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STRATEGY STATEMENT

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CONTENTS

	<u>Page</u>
 <u>INTRODUCTION</u>	
The Purpose of Assistance.....	4
The Problem: The Absence of Mutually Beneficial Linkages.....	6
The Appropriate Strategy.....	8
Assessing the Project Portfolio.....	11
Policy.....	12
The South.....	13
A Regional Focus to Assistance.....	14
 <u>MACRO-ECONOMIC UPDATE</u>	
Introduction.....	15
Official Foreign Transactions.....	15
The Parallel Economy.....	17
Economic Imbalances.....	19
1. Trade Deficits.....	20
2. Domestic Fixed Investment.....	22
3. Government Budget Deficit.....	24
4. External Debt.....	25
5. External Financial Resources.....	26
6. Gross Domestic Product.....	27
7. Foreign Exchange Scarcity - Public and Private.....	28
 <u>POLICY REFORM</u>	
Our Approach to Policy Reform.....	30
Parastatals.....	32
Military Economic Board.....	33
Support for the Private Sector.....	34
The Petroleum Facility.....	35
Commodity Imports.....	38
Energy.....	40
Institutional Development.....	41
 <u>RAINFED AGRICULTURE STRATEGY</u>	
Rationale for a Rainfed Focus.....	45
1. Net Foreign Exchange Earnings.....	47
2. Food Grain Security.....	48
3. Complementing Other Donors.....	48
4. Product Diversification.....	49

Objectives and Outputs.....	49
1. Policies and Prices.....	51
2. Marketing.....	52
3. Production Inputs.....	52
4. Research.....	53
5. Environmental Protection.....	53
USAID Program: New Activities.....	54
Transportation.....	54
Agricultural Support.....	56
Surface Water and Desertification.....	58
Research.....	60

DECENTRALIZATION AND REGIONAL RELATIONS

Current Situation.....	62
Finding the Appropriate Approach.....	64
The Impetus for Financial Devolution.....	65
Addressing the Center/Regional Relationship...	67
Developing Regional Competence.....	68
Working Through Area Councils.....	70

THE SOUTH

Reconciliation and Development.....	75
-------------------------------------	----

DONOR COORDINATION

Donor Coordination.....	84
-------------------------	----

HUMAN NEEDS

Health.....	90
Population.....	91
Refugees.....	93

PROGRAM FUNDING

Program Funding.....	95
----------------------	----

INTRODUCTION

When the U.S. assistance program was resumed in Sudan seven years ago, the environment for development could only be described as severe. The Government was still afflicted with the intoxication of public control. Much of industry and banking had been nationalized. The harsh nature of the physical conditions surrounding agriculture belied the suggestion that Sudan was on the verge of becoming the bread-basket of the Middle East. Those who fashioned the program were required to try for limited objectives while the Sudanese became accustomed to new ways of operating their economy -- and while American agriculturalists absorbed the lessons of an ecology that requires skillful handling. Because of the intricacy of the historical and agricultural setting, leaps too far in the direction of shiny contemporary adaptations could create -- and have created -- problems.

We have been relatively pleased with some of the accomplishments of our program as it has grown in this difficult milieu. Policy reform has moved rapidly; the larger projects -- while not always achieving everything we might wish -- have proceeded satisfactorily. Most senior officials have been enthusiastic. Contractors are competent. The USAID program in Sudan has reached a sustainable point. But as the program evolved, so too did unforeseen -- and sometimes unfavorable -- conditions. Improvement in Sudan's economy has not been commensurate with the sometimes risky reforms that the government has accepted. In previous presentations, we had developed no explanation of the source of this disjunction, possibly because it has been apparent only during the past six months.

Those Sudanese who are charged with reform -- as well as those who have been asked to bear its burdens -- are beginning to question the effort. The result has been sometimes disconcertingly tense negotiations with international organizations. Yet, further improvement and additional reform are needed if Sudan is to use the resources available to it with even a modicum of efficiency.

The political environment has been an important factor in Sudan's efforts at economic development. Dissatisfaction with the relationship between regional and central administration has prompted numerous revisions of the basic statutes which govern it, but without the results that were intended. Authority and responsibility between the center and the regions have become vague and uncertain. Today, many doubt the central government's commitment to the outlying areas. The regional administration and decentralization issues are no longer simply matters of economic efficiency and planning. They affect Sudan's very political and social stability.

Linked closely to the decentralization issue is the phenomenon of a society's trying to unite its cultural, religious and socio-economic values. In so doing, the government has taken steps that are unsettling to legal, financial, administrative and business relationships. The outcome is far from certain. Moreover, the agricultural environment is still severe. Infrastructure is abysmally inadequate. Much of the bias in favor of public control of the economy remains in official circles.

Yet, even in the presence of these conditions, a good foundation for development remains in place. Many officials and most of the private sector are responsive to change. A large and robust parallel private economy that often functions beyond the control of government financial constraints is healthier than many businessmen like to admit. New opportunities are being identified in agriculture.

Thus, while the USAID program has grown, its environment is no longer the one which existed at its inception. A number of the premises upon which the initial program was based no longer apply. It appears appropriate to consider modifying our strategy. But to do so in Sudan's fluid political and economic environment will preforce require a somewhat nonstandard approach to development. Then again, Sudan is not your standard economic development model.

The current flux in the economics and politics of Sudan suggests the presentation to AID/W of a flexible concepts paper prior to development of a formal CDSS. Seldom does a Mission having a large and complex program enjoy the luxury of being able to chart new directions so completely. Usually, once a program gets underway, events will require a steady dynamic. At USAID/Sudan, we can reexamine our program and take new directions without fear of breaking continuity.

This concepts paper will not focus so much upon our achievements as upon our opportunities. It will provide a preview for our inquiries into the

alternatives open to us. It will identify a development strategy which our investigations will test. We are moving from a stasis which itself represents accomplishment to a phase of seeking new ideas, new approaches, and new initiatives. By treating the potential of the future, this paper will provide guidance. It will be the Mission's working document as well as an update to AID/W. It will serve to challenge what we are doing and to question any activity or idea that we might seize upon as offering the ultimate answer for development

The Purpose of Assistance. The rationale for U.S. assistance in the case of Sudan is complicated and far reaching. The strategic interests of the United States in the area have long been recognized. In the presence of the threatening attitudes that often characterize Libyan and sometimes Ethiopian policies, a viable and progressive government is important for Sudan. The protection of U.S. interests in the Horn of Africa and the Nile Valley depend upon that government being friendly. Certainly, Egypt is threatened if Khartoum is in antagonistic hands. A friendly and stable government in Sudan also has a lot to do with the outlook of governments in the Arabian Peninsula and ultimately with U.S. access to the Persian Gulf. Our assistance program is meant to achieve the vitality and melioration in the Sudanese economy which complement our regional policies.

Beyond this, there are other features of our relations with Sudan that touch a variety of American concerns. Africa remains important to the United States. As a large country bordering on states that themselves spread over

half of the continent, Sudan commands attention. Neighbours are inclined to take note of what we do here. An active economic assistance program in Sudan helps confirm our commitment to Africa. And Sudan holds the same relationship to our commitment to economic development -- the theme of human betterment -- that it does to our commitment to Africa. Our activities in Sudan do not pass unnoticed.

Sudan's future is of importance to us in another way as well. As a country with an international debt of more than \$9 billion, the financial collapse of Sudan would have world-wide reverberations. Thus, it is important to work with Sudan as part of our commitment to a stable international financial community. The guidance of the IMF and the organization of official donors and private creditors into the Consultative Group/Paris Club and the London Club respectively, attest to Sudan's acceptance of a structure and a process which serve the larger U.S. purpose of world financial order.

Finally, there is Sudan itself. The potential of its economy and people suggests that no other rationale is needed for our efforts to assist this country. While the environment for agriculture has been described as severe, its possibilities are great. The vastness of the areas suitable for agriculture across the middle portions of Sudan suggest a productive capacity only slightly below that of our own Midwest at the midpoint of the last century. Sudan's economy, while still a riddle, constitutes a challenge for the professional developer.

The Problem: The Absence of Mutually Beneficial Linkages. But the realization of a substantial economic future for Sudan is not a certainty. Progress is not easy. The principal problems are those of the human equation. The organizational and management constrictions we encounter cannot always be removed with institutional adjustments and training programs. Many of the difficulties stem from deep seated attitudes. Dealing with them presents a more resistant set of obstacles than the usual lack of technical skills we associate with underdevelopment.

