectively taps the substantial inflow of private remittances from abroad, and its success in channeling these resources toward economic recovery and development programs, represents another area of uncertainty, but one which might be better characterized as an "opportunity". The same applies with respect to the Government's attitude vis-a-vis the private sector.

c. Private sector

Closely related to the question of remittances is the Sudan's ability to attract and retain privately-directed financial and human resources. In recent years, there has been a notable

shift toward a more favorable approach to private enterprise and foreign investment, primarily in response to the high financial and administrative costs that public control of productive and marketing operations have imposed upon the economy. A further more pronounced Government shift toward outright encouragement of private enterprise and foreign investment could be of enormous benefit to the economy. Such actions might well mobilize (1) Arab financial resources (including the remittances of Sudanese workers) and (2) revitalized private sector forces (both foreign and domestic), in support of the country's recovery and development programs. In this connection, the continuing loss abroad of a large segment of the country's rather thin pool of managerial and technical talent is seriously disrupting the operations of government as well as business enterprises. The Sudan has begun negotiations with the Arab countries (Saudi Arabia and Kuwait, in particular) designed to face up to the emigration problem and find ways in which the problem might be overcome or at least controlled. Alternatively, as the economic situation in the Sudan improved, the migration might turn of its own accord. In any event the nature and degree of response to such stimuli by potential investors and migrants are difficult to predict.

d. Oil potential

Another major area of uncertainty is the Sudan's potential for oil production. As noted earlier, proven deposits to date would be adequate to meet only some 40 percent of domestic consumption.

But exploration is continuing and there is some likelihood that additional exploitable deposits might be discovered. If so, this would have enormous implications for the Sudan's development prospects.

e. Agricultural rehabilitation

Perhaps the greatest area of "uncertainty" or "opportunity" affecting the Sudan's development prospects relates to the massive investments currently being directed toward the rehabilitation of existing irrigated farming areas. An IBRD agricultural survey team has estimated the total capital investment in the Sudan's 4 million feddans irrigation subsector at around \$4 billion. Since current investments would activate a substantial share of existing capital, the returns on these current investments as represented by increased production and additional export earnings, could be considerable. Moreover, inasmuch as the IBRD-supported rehabilitation program has been underway for nearly 3 years, there is a strong likelihood of an appreciable pay-off within the next 5 years. To the extent that these potential returns are realized, the prospects for the Sudan's economic recovery and long-term development would be greatly enhanced. If the effort does not succeed as planned or is delayed, the country's development prospects accordingly would be dampened considerably.

3. The potential effects of Government action

In the final analysis, Sudan's prospects for growth and development hinge largely on whether the Government allows the

constraints to development to continue to impede growth and a broader sharing of the benefits thereof as has been the case to date, or whether it decides to take bold and positive steps to overcome these obstacles and to promote growth. If the Sudan does in fact, continue to experience sizeable current account and budgetary deficits well into the 1980's, as indicated earlier, this would effectively preclude any substantial improvement and expansion of social services until the latter part of the decade. Further, to the extent of delay in the economy producing savings for investment in the necessary physical infrastructure and institutional bases therefor, there would be corresponding delays in extending economic and social services to the widely-dispersed rural population.

At the same time, more aggressive Government efforts to enlist greater financial support from the Arab donor countries, to energize domestic and foreign private sector forces, and to utilize more effectively the substantial foreign assistance resources already being brought into the country could appreciably shorten the development timeframe. From our analysis of the current situation we tend toward expecting more aggressive Government actions over the next five years, and our assistance strategy has been framed accordingly. We believe this to be the case with respect to the country's other major donors as well.

#### F. The Role of Foreign Donors in Sudan's Development

The donor community in the Sudan consists of some 60 members,

including 25 bilateral donors, 8 multilateral, 15 non-governmental organizations and 12 UN agencies. In addition to the U.S., the major bilateral donors include the U.K., West Germany, France, Italy and the Netherlands. The IBRD/IDA, Arab Monetary Fund and the EEC are the major multilateral donors. The most active UN agencies include the FAO, UNDP, WHO, WFP and UNHCR (refugee assistance).

IBRD data compiled after the most recent Consultative Group meeting in April 1980 indicate that identifiable commitments of assistance in 1979 totaled some \$950 million.<sup>a/</sup> Of this amount, over three-quarters is program assistance, nearly one-fifth project assistance, and the remaining five percent technical assistance.