Sudan has not yet achieved an elegance in its organizational practice. The tendency is to control rather than to facilitate the flow of economic activity. Apprehension over some action or actor escaping his grasp often impels a manager to strive for vertical integration in his affairs. This way he controls it all. There seems to be a fear that the institutional behavior of others cannot be predicted. As a result, the economic activity of most large entities, whether they be public or private, tends to take place in isolation. The mutually re-enforcing benefits - the linkages - of the modern liberal market society are missing. And this void might be the difference between success and failure in development

Business and government must overcome their penchant for pyramiding one institutional innovation atop another. The reason for the practice is understandable — the sense of a need for buffers in a hostile environment. No one wants to depend on an outsider. Examples of the practice abound. Why does the Ministry of Finance establish its own bank when

the Bank of Sudan and four government controlled commercial banks already exist? What drives the directors of the Agricultural Bank under their lending programs to do detailed feasibility studies, import materials for borrowers, provide agricultural extension services, and then assume control of a farmer's crop for ultimate disposal in the market? The entire operation -- beyond lending and the assessments that make it prudent -- duplicates the activities of others. And what makes the Ministry of Cooperation, Commerce and Supply establish its own facilitating and forwarding agents for imports when these services are some of the most efficient provided by the private sector? The previously mentioned bank of the Ministry of Finance has announced that it intends the same type of integrated operation for any import business it might be able to capture.

Other striking results of the drive for exclusivity -- and the lack of linkage -- are also apparent. In a country supposedly devoted to an open economy, parastatals are growing in value of investment at an inordinate rate -- as fast as the private sector. And this is upon the enormous base created by the nationalizations of the early seventies. Each organization is virtually free standing. Some observers also wonder whether attitudes are not the root cause of the difficulty the economy has with the maintenance of plant and equipment. That too requires interdependence. But in Sudan there is somehow more reassurance in buying new than in trying to get someone to repair the old. Industrial, power and farm equipment sites soon assume the appearances of junk yards. Assemblies of unserviceable machinery dot the landscape. It is a phenomenon all visitors notice. Moreover, some of the

recent moves toward radical changes in taxation, company law, import regulations and business incentives raise serious questions about the minimal institutional stability necessary for planning and sound economic decision making.

Under conditions as they exist in Sudan, the effectiveness of foreign economic assistance can be vitiated. There is a perpetual air of crises as Sudanese cope with a severe development environment, a scarcity of resources and the necessity to respond to their constantly changing institutional construct. In this atmosphere, little thought can be given to the future. Businessmen and officials alike must remain alert to the vicissitudes of daily crises. In reality, most crises -- the constant occurrence of the unexpected -- evolve quite naturally from the chaos that is caused by the continuing quest for new barriers to protect ones position from seemingly hostile and alien forces in the society. Unwittingly, an AID mission can get caught up in this atmosphere and devote an inordinate amount of time to helping resolve crises. Direction in a development effort can easily be lost in the process. This problem must be recognized and openly expressed if we are to assess realistically what we can achieve with an assistance program.

An Appropriate Strategy. Devising an effective assistance strategy in these circumstances tests both ingenuity and good sense. If our analysis of the underlying problem has validity, then our strategy should be one of building linkages and encouraging interdependence -- literally contributing to the creation of an economic commonwealth. For one does not exist today.

No assistance strategy can achieve this outcome by itself. Great overarching ideas often do not focus an organization's efforts. But in Sudan, we might not have a choice. Attitudes toward economic activity place the donor in a curious position. We can take satisfaction from the reforms we help induce. But these are always at the margin. Each time we look over our shoulder we see new (and usually pointless) institutions popping onto the scene with the speed of fungi. As we assess the overall economy, we often conclude that because of this oddity, improvement in economic conditions has been severely impeded.

The task, of course, is to incorporate these ideas into all our business -- and in practical ways. The concept of the "marketplace" is the antithesis of the vertical integration for purposes of control that is so prevalent in Sudan. Thus, in a sense much broader than just "exchange for monetary advantage," we will try to encourage the marketplace mentality in order to further the sense of contract and mutuality that it conveys. We will work toward interdependence by fostering independence. This can be done only by freeing people from the great number of public structures that enmesh the economy. Individuals must be allowed incentives to achieve, but in an environment in which achievement can only come from working with others. Our message will be that all human transactions need not be "zero-sum." We will strive to help overcome the stultifying effects on the Sudanese economy of always working for control.

Viewing Sudan's development problems in this light will reorder our priorities and provide new interpretations to our project activities and policy initiatives. It will give:

- New meaning to macro reform by moving us from marginal concerns of exchange rate, subsidies and pricing adjustments to support for Consultative Group efforts at achieving devaluation. Thereafter, parastatals will be forced to compete.

- Compelling reasons for supporting the private sector. Only in a market economy can linkages be fostered.

- Greater importance to our support for regionalism. Economic activity is thereby moved beyond centralized control.

- Impetus to our rainfed agricultural strategy. Through enhanced production in this essentially private sector operation will a more liberal economic system emerge.

- A rationale for assistance to the South, and possibly a means for fostering reconciliation and assuring Sudan's integrity. Developing the South fits into the pattern of encouragement for mutually beneficial interdependence.

Assessing the Project Portfolio. This explanation of conditions in Sudan suggests a reassessment of our operations. Moreover, AID/Sudan finds that in mid-1984 its program is already in transition, and will remain so well into FY 1985. The sense of change results from the timing associated with our major project and policy initiatives. Long term activities such as the Western Sudan Agricultural Research Project, Agricultural Planning and Statistics, Energy Management and Planning, and Rural Health Support are in place. They will require a number of years to achieve their purpose. In addition, various activities are being or have been completed--Southern Rural Infrastructure, Yambio Agricultural Research, Literacy Training, Southern Manpower Development, Southern Primary Health Care, and North Kordofan Water Supply. Renewed government interest in regionalization has advanced considerations far beyond the scope of our Regional Finance and Planning Project. A new activity moving toward different objectives will be required.

From semiannual reviews of the project portfolio we have found some of our activities to be wanting. Blue Nile Integrated Rural Development is such a project. The culmination of this activity was to have been in the project's replication. But all signs pointed only toward its expanding the bureaucracy and adding to the government's recurrent costs. The presence of a competent Sudanese staff in the Blue Nile Project has permitted the early termination of most contractor services. We will investigate new ways for strengthening operations and reducing costs in the project area, an extensive tract in the Roseires Watershed.

In October 1983 the Mission decided not to proceed with the Western Sudan Agricultural Development Project. This decision followed the conclusions we reached about the Blue Nile Project--a similar activity. The results of integrated rural development never seem to measure up to expectations in Sudan. It may be that in such a severe environment too much is being attempted in a comprehensive "integrated" project. Not enough is left to the farmer himself. The activity tends to lose focus. Or perhaps the Sudanese bureaucracy is not sufficiently adept to apply the lessons we learn. The Mission is beginning to question the wisdom of always approaching agricultural development from the standpoint of improving government services. Consequently, we have been placed in a position of being required to find new ways for increasing the product of agriculture. A proposed project that will be submitted for funding in 1985 is providing the focus for this exploration.

Policy. On matters of policy initiatives, we are approaching some of the objectives we have been seeking. Virtually all explicit subsidies have been ended. Prices of export crops, as well as for domestically produced wheat, have for the most part been adjusted upwards toward world market levels. Most imports for the consuming public now enter domestic trade at close to the free rate of foreign exchange. The Sudanese have done well with these reforms. Additional adjustments are required. But to continue solely with a macroeconomic conceptualization could now relegate our reform initiatives to adjustments at the margin. While we will still pursue the standard package of reforms that focus on the exchange rate, by viewing Sudan's economic structure

from new perspectives we hope to sharpen our perception of what else is important in policy reform. More attention will be devoted to institutions and to strengthening the linkages among them.

From another standpoint as well, we are in a good position for exploring new approaches. The Commodity Import Program, PL 480, and local currency operations have been underway long enough to stand evaluation. These assessments began in October 1983 with a review of Title III. They will continue throughout the remainder of the current fiscal year. The conclusions derived from evaluation can point toward a new perspective for using our developmental tools in more sophisticated ways.

The South. Southern Sudan holds special problems. With the disruptions in public service that have accompanied the reshaping of the area into three regional governments, and then in the presence of the deteriorating security situation, we have discovered that little can be achieved for the time being. Current activities (Southern Access Road and Rural Health Support), as well as newly started projects (Southern Rural Agricultural Development and Southern Road Maintenance and Rehabilitation) can only make limited gains until administration and civil order are reestablished. Planning is proceeding on the River Transport Project but field work has been suspended due to the turmoil in Upper Nile Region. Despite a gloomy short term prognostication, the South must become the seat of an expanded program that commands a major portion of our attention when a political reconciliation is achieved. This paper will suggest a new emphasis on the South.

A Regional Focus to Assistance. Some of the new attitudes and relationships we hope to foster seem to suggest a regional focus to our assistance. Heretofore, most of our Commodity Import Program has served either the economic activity of the Khartoum area or that of government controlled Gezira agriculture. Now, difficulties in the South and an apparent loss of direction in relations with the regions have contributed to a growing realization among some senior officials of the fragile nature of the central government's position. This awareness has led to a new interest in decentralization -- at least from the standpoint of increased financial discretion and responsibility for regional governments. The impulse for decentralization and devolution of authority can provide the vehicle for furthering the concepts of linkage and interdependence. The Mission will feature this approach through a rainfed strategy directed principally at Southern Kordofan and Darfur. Our concern with Southern Sudan will have a similar theme. A CIP allocation for regional agriculture fits into this context. New assistance on regional finance and planning and a proposal for working with the regions on area council development schemes will complete the picture. Behind a new regional emphasis is the idea of always working for economic gains in the presence of Sudan's principal resource -- agriculture. And a more balanced relationship between regions and the center can also contribute to political coherence in Sudan's future.

MACRO-ECONOMIC UPDATE

Introduction. Sudan's macroeconomy continues to suffer from major distortions that reflect the pricing policies of the 1970's. They also stem from the investment decisions made on the basis of overvalued foreign exchange, subsidized consumer prices and artificially low interest rates and producer prices. Thus, macroeconomic prices have not signaled the benefits of savings over consumption. They have not served to channel investments toward economic activities in which the country's scarce resources can contribute the most to achieving economic growth. Clearly, the control and distortion of prices in Sudan have created an environment in which the signals are very wrong, and in which economic growth has been obstructed. Not surprising, Sudan's macroeconomy stagnated throughout the 1970's. But since 1980 there have been limited improvements in the environment traceable to some reforms, debt rescheduling and rehabilitation efforts -- all supported by generous donor assistance.

Official Foreign Transactions. Despite selective gains, the government has faltered in efforts to impose credit curbs. The free rate of exchange has risen to Ls. 2.25 -\$1.00, leaving the commercial bank rate of 1.8 overvalued. More dollars are driven into the free market while the Bank of Sudan, which controls official exports (cotton, sesame, groundnuts, sorghum and gum arabic), is left with fewer resources to cover Sudan's official import bill for essentials. The Bank's cash flow is in a perpetual state of crisis. A short term debt of close to \$1 billion (which goes largely unserviced) has led

to the drying up of commercial credit. With the exception of individual traders, who provide extremely high cost credit, and some Arab lending institutions, Sudan has been virtually cut off from the international credit market.

Some observers believe that only by ending official transactions and allowing all trade to flow through the free market can conditions be ameliorated. But this would lead to a sharp devaluation and would probably require a London Club II to regularize the short term debt. Thus far, the government has resisted this course for fear it would lead to increased consumer prices and possibly unrest. The bread riots in Tunis and Morocco over the past year have impressed a government whose authority is already being challenged.

The decision of Chevron to suspend operations, with the loss of a potential \$350 million in annual earnings from oil exports after 1986, and the related deterioration of security in Southern Sudan have further damaged Sudan's international credit position. Additional export earnings -- a prospect upon which government and financial interests alike have been banking -- now seem remote. The Chevron suspension also resulted in an annual loss of \$25 million insofar as Chevron had converted this amount from dollars into local currency in support of its exploration operations. Economic buoyancy is a scarce commodity these days. Sudan must seek it in new places. Realistically speaking, improvement in Sudan's financial position must await some resolution of the Southern problem. Policy reforms which add to the

government's local currency costs and, therefore, to pressure for more revenues will not cheerily be accepted. The situation incorporates special problems for the reformer, whether he be Sudanese or an expatriate.

The Parallel Economy. But like most economies, Sudan's has some special features. It is characterized by a relatively healthy private sector even while the government is hard pressed. Suspicion of the private sector is a noticeable aspect of official thinking. But by and large, the government does little to impede the private sector, even while doing little to help it. A relatively open free market involving as much as \$700 million derived annually from remittances and private repatriation of income is permitted to operate with only occasional government intercession. All tobacco imports, some industrial items and a large array of consumer goods are purchased through this channel. Thus, with a fairly substantial block of foreign exchange, the private sector proceeds in a parallel economy largely beyond the purview of government controlled finance. The structure of the foreign exchange market seems to have been fashioned by the government to facilitate this dichotomy.

Over the past few months, however, the residual optimism of the tough-minded survivors who constitute the private sector has been badly shaken. With the justification that the new IMF standby required it, the Ministry of Finance cancelled the various concessions which have been provided the private sector, i.e., tax holidays, investment allowances, etc. (This step was taken without notice.) At about the same time, the importation of many of the intermediaries and spare parts which the private sector uses in

manufacturing was banned. Customs duties were raised on other imported items. Most private sector activities are in import dependent services and manufacturing, and they feel the pinch of increased foreign exchange related costs and input shortages.

As President Nimeiri has moved the country toward Islamic law, the business community has suffered three additional shocks. First, interest on loans was outlawed. New arrangements involving service fees or participation in equity as a substitute for interest have been set forth. But the banking community is still hesitant about proceeding with either lending or joint operations for fear of not being able to collect interest-cum-profits in the event these are challenged in court. Then during the first week of March, the government announced that the basic company law enacted in 1925 was being abolished to be replaced by an Islamic version. Finally, new taxes on net worth, which can only discourage investment, have been enacted. These moves were taken without having been vetted through the economic ministries or the banking community. They became law by Presidential decree after a vote of the People's Assembly that must accept them in their entirety or reject them.

It may take some time to see the impact of the new laws, particularly with regard to how they might be enforced and administered. Many business leaders fear, however, that the new order will result in the limited liability company's being abolished. Whatever the outcome of this latest move, damage has been done. Business depends on stability--being able to plan in the

knowledge of costs, returns and financial exposure. Now that assurance seems to have been removed. The institutional structure upon which much economic activity proceeds is in danger of being undermined. While these actions have been taken in the name of Islam, they could have much the same effect as the nationalizations that swept the country ten years ago. Business and government continue to co-exist in an uneasy alliance.

Economic Imbalances. The major imbalance in the Sudanese economy is between savings and consumption. Extremely low income levels in Sudan are responsible for negligible domestic savings rates. A large proportion of household income is required for basic subsistence. Savings of foreign exchange are negative. Sudan now imports three times what it earns in exports, clearly an untenable situation. This imbalance causes Sudan's chronic foreign exchange shortages, and makes essential imports more difficult to finance each year. Moreover, the current policy environment still greatly favors public over private enterprises which further dampens productive fixed investment. In this environment, and in the face of high real inflation rates, there is a preference for spending income on consumer goods which provide immediate benefit. There is no longer any incentive for private investment in production type enterprises.

An enormous gap also exists in Sudan between installed physical capacity and actual output. This can be traced to a dearth of management skills. Sudanese wages are just too low to compete with the Gulf States, and the ranks

of middle and upper level managers and technicians have been decimated by the out-migration of skilled workers. Moreover, the GOS is having trouble supporting its desired level of public services and investment. Expenditures still exceed revenues. One reason is that too much government activity is taking place in production areas that could be managed more effectively by private entrepreneurs. As a result, more appropriate activities -- developing economic infrastructure and providing public services (health, education) -- needed to stimulate growth and development are denied the resources they deserve. To add to its macroeconomic woes, Sudan is confronted with a population growth rate exceeding 3 percent annually, and must support a refugee population that is well over half a million and increasing. The country is not overburdened by its population from the standpoint of available land. But additional people press hard on public services. For all these reasons, growth in Sudan's economy did not occur in the 1970's and has progressed with difficulty in the 1980's.

1. Trade Deficits

Sudan has long been plagued by increasing trade deficits and crippling foreign exchange shortages. The country's export performance is totally dependent on agriculture -- cotton, sorghum, groundnuts and gum arabic. Such an export pattern makes Sudan vulnerable to world price fluctuations as well as to those weather conditions that debilitate agriculture.