While the program assistance provided by the donors is of general benefit to the economy in providing the foreign exchange needed to finance essential imports, the kinds of commodity imports being financed (e.g., capital equipment, construction materials, irrigation pumps, vehicles, spare parts, and agricultural inputs) are of special benefit to the modern agricultural, transport and power sectors. This is consistent with the Government's sectoral priorities and with IMF and IBRD recommendations that immediate priority be given to the rehabilitation of the existing irrigation schemes along the Nile.

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a/ Including IMF credits and compensatory financing totalling around \$400 million, the major share of which will be disbursed over the 3-year period, 1979-1982 in conjunction with implementation of the IMF/GOS stabilization program.

Except for power generation facilities (which are concentrated in the Nile region), donor-supported capital development projects are spread throughout the country. Particular emphasis is being given at present to projects that will help to alleviate key infrastructural bottlenecks (e.g., highway construction, railway rehabilitation, port facilities, and modern communications projects). Major efforts include the development of more dependable and efficient transport linkages between port facilities on the Red Sea and the productive areas in the East Central and Western regions and between the productive areas in the Southern region of the country and potential markets in Kenya and Uganda. A number of major donors are supporting these infrastructural development activities, primarily the IBRD/IDA, EEC, the Arab countries, West Germany, the Netherlands and Japan.

Although the technical assistance component of total foreign aid to the Sudan is comparatively small in financial terms (approximately \$60 million in 1979), it is especially important to the Government's development programs in the South and West. Major donors in 1979 included West Germany, Italy, the Netherlands and the UNDP. Also, a number of other donors, such as the U.S., U.K., Canada and the IBRD/IDA, have incorporated large components of technical assistance in their capital development activities (primarily in agriculture, transport and health).

The IBRD/IDA is currently the country's leading provider of commodity and project assistance as well as development policy

analysis and guidance. During the fiscal year ending June 1980 IBRD/IDA assistance totalled some \$120 million and for the current fiscal year could well increase to about \$150 million. While the IBRD/IDA is presently giving priority to projects involving the rehabilitation and intensification of existing irrigation schemes (the Gezira and Blue Nile) and projects which will help to alleviate key infrastructural constraints (Port Sudan development, railway reconstruction, power dams, highways and feeder roads), it is also supporting longer-term developmental activities (agricultural research, Western savannah development, livestock marketing, education and urban water supply). In the policy area, the IBRD was instrumental in pointing out the serious economic consequences of the Government's ambitious wheat production scheme of some five years ago; more recently, it has taken the lead in convincing the Government that it ought to concentrate its administrative and financial resources on crops with the greatest and most immediate payoff in terms of increased exports and government revenues (e.g., cotton and groundnuts).

In addition to contributing program assistance, several of the major bilateral donors (West Germany, the U.S. and the Netherlands) have directed the bulk of their project and technical assistance resources to three sectors (agriculture, transport infrastructure, and health). Most of the bilateral donors have concentrated their activities in the East Central region. However, West Germany and the Netherlands, along with the U.S., have allocated a comparatively

large proportion of their development assistance resources to programs in the South, and the U.S., and Germany have undertaken several major projects in the Western region.

The U.K., which has a long historical relationship with the Sudan, is investing heavily in Sudan's power industry; U.K. project and technical assistance activities, though spread throughout the country, show a particular concentration in the East Central region.

The UN agencies, which collectively continue to be one of the Sudan's largest sources of technical assistance, have established an order of priority for their assistance roughly paralleling that of the GOS. The particular areas of UN concentration include agriculture and related infrastructure, social services (health, education and refugee relief activities), and institutional development (management and technical training). There is presently a notable concentration of UN activities (FAO, UNDP and WHO) in the Southern region.

Reliable information concerning the specific purposes of the financial aid currently being provided by the Arab donors is not readily available. The same applies with regard to the magnitude of future Arab assistance, although there continues to be cause for the Sudan to expect rather substantial future assistance from this source, in view of the Arab countries demonstrated interest in exploiting the country's agricultural potential. Other areas of particular interest to the Arabs (although strongly disfavored by the IBRD and IMF) include the development of a

second Red Sea port at Suakin and the construction of a new international airport in Khartoum. Total aid from the Arab countries in 1979 amounted to approximately \$210 million, or roughly one fifth of total assistance committed during that year.

The donor group in the Sudan, though organized under a Consultative Group arrangement, is loosely bound. CG meetings provide limited opportunity for effective consultation and the Sudan usually comes up short, as a consequence. Burdened with pipeline and absorptive capacity problems, the Government finds it difficult to present the country's case for additional non-program aid, i.e., development and technical assistance. Without the benefits of appropriate levels of such assistance, the Sudan finds it difficult to capitalize on Arab assistance opportunities. More effective consultation, among the donors and between the donors and the Government, should provide an eventual solution to this costly dilemma.

The USAID has been discussing the coordination problem with the individual representatives of the major donors in recent months (UNDP, IBRD, EEC, U.K., the Netherlands and W. Germany) and in December, 1980 participated in a GOS/donor meeting on absorptive capacity problems sponsored by the Sudan Socialist Union (the political arm of the ruling party). We intend to follow through on these initiatives during the forthcoming year by promoting the establishment of a donor working group in the

field, that would convene periodically for joint consideration of development assistance strategy, particularly division of labor, and to identify ways in which the implementation of foreign assistance activities can be better coordinated.

### III. THE PROPOSED A.I.D. ASSISTANCE STRATEGY

#### A. Basic Approach

A.I.D.'s principal goals in assisting the Sudan over the next five years will be to help restore financial viability to the country's economy and establish a sound foundation for sustained, equitable growth. Over the longer term, our goal is to help the Government improve its capability to help the Sudanese people generally to improve their income levels and quality of life.

Our basic approach to achieving these goals will involve working with the Government in coordination with other major donors in efforts aimed at:

- overcoming the current financial crisis through balance of payments and budget support;
- increasing agricultural productivity and income, particularly for traditional farmers, through the development of appropriate technologies and price incentives and by removing transport and marketing constraints;
- reducing Government-induced constraints to private sector expansion, particularly in the areas of agricultural production and marketing;
- strengthening the Government's policy-making, resource allocation and administrative capabilities, so as to better rationalize, focus and execute its ongoing stabilization, recovery and development efforts;

- increasing the efficiency of public enterprises;
- promoting the development and conservation of energy resources;
- contributing to the extension of delivery systems for basic health care (including family planning information).

B. The Rationale for A.I.D. Assistance

1. Helping to overcome the financial crisis

The severity of the country's current financial crisis and the extent to which it has disrupted the economy and hindered Government development efforts are discussed in some detail in the Analysis section above. The adverse economic effects of the situation are analyzed in even greater detail in recent IMF and IBRD reports on the Sudan. Of particular importance are the effects that the crisis has had on the nation's poor and on the Government's programs to try to alleviate the poverty conditions that are affecting a large majority of the Sudanese people. The rapid inflation that has resulted from the country's financial crisis has meant not only higher prices for basic food and other essential commodities, but it has also eroded the Government's revenue base, and undercut programs designed to increase food supplies. Thus, the Government's efforts to stabilize the economy can be regarded as a prerequisite to improving the standard of living for the nation's poor, and while it may be difficult to trace the flow of resources through this particular channel of assistance directly to the poor, it is not difficult to identify the direct benefits that reduced inflation

would have upon their economic welfare. Accordingly, A.I.D. proposes to continue supporting the Government's efforts to stabilize the economy by contributing quick-disbursing program assistance (ESF and PL 480) to help finance essential commodity and food imports. In support of other key elements of our development assistance strategy, priority will be given under the commodity assistance program to the needs of private enterprises for imported spare parts, equipment and raw materials. This will apply particularly to industries and firms with higher employment potential, and to those that are currently producing food items and goods for export and import substitution markets. The counterpart proceeds obtained from the sale of these commodities will be programmed jointly with the Government to help meet local currency requirements in key development areas such as credit for private sector expansion, including small business, and the labor and material costs of physical infrastructure projects.

2. Increasing traditional sector productivity and income

As indicated in the analysis, agriculture is by far the country's leading economic sector and of strategic importance to the country's stabilization, recovery and development prospects. For these reasons, and in view of A.I.D.'s considerable expertise and experience in this area, we propose to allocate a large share of our development resources toward assisting the Government in its efforts to promote agricultural development. Inasmuch as the

equitable spread of development benefits is one of the cornerstones of A.I.D.'s worldwide assistance strategy, we propose to focus our efforts toward helping to improve the productivity, income and welfare of low-income traditional farmers in the rainfed agricultural areas of the West and South.