Moreover, the export sector has failed to achieve its potential over the past several years. Artificially low producer prices and numerous taxes

(explicit and implicit) on export producers have been, and remain, strong disincentives to production. Fuel shortages and a deteriorating transportation system have also contributed. An overvalued exchange rate has encouraged imports generally. Although the exchange rate remains overvalued, direct budget subsidies on all major government imports were eliminated in August 1983. But administered prices still result in excess demand for consumer goods which under present circumstances have high opportunity costs.

In 1981/82, Sudan's economy hit a low point when the trade deficit topped \$1.5 billion. Imports were unusually high in this year due to a jump in consumption of several subsidized items -- petroleum, wheat and transportation vehicles. Import payments were up 16 percent overall. In the same year export earnings bottomed out after a three year decline. Exports that year covered only 20 percent of imports. The three year decline in export earnings was the result of difficulties with cotton sales. Income was forced down by low yields, low quality, and low prices.

In 1982/83, Sudan's pattern of increasing trade deficits was broken and the deficit decreased from \$1.5 billion to \$1.2 billion. For the first time in many years merchandise imports declined noticeably, by 7.5 percent. The government implemented several reforms designed to check import increases, e.g., multiple devaluations, incentives for import substitution and restrictions on bank financed imports. Under new management, sugar production at the giant Kenana estate increased enough to help cut the sugar import bill by over \$100 million. Sugar production generally benefited from increased

producer prices and area expansion. During the same year, merchandise export receipts increased by 48 percent. 1982/83 saw a remarkable increase in cotton export volume, triggered by a devaluation of the pound, pre-planting announcement of higher cotton prices, and restructuring of financial incentives within the government's irrigated schemes. Sudan appeared to be profiting from the reforms of the early 1980's.

While the outlook for Sudan's 1983/84 trade performance is still sketchy, there are hopeful signs. This year's cotton crop shows improved yields and quality. World cotton prices are currently strong. Should they hold, Sudan's cotton will command good prices. Gum arabic production is running well above average (a record harvest is forecast), and world prices remain firm. But the drought in the rainfed sector and the likely near total loss of sorghum export earnings casts a pallor. Thus we expect overall export earnings to increase only slightly in 1983/84. In addition the government is actively discouraging consumer good imports, and restructuring petroleum import financing in a move that could save Sudan \$60 million annually. The trade deficit should again decline we expect, falling to around \$900 million.

2. Domestic Fixed Investment

Sudan's level of fixed investment or capital formation is distressingly low. Despite outdated and variable estimates, all show one thing - fixed investment as a percentage of GDP is lower than many other developing countries. And it is certainly lower than levels for the faster growing low and middle income countries. Moreover, at 12.5 percent of GDP in 1982/83

(IBRD estimate), it is less than Sudan's own average over the last decade. Of concern too is the relatively high proportion of public over private investment, and the fact that parastatals represent a significant source of dissavings in the economy. Public fixed investment is nearly half the total, which means that much of the economy's productive capital is publicly held and managed.

Several problems contribute to these low investment levels: ill-formed and fragmented capital markets (heavily controlled by the government), a very low domestic savings rate, and policy disincentives and instability which discourage private investment. Banking interest rates, which are controlled in Sudan, have not encouraged savings. Now interest has been abolished and we do not know the outcome. In real terms, savings declined in 1982/83 by nearly 1 percent of domestic production. Savings the year before were negative as well, an ominous sign. The government taxation and foreign exchange system also act to deter investment by the private sector. For instance, the government controls foreign exchange earnings of exporters and buys them at such artificially low pound rates that there is great incentive to smuggle or bribe officials at the border. Smuggling keeps foreign exchange out of the banking system and makes it higher priced for investment purposes. Also, the present system implicitly taxes those in the economy who offer the greatest hope for increased production and expanded net foreign exchange earnings: producers of groundnuts, sesame, and gum arabic in the rainfed sector.

3. Government Budget Deficit

For years, the government has relied heavily on domestic and foreign borrowing and donor assistance to finance investment and, often, current consumption. Government taxation has been very low, an estimated 13 percent of GDP in 1982/83, and the methods used to finance public activities have aggravated Sudan's external debt and inflation problems. While government expenditures do not comprise an especially high proportion of GDP at 19 percent in 1982/83, they have grown much faster than revenues. Indeed, the government has incurred sizeable deficits over the last several years. In 1982/83, the deficit was estimated to be Ls. 400 million or 6.1 percent of GDP, down from 9.8 percent in 1980/81. The minor improvement resulted from specific measures, -- expansion in the customs duty valuation, custom base devaluation, increase in certain excise taxes, and higher rents and fees. These increases, however, barely kept pace with inflation and resultant price hikes.

Tax collection overall has not improved as a share of domestic production. Moreover, taxes on international trade raise more than half the revenues, making the revenue structure heavily dependent on the external market. The government's elimination of budget subsidies on wheat, flour and petroleum during 1983 and a slowing of development expenditures have helped check deficit increases. Nonetheless, some slippage can be expected in the 1983/84 budget performance, given increased estimates of debt service and planned minor increases in development expenditures. An upsurge in defense spending following the bombing of Omdurman by a Libyan plane in March 1984, will only add to budgetary imbalances.

4. External Debt

In order to keep the economy functioning, the Government for a number of years resorted to massive and uncoordinated borrowing from external commercial and official sources. At \$9 billion in early 1984, the external debt is so large that annual debt service obligations just about equal foreign exchange earnings. The debt itself is equivalent to twelve years of export earnings. This estimate is double what it was two years ago as comprehensive audits revealed Sudan's data on debt to be spotty and incomplete. Repayment of this staggering sum is the most serious barrier to Sudan's recovery, and the government is working closely with the international community to manage its debt.

When Sudan's trade deficit continued to worsen in the late 1970's and early 1980's, the country was forced to seek debt rescheduling. Agreements with creditors were reached in November 1979, March 1982 and again in February 1983. Total rescheduling in late 1981 and early 1982 involving multilateral, bilateral and commercial lenders amounted to US\$1.1 billion. An External Finance Coordinator was selected in January 1983 to coordinate a rescheduling plan. Sudan's efforts merited a February 1983 Paris Club meeting where members decided to reschedule all principal and interest payments due before December 12, 1983. Sudan was to pay only half the interest due in 1983. Fully \$535 million was rescheduled. Sudan took similar steps with other official and commercial creditors, and on similar terms. In all, agreement was reached by over 100 participating lenders on the terms of the modification. Paris Club negotiations for rescheduling of 1984 debt are expected to be undertaken before the end of the fiscal year.

5. External Financial Resources

In addition to its inadequate export earnings, Sudan has only two real sources of foreign exchange supplies -- remittances and donor assistance. Donors disbursed at least \$550 million in balance of payments support and pledged \$268 million for projects in 1983. The January 1984 Paris Consultative Group (CG) resulted in \$405 million of new balance of payments support and \$330 million in project commitments. Drawings from the IMF also help cover Sudan's financing needs but have gradually declined from \$193 million in 1982/83 to an expected \$90 million in 1984/85. Because Sudan will have exceeded its maximum borrowing quota the net flow of resources will be toward the IMF to the tune of \$40 million in 1984/85.

Donor assistance makes Sudan's program of extensive economic reform possible. If the government undertakes a political reconciliation with the South, the donors appear willing to continue assistance through the 1980's, the minimum time needed to consolidate Sudan's structural adjustments. In addition, the government must press forward with difficult economic reforms if it hopes to continue the flow of assistance.

To add to foreign exchange supplies, the government has encouraged Sudanese abroad to remit earnings. Recorded workers' remittances have increased steadily in the last few years from \$209 million in 1979/80 to \$430 million in 1982/84. Much more comes into the country unofficially to finance consumption, but little is for investment aside from housing. Estimates of remittance financed real estate in recent years runs into the billions of

dollars. The GOS intends to make strong efforts to provide incentives for workers abroad to make these funds available for other uses.

6. Gross Domestic Product

Sudan's domestic production (GDP), which is heavily dependent on agriculture, continues to falter in the face of energy, labor, transportation, and equipment problems. In fact, the growth rate of the GDP over the last five years has been at a virtual standstill in the face of wide annual fluctuations. In 1981/82, Sudan's GDP grew by 7.2 percent in real terms after having declined considerably in the previous two years. Not coincidentally, commodity producing sectors, chiefly agriculture, experienced the same overall growth rate. The increase resulted from bumper crops in the rainfed sector, which now earns the bulk of Sudan's agricultural foreign exchange receipts. In fact, the increase came in spite of further declines in cotton production, which registered a 48 percent decline between 1978 and 1981. As manufacturing is primarily agro-industry, and most services and transportation are agriculture-related, production in all sectors increased that year.