In the South, our primary objectives will be to (1) help the GOS and regional government in their efforts to increase food production; (2) improve intraregional transport facilities (farm-to-market roads), especially the capability of moving foodstuffs within the Southern region from areas of abundance to areas of scarcity; and (3) expand the region's agricultural research, planning, extension and marketing systems.

In the West, our primary objectives will be to (1) help the GOS in its efforts to reduce the physical and institutional constraints to increased agricultural production and export marketing and (2) introduce appropriate farming technologies through the establishment of applied research and extension systems.

### 3. Reducing the constraints to private sector expansion

We so highly regard the potential development payoff from GOS efforts to encourage private sector expansion that support therefore is a leading element in our assistance strategy. As indicated above, the needs of the private sector will receive high priority under the commodity import program. Otherwise, inasmuch as this is an area where A.I.D. advisory resources have been

radically diminished during the past decade, our initial efforts will be exploratory and necessarily modest. The USAID will be supportive of activities of the Overseas Private Investment Corporation (OPIC) in the Sudan. Also, and particularly in the agricultural sector, we will seek to identify: (1) where the priorities lie in divestment of public enterprises; (2) the policy, financial and institutional constraints to private sector expansion; and (3) potential sources of finance.

4. Strengthening the Government's development management capabilities

As noted earlier, the country's limited absorptive capacity is not only a serious constraint to its own development programs, but also constitutes an impediment to the effective use of foreign aid resources. Overcoming the absorption problem will require improved Government organization and planning, better trained technicians and more efficient managers. A.I.D. efforts to help increase agricultural productivity and income, and to help extend basic human needs services, will not be especially fruitful unless the policy, financial, infrastructural, and institutional constraints to achieving these objectives are removed. This will require a strengthening of the Government's regional and provincial staffs and the greater involvement of potential beneficiaries in the decision-making process. The Government's current regionalization scheme appears to be a move in the right direction and A.I.D.

proposes to support this effort by providing technical assistance to regional and provincial planning units and by assisting the Government's efforts to strengthen delivery systems for agricultural research and extension and social services.

5. Increasing the efficiency of public sector enterprises

The high cost and burden on the economy of public sector inefficiency, both with respect to (1) government-managed enterprises, and production and marketing control boards, and (2) parastatals, is noted in the analysis above. While the GOS plans to withdraw from public and parastatal enterprises generally, there will still remain some areas, such as communications, power, rail transport, where public enterprise will continue. For such enterprises, A.I.D. will continue to assist GOS efforts to improve the efficiency of public sector management, particularly in areas where A.I.D. support is being given to Government-sponsored development activities.

6. Promoting the development and conservation of energy resources

The Sudan is presently heavily dependent upon oil imports as a source of energy. The Bank of Sudan is currently projecting an oil import bill for FY 1981 of about \$400 million, or 80 percent of the \$500 million exports projected for that year. Oil has recently been discovered in the southwestern part of the country, but exploration thus far has not confirmed production potential beyond about 40 percent of domestic consumption. Further, it will be several years before these deposits can be exploited on a

substantial scale. In view of the large expanses of desert that cover the northern third of the country and, except in the southwest, the absence of sizeable forests, sources of renewable energy are limited to the Nile River (of which the limits of exploitation are being reached) and possibly solar power.

The development of renewable energy sources (specifically solar power) is in embryonic stages worldwide. To the extent techniques applicable to the Sudan are available, A.I.D. will attempt to support the transfer of these techniques to the Sudan, through technical advisory services and/or capital assistance projects.

7. The extension of health care, nutrition and family planning services

Important for more equitable participation in development is the availability of low-cost health care services, and nutrition and family planning information. The urgent need to spread these services to the rural poor and the present high cost of doing so, given infrastructural deficiencies, and Sudan's vast size and highly dispersed population, have been discussed in the Analysis section above. Thus, while A.I.D. proposes to allocate a significant share of available resources to this area, we are very much aware of the need for efficiency in the use of both foreign assistance and the GOS' own resources in this area. We view the development of an extended primary health care (PHC) system as the backbone of our assistance efforts inasmuch as

the emphasis on community construction, maintenance and operation of health facilities which underlies the PHC system can mobilize significant local resources and serve as a foundation on which to base other community development programs in areas such as water supply, marketing and education. Further to the extent that linkages can be established between the PHC network and other rural development structures (e.g., agricultural research and extension, provincial planning, rural electrification), we intend to promote such linkages. The Sudan has vast areas of habitable land, and a population that is not only spread relatively thinly over these land areas but also largely migratory. The primary health care program provides an excellent opportunity for testing and adapting community based delivery systems to provide public services effectively and efficiently in the Sudan's varying regional environment.

A.I.D. assistance to education is not emphasized during the short-term primarily because the returns to this effort are slower in coming in comparison to other development efforts. Even so, we recognize the contribution that extended education can make to development, particularly in a country like the Sudan with its generally low level of literacy and sustained loss of trained manpower. In this context, education can be viewed not only as a means to upgrade human resources, but also as one of the principal channels for equalizing opportunity in bringing the disadvantaged into the

mainstream of the economy. The poor in general, and women in particular, would be the principal beneficiaries of an expanded educational system in the Sudan. For this reason, A.I.D. intends to mount an exploratory effort during the coming year to identify the best approach for assisting the GOS in this area, taking into account ongoing IBRD and other donor efforts. As circumstances and resources permit, we then propose to formulate a long-term assistance program based on the areas of most critical need.

C. The Nature and Beneficiaries of A.I.D. Assistance Activities

This CDSS marks the formalization of what has been our de facto strategy since A.I.D. returned to the Sudan three years ago: assisting the GOS in overcoming its economic crisis while providing development assistance to stimulate the productive potential of the traditional agricultural subsector. Together, these efforts reinforce each other and contribute to increasing production while laying a foundation for the rural poor majority to participate in and benefit from the development process.

In helping to resolve the immediate crisis, USAID has rejected the option of pouring all of our resources into exclusively short-term attacks on the problem. We believe that where feasible we should target our foreign exchange and budgetary support in areas that will not only help solve the present crisis, but that will also play a major long-term developmental role. Thus local

currency generations from Title III PL 480 sales have been programmed to support renovation of the rail system and the river transport authority. ESF funds are being used to support the purchase of spare parts for mechanized agriculture and to help improve the hydroelectric generating system. Such improvements, we believe, will help considerably to remove transport bottlenecks that have been hampering the production and marketing of major export commodities. At the same time, we see them as contributing directly to the opening up of traditional agricultural areas in the West and South so that the production potential of these areas can be realized. The spare parts being provided for mechanized agriculture under our commodity assistance program will contribute to short-term increases in export production, but over the longer term these increases will mean higher incomes for tenant farmers and greater revenues for the GOS to apply to other productive and social service areas. The same is true with regard to our support for improved power generation and distribution.

As frequently suggested earlier, the Sudan's poor have a major stake in the success of the economic stabilization program. In general, the poor have the least economic and political strength to absorb and protect themselves against the ravages of inflation. In many cases their earnings and their jobs depend on the health of the economy. And for all, the Government's capacity to establish

and sustain education, health and other public services for their benefit is essentially dependent upon its capacity to increase revenues and savings to finance the capital and recurrent costs of such activities.

The bulk of our Development Assistance will be targeted directly on the traditional farming areas in the West and South through discrete projects in these areas. Our strategy is based on and reinforces efforts already underway, such as the Western Agricultural Research Project and the Blue Nile Integrated Agriculture Project, that are designed to find means of increasing productivity in the rainfed agricultural zone. Small farmers and their families will benefit directly from these activities; however, increased production will also contribute eventually toward increased export earnings and the health of the economy in which they participate. These economic activities are being complemented by modest assistance to the primary health care program. The maternal/child health, nutrition, preventive health care, and safe water instruction components of this program will continue to be of particular benefit to women and dependent children; activities involving the training and supplying of commodities to local midwives are aimed directly at reducing infant and maternal mortality and morbidity. Basing these services on community self-help systems will strengthen the capacity of these communities to mobilize their own human and other resources for other community development activities in the future.

Our activities in the South will build on established initiatives in infrastructure, agriculture, health and education. Special attention will be given to agricultural extension and to the development of the institutions needed to allow transitional farmers to better exploit the productive potential of their rich but underutilized lands. A.I.D. activities in the South will continue to be directed towards extending the primary health care system to presently unserved localities. Road construction will continue to be a major focus of our efforts since it offers both commercial and small producers better and increased access to domestic and international markets.