In 1983, Sudan's GDP suffered a sharp reversal, a development which affirmed the importance of the rainfed agricultural sector. Despite substantial improvements in the cotton crop, overall GDP declined by 2 percent as drought cut rainfed production drastically. Production declines ranged from 30 to 60 percent in groundnuts, sorghum, sesame, gum arabic and millet. As usual, agriculture set the standard and many critical sectors (industry, transportation) declined as well. Services (personal and financial) have

as drought cut rainfed production drastically. Production declines ranged from 30 to 60 percent in groundnuts, sorghum, sesame, gum arabic and millet. As usual, agriculture set the standard and many critical sectors (industry, transportation) declined as well. Services (personal and financial) have appeared to be somewhat more resilient over the past three years. The construction sector has also held its own, as people invest increasingly in real estate in lieu of other opportunities.

7. Foreign Exchange Scarcity - Public and Private

In Sudan, principally the public, but also the private sector has been perpetually confronted by foreign exchange shortages. The foreign exchange market has thus been heavily controlled, with the intent of assuring an inexpensive supply for government use and to prevent the exchange rate from rising rapidly, thereby contributing to already high inflation. Three foreign exchange rates now prevail, the lowest being the government's official rate (Ls. 1.3 - \$1.00), followed by a commercial bank rate (Ls. 1.8 - \$1.00), and then an even higher rate to be found in the free market among licensed private dealers (currently Ls. 2.25 - \$1.00). The free market draws on remittances and repatriated private funds. The portion of the private sector that cannot get foreign exchange at the bank rate must resort to the free market.

Given the control of foreign exchange, lack of investment opportunities and restrictions on consumer goods, many foreign exchange earners have either saved in foreign banks or traded their foreign exchange on the free market where scarcity translates into higher rates. Foreign exchange earners whose

earnings come from remittances or exporters involved in illicit trade are encouraged to save in foreign banks or to remit or trade their foreign exchange on the free market, where scarcity translates into higher pound prices, thus reducing the amount of hard currency entering the banking system.

POLICY REFORM

Policy reform has been at the center of our assistance strategy in Sudan. Both the Commodity Import Program and PL 480 have been used effectively to bring about policy change. Due to the intercession of the IMF and AID, working with reform - minded officials, the Government of Sudan over the past three years has reduced consumer subsidies sharply. Agricultural exports (principally cotton), as well as domestically produced wheat, are now priced to encourage production. As a means of saving official foreign exchange, luxury imports were virtually banned from October 1983 until March 1984. In 1983 revenues were raised by Ls. 300 million. On the other side of the ledger, sugar, petroleum, pharmaceuticals and those imports for the public sector are still imported at the artificially low foreign exchange rate. Additional steps in pricing and exchange rate reform are, therefore, required. The textile industry is subsidized as are the parastatals. Sugar operates at a substantial loss. Exporters are still paid too little for the farm products they sell abroad. The result is what amounts to a heavy tax on both exporters and producers at a time when greater financial incentives are required to stimulate both agricultural production and export earnings.

Our Approach to Policy Reform. Exchange rate adjustment continues to have a place in our strategy. When parastatals are stripped of the preferential exchange rate, which currently represents an advantage of 40 percent, they will have less of an opportunity to further their quest for exclusivity and free standing vertical integration. The preservation of the public sector may now be the main effect of the official rate of exchange.

Heretofore, the approach to policy reform, as led by the IMF, has had certain retrogressive aspects. To a large extent, it has focussed on (1) credit ceilings, (2) efforts to move the bank rate (LS 1.8-\$1.00) toward the free market rate (LS 2.2-\$1.00) and (3) filling the balance of payments gap by a reduction in imports. Perhaps inadvertently this strategy has penalized Sudan's more efficient sector (the private) while leaving unscathed the less efficient (the public). Credit ceilings apply to commercial banks and private borrowers. For the public sector, funding is a matter of government budgets. Thus, only private business is limited by the ceilings. In the same way, the commercial bank rate applies only to the private sector. A higher rate will raise the cost of foreign exchange and limit private sector inputs. The public sector is not affected. Finally, putting a squeeze on imports to fill the balance of payments gap has the same impact as raising the bank rate of exchange. The importation of spare parts and intermediate inputs intended for the private sector becomes more expensive due to increased tariffs. For a while some spares were even banned. The public sector did not suffer so severely. Only when adjustments occur in the official rate of exchange (LS 1.3-\$1.00), which applies for the imports of parastatals and the public sector, can the balance be redressed and more competition and efficiency introduced into the economy.

The policy advice we proffer will be carefully studied and coordinated with the IMF and other donors. To date, the mandate of the Bank of Sudan has been to retain a stable exchange rate. Nevertheless, since the suspension of

Chevron's operations, and with the announcement of new commercial and banking laws, the rate of exchange has slipped by 15 percent. Evidence points to a flight of capital. The government is losing its battle. Still, a considerable effort will be required to convince the government of the wisdom of devaluation. We will approach the problem directly and with the caveates that ease the potential for ascending prices and a sharp public reaction. A major piece of our presentation will be a comparative study of official and market prices. With so much of the economy operating beyond the government's control, the differential between official and market prices -- and the possibilities of civil unrest from devaluation -- might be less than we think. The government, with its recent increases in the prices of bread and fuel, might already have gone further than it knows. Rather than a direct increase in prices themselves, the real problem associated with devaluation could be the necessity to find new sources of revenue to supplement the tax now buried in market prices. There would be the need to supplement public budgets which would require more funds to sustain official imports at the free market rate of exchange. This will be a difficult transition. A great deal of pressure will be placed on public budgets. But the necessity to engage in the exercise could sharpen official sensitivities regarding the inefficiencies of public enterprises and consequently the opportunity costs involved in public expenditures.

Parastatals. Parastatals continue to serve as a drain on the economy. Yet we hold little hope for divestiture. Most public enterprises are losing propositions. Who, for example, wants to invest in a \$700 million sugar operation that produces at well above world prices? At best, we can hope to

identify those public operations that are middleman/skimming operations and perhaps bring about their demise by holding them up to the light of the day.

Senior Sudanese officials themselves have noted that a principal impediment to the efficiency of public sector enterprise is the composition of the boards of directors. They are populated by senior people from the Ministries of Industry, Finance, Agriculture, Energy and Mining, etc. These individuals attempt to impose the same operational control over public corporations that they exercise in their ministries. They are also the proponents of vertical integration.

But dislodging the public directors will be difficult. Dismantling an ailing public sector can involve sensitive ideological issues. It can occur only when a country's leadership recognizes that there are more efficient means of organizing production and then decides to explore ways for limiting government presence in the economy. While this spirit is abroad in much of Africa, it has not yet set the tone in Sudan. At best, we can work for less control by these boards and for a devolution of authority -- permitting decisions in public enterprise to be taken at lower levels, thereby instilling the profit motive in those who are the immediate managers.

Military Economic Board. Of particular concern is the emergence of the Military Economic Board of which President Nimeiri is the head. It began with the worthy motive of using the army (1) for civic action, (2) to provide service and products to the military itself, and (3) in essential areas where

the private sector was not sufficiently aggressive. Our observations suggest that it has gone far beyond these objectives. Operated now by retired officers, it has insinuated itself into all manner of economic activity -- pharmaceuticals, bus and truck service, bakeries, trading, etc. The private sector either cannot compete or is fearful of doing so. There is evidence that the Military Economic Board is favorably treated in the allocation of foreign exchange. It probably draws on public infrastructure and budgets which means that the prices of its products do not reflect costs. Some foreign enterprises seek the MEB out for partnership on the supposition that it can get special consideration for them. This notion has not been discouraged.

The Military Economic Board is another sensitive issue. The ability of the Mission to respond in policy terms is limited. We will, however, resist dealing with the MEB in our activities, and as occasions arise we will urge officials to guide the Board back to its original objectives of civic action and military services. One of our early initiatives will be a comparative study of similar arrangements in Nigeria, Ghana and Argentina where inefficiencies associated with military economic activity have been gross. As appropriate, these observations will be shared with senior officials in an effort to sharpen their awareness of the reasons for our concern.