D. Areas Requiring Further Analysis and Research

The USAID has viewed the formulation of this CDSS not only as a process directed toward constructing a framework for applying U.S. aid resources over the next 5 years, but also as a means of identifying areas where further analysis and research needs to be undertaken over the next year or two to clarify our objectives and further define our strategy and our relationships with the GOS and the other donors.

We believe that the overall rate of progress toward development in the Sudan could be accelerated appreciably if the Government were able to focus its available resources on the most critical constraints within specific sectors and regions. This kind of an

approach would be particularly beneficial for the formulation of sectoral and regional development strategies. To support such an approach, further analysis is warranted, and the USAID proposes to sponsor a major research effort during the coming year, oriented particularly toward the analysis of growth and equity constraints within the traditional agricultural sector and the Southern region.

Further analysis is needed in determining the present constraints to private sector development and the further defining of A.I.D.'s role in assisting the GOS to stimulate increased private sector contribution to the Sudan's development.

Assistance to education is another area where further analysis and strategy definition is needed, particularly in view of education's long-term importance to the economy and its potential for bringing the poor and women more into the mainstream of national development.

We fully expect that these efforts will, in turn, uncover other areas in need of further exploration. But, this would be entirely consistent with our view that determining an appropriate A.I.D. strategy in a developing country like the Sudan is a continuous process, and that the CDSS, though an important and essential part of that process, is still basically a by-product rather than an end result.

IV. THE PROPOSED ASSISTANCE PLANNING LEVELS (PAPL)

The PAPL is attached as Table 1. As shown in the table, the overall level of proposed A.I.D. assistance would increase from \$120.0 million in 1983 to \$175.0 million in 1987. (Allowing for 10 percent annual inflation, this would be equivalent to a constant \$100 million level in terms of 1981 dollars.)

A.I.D. financing for commodity imports (ESF) would be increased from \$55.0 million in FY 1983 to \$60.0 million in FY 1984 holding at this level through FY 1987.

The level of PL 480 Title I/III imports would be increased from \$30 million in FY 1983 to \$40.0 million in FY 1985. This level would be generally maintained through to the end of the planning period to help meet expected GOS requirements for local currency counterpart. A modest PL 480 Title II program, ranging from \$2.5 to \$3.6 million is also projected for the 5-year planning period. The food resources brought in under this program would be used to support Private Voluntary Organization (PVO) development assistance activities in the Sudan, and the World Food Program (WFP).

The level of proposed Development Assistance (DA) to be provided to the Sudan during the 5-year planning period would increase from \$32.5 million in FY 1983 to \$72.5 million in FY 1987. The kinds of activities to be supported under the DA program are identified in Table 2 attached. As shown, therein, the agricultural sector would account for the bulk of A.I.D.'s DA inputs during the 5-year period.

V. STAFFING IMPLICATIONS

For the five-year planning period, continuation of A.I.D. staff at the levels proposed in the Africa Bureau Report to the Administrator dated August 11, 1980 should be adequate. This includes a USDH ceiling of 25, plus a comparable number of FSN personnel.

Table 1: PROPOSED ASSISTANCE PLANNING LEVELS FY 1983 - 1987

PURPOSE/SECTOR/PROJECT	1981 (Est.)	1982 (Est.)	1983	1984	1985	1986	1987
<u>I. ECONOMIC SUPPORT</u>							
A. Commodity Import Program (ESF)	50.0	50.0	55.0	60.0	60.0	60.0	60.0
B. PL 480 Title I/III	30.0	30.0	30.0	35.0	40.0	39.7	38.9
C. PL 480 Title II (Vol Ag & WFP)	2.0	2.3	2.5	2.8	3.0	3.3	3.6
	<u>82.0</u>	<u>82.3</u>	<u>87.5</u>	<u>97.8</u>	<u>103.0</u>	<u>103.0</u>	<u>102.5</u>
<u>II. DEVELOPMENT ASSISTANCE</u>							
A. Agriculture & Rural Development	18.1	22.6	25.0	28.0	35.0	43.0	55.0
B. Health and Population	4.4	3.2	3.8	4.2	4.6	5.0	5.5
C. Education and Human Resources	-	-	1.2	2.3	3.9	5.0	7.0
D. Selected Development Activities	0.4	1.2	2.5	2.7	3.5	4.0	5.0
	<u>22.9</u>	<u>27.0</u>	<u>32.5</u>	<u>37.2</u>	<u>47.0</u>	<u>57.0</u>	<u>72.5</u>
<u>III. TOTALS OF I &amp; II</u>	<u>104.9</u>	<u>109.3</u>	<u>120.0</u>	<u>135.0</u>	<u>150.0</u>	<u>160.0</u>	<u>175.0</u>
(FY 1981 = 100; Inflation rate 10%)	100	110	121	133	146	161	177