Support for the Private Sector. By and large, we anticipate that our gains in confronting the institutional problems of the economy will come from policy initiatives that improve the business environment. In the coming year,

the Mission will investigate policy constraints on the private sector. In the present atmosphere, just a return to stability in business conditions would constitute improvement. Any work in policy reform to support the entrepreneurial spirit will be slow. Our understanding of the private sector as it operates through the parallel economy, as well as our knowledge of company law (past and present), is imperfect. Careful investigations will have to precede any policy initiative insofar as the parallel economy is delicate. It is altogether possible we will conclude that any direct intervention on our part could be retrogressive to the extent that it focusses government attention and antagonism on operations that currently have some vitality. In relation to these efforts, we have established an ongoing dialogue with the Chamber of Commerce, Sudan Industries Association and the Sudan American Business Council.

The Petroleum Facility. We have already taken the first step toward strengthening the private sector. In December 1983, with the support of the AID Administrator and the Assistant Administrator for Africa, the Mission won acceptance for its Petroleum Initiative from the Sudan Consultative Group. For the past two years Sudan has paid somewhere between \$60 million and \$80 million annually above spot market prices for its petroleum. The condition developed largely because of the withdrawal of financing by legitimate international lenders as Sudan's credit rating slipped. The government found itself required to resort to traders who have not been altogether scrupulous. The debacle was orchestrated by the government's General Petroleum Corporation (GPC). It was accompanied by imperfect government attempts at allocation,

extreme shortages in outlying locales, and a raging black market.

Under the plan for the Petroleum Facility, donors and the Government of Sudan will establish a petroleum fund of \$360 million annually for three years. The United States will contribute \$40 million annually (depending on appropriations), the Saudis have tentatively earmarked \$60 million, and other donors have suggested that they will provide up to \$25 million. The Government of Sudan will contribute about \$200 million from a combination of its own foreign exchange earnings, drawings from the free foreign exchange market, and commercial loans. AID is structuring the U.S. contribution to serve as a reserve fund that will leverage up to \$50 million in continuing forward financing by the four oil companies that currently distribute fuel for the GPC (Shell, Mobil, Total and Agip). In the first year, forward financing will constitute a new resource insofar as companies currently do not provide this facility.

In return for the Petroleum Facility, the government will be required to work with the private companies to assure that all petroleum is purchased at competitive prices. Moreover, the private sector will replace GPC as the importer of all product and eventually of the crude oil used by Sudan's refinery. Product pricing which reflects differences in regional transport and marketing costs must be adopted. Over the three year period, allocation of fuel will revert to the private distributors. With the 16 percent increase in petroleum supply which the Petroleum Facility will bring, we anticipate a dampening of the black market.

The Petroleum Facility will address another problem as equally fundamental as petroleum imports -- the operation of the Bank of Sudan. The Bank has trouble setting priorities for the allocation of Sudan's foreign exchange earnings. Devaluation and a floating rate of exchange would, of course, lessen the demand on the Bank for foreign exchange and greatly reduce the allocation burden. The Petroleum Facility will require the Bank of Sudan to give petroleum (Sudan's largest import at 25 percent of the total bill) a priority allocation. Thereafter, perhaps the other demands on the Bank will fall into some orderly priority that reflects economic rather than political considerations. From this perspective, the Petroleum Facility is meant to reestablish the credit worthiness of the Bank of Sudan for a portion of the country's trade. We are currently discussing with senior Bank officials the possibilities for providing economic services and training to strengthen the Banks' operations.

It is for good reason that we have initiated our free enterprise strategy with petroleum. The gains can be quantified; they are monumental; they are in foreign exchange. It is not often that a Mission has an opportunity to achieve such substantial short term benefits from a reform. We can do so because the institutions needed to facilitate the reform (the four private companies) are already in place. We know they are capable of handling the importation and allocation of fuel as well as its distribution. This knowledge provides an element of optimism over the possibility for success. Moreover, by beginning privatization with trade in a vital product, the

benefits will be obvious to all. In addition, the reform will not be saddled with the problems of divestiture. Finally, by returning allocation to the private sector we will have made a major move against government control and toward the horizontal linkages that are so vital for economic development in Sudan.

It will be difficult to convince some officials to accept the interdependence implicit in placing the country's fuel supply into the hands of others. Allocation is not just the mandate of the GPC. On a geographic basis it is vested in each regional governor. The only question raised by officials to date has been the uncertainties of leaving such a responsibility to those who are not imbedded in government authority. But the case is clear, acknowledged and compelling. The reform is now supported by the IMF, World Bank, Germany, Netherlands, France, Italy and Saudi Arabia as well as the United States. Sudan's very relationship with its donors depends on it.

Commodity Imports. In our use of Economic Support Funds, we have devised a list of commodities for the Commodity Import Program that contains a high level of support for the private sector. The list was not shaped simply from the standpoint of supporting the private sector for its own sake. All items that are imported under the CIP in 1984 will have a sound development priority. Spare parts and intermediate inputs constitute 50 percent of the list and will support power and transportation, as well as such industrial subsectors as textiles, soap, pharmaceuticals, refrigeration and chemicals. Clear development themes which go beyond short term economic

rehabilitation are also present, principally in agro-industry and directly for agriculture itself. The crops which CIP financed imports will support are sorghum, groundnuts and sesame. All are export items. The program supplements normal import patterns insofar as it will support new development in agriculture, agro-industry and road building. Finally, the programming of local currency generations is well established with a clear focus on support for development and for meeting the requirements of the United States Government.

One innovation we will adopt is a \$7 million Regional Development Allocation. It will be exclusively for the use of the private sector in support of agricultural production in the West and North. Cold storage and ice plants, groundnut and sesame oil refining equipment, small sorghum mills, pumps and other farm machinery will be financed under this element of the CIP. As conditions permit, a special allocation will also be earmarked for the South.

In our administration of the CIP we are proposing another feature of linkage and mutually reinforcing interdependence with a market orientation. In the covenants to the 1984 CIP we are requesting that three private representatives be added to the Finance Ministry's Commodity Aid Committee. By giving the private sector a voice, we believe that we could bring new insights to commodity selection from the standpoint of what the economy and particularly the private sector require in order to increase productive capacity and export competitiveness.

Energy. The efficiency of the energy sector hit a new low in August/September 1983, the hottest months of the year, when the main electrical generation and transmission grid practically collapsed. For four weeks production stopped at those Khartoum factories without backup generators as the city went without electricity. Farmers irrigating with electric pumps along the grid saw their crops wither and die. Some residential neighbourhoods in Khartoum were without water. Economic losses for this period alone are estimated at \$60 million. For 1983 as a whole, the North Khartoum industrial area was without power 40 percent of the time. Annual losses to the economy from electricity outages have been estimated at better than LS 500 million.

U.S. equipment and experts, working in cooperation with the Netherlands are now cleaning out the silt from in front of the intakes at the Roseires Dam — Sudan's principal electric generating site where 140 MW are produced. It was when a wall of silt collapsed into the intakes that the 1983 breakdown occurred.

The importance of the power sector and the magnitude of the problem have led to major assistance efforts by the World Bank and USAID. Whereas the IBRD, with cooperation from other donors, has focussed on generating capacity, AID is devoting its attention to transmission and distribution. As generating capacity increases, the weakness of the distribution system becomes more glaring. Khartoum and the Gezira farming area sometimes go without power even when there is enough electricity being generated to satisfy

demand. In FY 1983, we provided \$17 million from CIP funds to improve the transmission of electricity along the Blue Nile Grid. The need for further improvement is great. Consequently, we plan to continue providing CIP funds at a level of \$10 - \$20 million per year over the remainder of the CDSS period to rehabilitate the transmission system. Simultaneously, the World Bank is planning further extension in power generation.

Electric transmission and distribution will be the largest public sector item to be supported under the CIP. Sudan's entrepreneurs confirm that nothing we do to assist the private sector could be more important than the resolution of the power problem. Technical assistance is being provided in conjunction with these commodities to assure appropriate installation and use. We will also give high priority to policy reforms in electric power with emphasis on overhauling current rate structures, installing meters, and improving collection procedures along the Blue Nile Grid. An AID supported contract team will also be employed to revise the management of the National Electric Corporation, one of the weakest links in the economic structure. A covenant requiring reorganization of NEC and the placement of appropriate trained technicians has been attached to the 1984 CIP.

Institutional Development. USAID and the Government of Sudan share the belief that economic reforms affecting producer incentives, the investment environment, revenue generation, etc., are key to the development process. Yet, in attempting to induce reform, GOS policy makers are confronted by a dearth of expertise, poor data, and a lack of well-defined policy options. To

address the problem, USAID has developed a series of projects that are intended to provide the GOS over the medium-term with the kind of information required for a more comprehensive understanding of the country's critical needs. These activities will also help create the skills that are necessary for long-term growth. These projects include:

- Project Analysis and Implementation Program (PAIP)

Designed for macro-economic policy studies and the development of related micro-economic support strategies.

- Macro-Economic Policy Project.

An adjunct to the PAIP, it is intended to assist the GOS in development planning and evaluation processes, focusing in particular on such areas as foreign exchange management, export trade, rural economic infrastructure, national accounting, rational budgeting procedures, and tax systems.

- Agricultural Planning and Statistics.

Designed to 1) strengthen the Ministry of Agriculture's ability to identify, prioritize and analyze production, consumption, trade and marketing issues, 2) develop a reliable agricultural data base with which to generate statistics in support of policy analysis and planning; and, 3) improve project and program identification, appraisal and implementation.

- Energy Planning and Management

Intended to improve the government's capability to plan and set policies for more efficient use of energy resources by improving energy management and administration.

RAINFED AGRICULTURE STRATEGY

Mobilization of private investment in the rainfed subsector and continued policy reform are key to Sudan's agricultural development. Over the past six months USAID's agricultural strategy has evolved to target agricultural inputs on private producers and on the restructuring of market incentives through infrastructure investments in roads and storage. This strategy complements our purpose of strengthening market mechanisms to offset tendencies toward overly centralized public control. The expected results are greater production for consumption and export, diversification of export crops, and reduced dependence on imported grain.

For several years now the Mission has recognized the potential of the rainfed areas and has given attention to them. The Western Sudan Agricultural Research Project is devoted to dry land farming. The Blue Nile Project was an exploration of practices and cultures adaptable to it. But other than this general interest and the modest focus it provided, we never developed a strategy for addressing the problems of rainfed agriculture. We now believe we have the beginnings of a design that will permit a systematic attack on the constraints to rainfed cultivation. It begins with the question: To what inducements do farmers in these areas respond? A number of the factors of production could be cited, but we prefer to phrase the answer in terms of the market—getting to it and receiving a fair price from it.

Rationale for a Rainfed Focus. USAID has concentrated its agricultural assistance on rainfed rather than irrigated farming because of the rainfed sector's contribution to both domestic and export markets and its potential for growth. In the past year several important economic policy changes and project activities improved the environment for agricultural development and private sector growth. Changes in import policy and currency devaluations greatly reduced implicit subsidies to irrigated agriculture that encouraged excessive mechanization. The GOS raised both producer and consumer wheat prices to import parity, providing incentives to producers while encouraging consumption of Sudan's staple crop, sorghum, a substitute for wheat. Applied research and planning projects have come on line, providing technical and policy inputs that will keep long-term development efforts on track.

To be sure, Sudan's economic crisis requires that activities promoting agricultural growth remain within the limits of the government's ability to handle recurrent costs. This overriding macroeconomic reality only reinforces USAID's strategy to increase production through private farmers in the rainfed subsector. Increased assistance to government operated irrigated agriculture implies a heavy dependence on a steady flow of foreign exchange, and this is highly uncertain in Sudan. Capital-intensive production does not reflect the relative scarcity of capital versus labor in the Sudanese economy. Moreover, the practice of channeling development activities through government institutions can limit real growth. Public sector financial constraints suggest that public investments must decrease once foreign assistance ends.

Thus, the need to reduce dependence on public sector irrigation schemes and increase support for the vast private sector which characterizes rainfed agriculture.

Sudan has painfully learned that rainfed agriculture has a greater impact on both domestic supplies and export earnings than the irrigated subsector. In 1982/83, when drought caused almost a 24 percent decline in the value of rainfed production, real GDP dropped over 2 percent. A 7 percent increase in the value of irrigated products had little counterbalancing effect. Indeed, the irrigated subsector's impact on net foreign exchange earnings declined substantially once Sudan agreed to import agricultural inputs at the bank rate for foreign exchange. The irrigated sector accounted for just 19 percent of net agricultural foreign exchange earnings in 1982, down from 43 percent in 1980. The rainfed subsector's contribution to net agricultural foreign exchange earnings grew from 57 to 81 percent over the same period.

With financial and technical limits on what we can do in agriculture as a whole, focussing on private rainfed agriculture is a sound way of narrowing the scope of our efforts. In contrast to irrigated production, the labor-intensive nature of rainfed farming and the minimum foreign exchange requirement for capital inputs assure high returns from marginal investments in technology and supporting infrastructure. Rainfed agriculture is also critical to Sudan's food security. Mechanized dry land farmers produce, on average, 55 percent of Sudan's sorghum. Other commercial farmers in rainfed

areas produce another 35 percent of the nation's sorghum, as well as 100 percent of the millet, 75 percent of the peanuts, 70 percent of the sesame and virtually all of the livestock. Overall, rainfed agriculture is the key producer in Sudan's economy, in 1982 accounting for 65 percent of the entire country's gross foreign exchange earnings.

Taking these factors into consideration, USAID's rationale for focusing on rainfed agriculture can be summarized in four points.

1. Net Foreign Exchange Earnings.

When comparing the size of local currency investments in agriculture required to earn a dollar in foreign exchange through export, the rainfed sector outranks irrigated production. The World Bank concluded in November 1983 that nearly all export crops in Sudan have a comparative advantage, and that crops grown under rainfed conditions show a higher comparative advantage than their counterparts grown on irrigated land. The top net foreign exchange earning crops per unit of local currency investment are rainfed sorghum, sesame, and groundnuts. The use of hybrid sorghum seeds just now becoming available will increase production and assure that Sudan maintains its comparative advantage in sorghum production despite declining prices for sorghum exports. Sudan also has a strong comparative advantage in livestock production, which takes place almost exclusively in rainfed areas.

2. Food Grain Security.

Although wheat bread has become an important food item in urban areas, sorghum remains the country's staple food grain. Almost 90 percent of Sudan's sorghum is grown under rainfed conditions. With proper price incentives, households will substitute rainfed sorghum for imported wheat. New research on sorghum production techniques and domestic uses for sorghum will improve production efficiency and expand the domestic sorghum market while increasing producer incomes and the rainfed sector's comparative advantage. As the relative prices of sorghum and wheat are revised (i.e. as wheat becomes more expensive to the consumer), Sudan will become less dependent upon imported grain and achieve greater self-sufficiency in food.

3. Complementing Other Donors.

USAID's assistance in rainfed agriculture both fills a gap left by other donors and builds upon related infrastructure investments. The World Bank has concentrated its aid on the irrigated subsector, but also supports rainfed production with projects in Eastern Sudan. The African Development Bank, the Germans and the Dutch have helped finance infrastructure investments which complement production-related activities in rainfed farming areas. Both the French and the Germans have made minor investments in the rainfed subsector, but their assistance is mostly commodity-oriented. The Arab countries provide much of their assistance in-kind through petroleum or in cash, receiving farming rights from the Sudanese in return. The United Kingdom's aid program concentrates mainly on energy production. #

4. Product Diversification.

Throughout the 1970s Sudan depended on cotton for the bulk of its export earnings. This single commodity dependence made Sudan highly vulnerable to fluctuations in international cotton prices. By increasing production in the rainfed subsector, Sudan can spread the risk of fluctuations in international prices over a number of export products - sesame, groundnuts, livestock, and gum arabic - as well as achieve more stable farm incomes, particularly if efficiency in sorghum production is increased.

Objectives and Outputs. Even within a rainfed focus, financial constraints dictate that long-term objectives for agricultural development must be combined with a sensible short-term strategy for minimizing government expenditures. In the short to medium term, USAID seeks to:

- Increase returns on agricultural production by (a) reducing marketing costs, (b) encouraging sound pricing policies so that producer prices reflect international prices, and (c) providing farmers with credit to increase their marketing options;
- Increase yields through improved seeds, access to other complementary inputs such as seed dressing and selective mechanization, and application of research findings in order to improve planting techniques and introduce farming practices that will sustain soil fertility and increase soil moisture.

- Improve production and marketing incentives to encourage private sector investment in agriculture, thus minimizing requirements for government subsidies and administrative supervision.