Table 2: PROPOSED DEVELOPMENT ASSISTANCE PROGRAM PLAN FY 1981 - 1987

PURPOSE/SECTOR/PROJECT	1981 (Est.)	1982 (Est.)	1983	1984	1985	1986	1987
<u>DEVELOPMENT ASSISTANCE</u>	<u>22.9</u>	<u>27.0</u>	<u>32.5</u>	<u>37.2</u>	<u>47.0</u>	<u>57.0</u>	<u>72.5</u>
A. <u>Agriculture &amp; Rural Development</u>	<u>18.1</u>	<u>22.6</u>	<u>25.0</u>	<u>28.0</u>	<u>35.0</u>	<u>43.0</u>	<u>55.0</u>
1. <u>Ag. Sector Development Support</u>	<u>4.4</u>	<u>0.6</u>	<u>2.5</u>	<u>3.0</u>	<u>3.5</u>	<u>4.0</u>	<u>3.5</u>
Policy & planning advisory services							
Manpower devel. & training							
p - Statistics improvement	(4.4)	(0.6)					
Project design							
Feasibility analysis							
Logistical support							

Note:

- x - Denotes ongoing project; additional funding requirements shown in parenthesis
- p - Denotes proposed project currently under review; funding requirements shown in parenthesis

Table 2: PROPOSED DEVELOPMENT ASSISTANCE PROGRAM PLAN FY 1981 - 1987

PURPOSE/SECTOR/PROJECT	1981	1982	1983	1984	1985	1986	1987
2. <u>Rural Infrastructure</u>	-	20.0	15.0	15.0	19.0	23.8	25.0
Rural transport & storage							
Farm-to-market roads							
On-farm storage							
Water resource development							
Related ongoing projects:							
p - Southern Rural Infrastructure II	-	(20.0)	(5.0)				
x - Southern Access Road							
3. Crop, Livestock & Technology Research	10.7	2.0	5.0	6.5	8.0	10.0	12.5
Applied research							
Appropriate technology							
p - Pest Control	(1.0)						
Related ongoing projects:							
x - Western Ag. Research	(6.6)	(2.0)	(3.0)	(1.9)			
x - Blue Nile Ag. Development	(3.0)		(2.0)	(0.5)			
x - Abyei Integrated Rural Development	(0.1)						

Table 2: PROPOSED DEVELOPMENT ASSISTANCE PROGRAM PLAN FY 1981 - 1987

PURPOSE/SECTOR/PROJECT	1981	1982	1983	1984	1985	1986	1987
4. <u>Prod. &amp; Marketing Systems Devel.</u>	3.0	-	1.5	2.5	3.0	3.5	12.0
Agri. extension services							
Prod. & marketing coops							
Credit institution devel.							
Market information systems							
Related ongoing projects:							
x - Southern Manpower Devel.	(3.0)						
5. <u>Rural Planning and Development</u>	-	-	1.0	1.0	1.5	1.7	2.0
Planning advisory services							
Local finance							
Related ongoing projects:							
x - Rural Devel. Planning							

Table 2: PROPOSED DEVELOPMENT ASSISTANCE PROGRAM PLAN FY 1981 - 1987

PURPOSE/SECTOR/PROJECT	1981	1982	1983	1984	1985	1986	1987
<u>B. Health and Population</u>							
Rural health services systems	4.4	3.2	3.8	4.2	4.6	5.0	5.5
Family planning services							
Related ongoing projects:							
x - Rural Health Support	(3.9) <sup>a/</sup>	(3.2)	(3.8)	(2.0)	(1.9)		
x - No. Primary Health Care	(0.5)						
x - So. Primary Health Care							
<u>C. Education and Human Resources</u>							
Rural Education	-	-	1.2	2.3	3.9	5.0	7.0
<u>D. Selected Development Activities</u>							
Renewable energy systems	0.4	1.2	2.5	2.7	3.5	4.0	5.0
Reforestation							
Related ongoing projects:							
p - Village Renewable Energy	(0.4)	(1.2)	(1.0)	(1.0)	(1.0)		

a/ Includes 0.9 for family planning services