These short to medium-term goals will facilitate long-term objectives for structural changes in a) production and marketing, b) the linkages among producers, marketing agents and consumers of agricultural products and c) trends in agricultural exports and imports. In the long run, then, USAID seeks to:

- Establish interdependence among producers, merchants and government institutions in order to minimize tendencies toward vertical integration described in the introduction;
- Promote substitution of sorghum and millet for imported wheat, thus improving food security and reducing the use of foreign exchange for consumption rather than investment;
- Increase foreign exchange earnings through exports of cash crops having minimal imported input requirements, particularly sesame, livestock, groundnuts and gum arabic.

To accomplish its objectives, USAID will first concentrate on improving incentives for private sector investments through continued policy reforms and development of marketing infrastructure. Through joint efforts with the GOS

and other donors, USAID will work to achieve the following conditions over the coming five years.

1. Policies and Prices.

- The GOS has already agreed to two key policy decisions determining the economic environment for agriculture: agricultural inputs are imported at the free market exchange rate while domestically produced and imported wheat are priced at an import parity level.
- As part of self-help measures under the PL 480 Title III Program, the GOS will be urged to institutionalize recent decisions to set farmgate prices at import parity and forgo administering consumer prices for food.
- The effective exchange rate for exports must be readjusted to allow exporters to exchange a larger share of their export earnings at the free market rate. (75 percent of export earnings must now be converted at the artificially low official exchange rate, thus lowering producer returns on export crops).
- The Agricultural Bank of Sudan will be encouraged to initiate local currency credit projects using commercial rather than subsidized interest rates, thereby better reflecting the relative scarcities of capital and labor in the economy.
- The GOS will be assisted in efforts to rationalize the use of capital in the rainfed sector. (Analyses and support for this move will be based on real wage trends and the marginal costs per unit of output for labor intensive versus capital intensive production modes.)

2. Marketing.

- Roads and river transport require improvement to allow agricultural commodities to move over long distances from surplus to deficit areas and to export points.
- Farm-to-market access in the west and south needs to be increased as a means of encouraging production of vegetable crops through lower transportation costs and better distribution of inputs and new technologies.
- A comprehensive road maintenance plan is necessary in preparation for the upkeep of new investments and existing infrastructure.
- Storage facilities require development in the west to allow producers to benefit from seasonal fluctuations in crop prices.

3. Production Inputs.

- Production and distribution of certified seeds for sorghum and groundnuts should be initiated through the private sector.
- Farmers can be allowed increased access to agricultural inputs through USAID's extension of the Commodity Import Program to rainfed production areas.
- Local currency credit will be used to permit farmers to purchase improved agricultural inputs.

4. Research.

- Agricultural research will be focused on applied, problem solving activities to identify solutions to major production constraints; technologies will be identified which require limited imported inputs, are readily adaptable to the physical environment and are within existing management and financial capacities.
- Activities at AID supported research centers in the west and south will be expanded to make them regional focal points for agricultural activities dealing with practical farming problems.
- The focus of the research effort will be on high yielding crop varieties, improved range management practices, animal health measures, and crop rotations systems.

5. Environmental Protection.

- The Institute for Environmental Studies in collaboration with government representatives and various corporations will continue work to identify sound, cost effective means for controlling desertification.
- Regional governments should be assisted in initiating local currency projects on water harvesting and desertification control. The Ministry of Finance and Economic Planning will be urged to institutionalize a process for allocating CIP-generated local currencies to regional governments for environmental protection projects.

- The government will be urged to increase producer prices for gum arabic in order to stimulate the planting of Acacia Senegal trees in semi-desert areas.

USAID Program: New Activities

Transportation. In a country devoid of adequate transportation, improved access to markets requires rehabilitation and development of a basic road network. Various studies conducted for USAID have stressed the importance of roads for productive agricultural and economic activity. A combined consulting team from Development Alternatives and Research Triangle concluded in January 1982 that poor roads hindered economic activity in all areas outside the main transportation network. Two reports, "Transportation System Assessment" for Southern Sudan (February 1983) and "Kordofan Region Marketing and Transport Study" (March 1983), showed specifically how more reliable, low-cost transit with improved access to markets would increase production and income in these areas.

Currently the absence of roads over much of the 1,500 miles from El Fasher and Nyala in the west to Port Sudan in the east deters the production of sorghum, livestock, gum arabic and oil seeds -- crops which Sudan could export in much larger quantities if the western regions were tied into a national transportation network. The condition is dramatically depicted by

characterizing Sudan as a country as big as the United States east of the Mississippi that has fewer miles of paved road than Rhode Island.

The Western Sudan Agricultural Marketing Road between Kosti and El Obeid is a principal component of the interregional transport strategy. This project will be authorized for AID funding in FY 1984 and cofinanced with the African Development Bank and the Norwegian Government. El Obeid is the capital of Kordofan Region and serves as an important marketing center for the entire west. Kosti, located 250 kilometers south of Khartoum (336 km. by road), is served by all weather roads to Khartoum and Port Sudan. Kosti is also an important port on the White Nile River. Looking ahead to further development of this sort, we will work with other donors, principally the Dutch, Germans, French and the World Bank, to improve marketing activity in other parts of the better agricultural areas found in Southern Kordofan and Darfur. The Government of Sudan and the Netherlands have approached us on cooperating through the Commodity Import Program to help pave the last sixty miles of the Kadugli-El Obeid road. It too is a major transportation link of the area. The Germans have completed the section of road in Darfur between Nyala and Zalingei. Priority should now be given to connecting these links. The Government of Kordofan is taking its own steps in opening the region by building another important highway link from El Obeid to En Nahud. Following the completion of this segment, only the 300 miles from En Nahud to Nyala will be required to give this extensive area its basic highway network. USAID will

support the World Bank's efforts to improve maintenance capability on main roads through local currency financing for the Highway Three Program.

Agricultural Support. The Mission is now proposing a project to get facilities and resources directly into the hands of the producer, preferably through the private sector. This project, the Kordofan Rainfed Agriculture Grant, will address three interrelated agricultural problems: farm-to-market transport, access to crop storage, and seasonal cash flow constraints.

The project will not follow the usual approach of improving government agricultural services. It completes our transport strategy in the west by providing feeder roads to link the sorghum and vegetable producing areas of Rashad in the Nuba Mountains to the Kosti-El Obeid Road. The project also builds upon the analysis presented in the "Kordofan Region Agricultural Credit Study" which found that seasonal cash flow constraints and lack of access to storage facilities reduce a farmer's options for selling his crops. Storage facilities will thus be provided to allow farmers to hold grain until they can take advantage of the highest prices that occur during the year. Credit will be made available through a local currency grant to the Agricultural Bank of Sudan, an institution that services the private sector. To the extent possible, private entrepreneurs will manage and provide infrastructure facilities and services.

The Kordofan Rainfed Agriculture Grant provides a model for involving the private sector in our project activities. From an implementation standpoint, the project relies on private sector management in order to maximize efficiency, reduce the administrative burden on government institutions, and limit bureaucratic growth. When placed together, infrastructure investments for roads and storage will raise farmer income and allow farmers to continue to adopt technologies without the need for government subsidies. Demand for seeds and other inputs will expand existing markets for private merchants. Once market linkages begin to create interdependencies, an environment is established for self-sustaining growth.

The proposed project also gives our rainfed strategy a geographic focus in Southern Kordofan and Darfur, an area stretching 300 miles across western Sudan between 11 degrees and 13 degrees north latitude. By conservative estimates, this region contains 10 million acres of cultivable land. It is an area of untapped potential with good rainfall. After the work is completed in the Rashed area, we will look to En Nahud as a second locale for feeder-road and crop storage/credit operations. The El Obeid/En Nahud highway will provide access to this prime groundnut producing area. AID will support this link with local currency. Thereafter, agricultural project activity will follow the pattern of highway development.

The project is timed to correspond with the dissemination of new sorghum and groundnut seed. (The base stock of Kordofan in the case of groundnuts dates back to 1958.) Both the new sorghum and groundnut seeds have

been adapted to Sudan from improved varieties developed at international research centers. Multiplication is underway. In addition, through a Regional Development Fund supported by \$6 million from ESF, the cold storage, ice plants, sorghum mills, vegetable oil refining equipment and farm machinery mentioned in the section on policy reform will be funnelled into the area. These foreign exchange inputs will be tied to credit coming from the Agricultural Bank of Sudan. The feasibility and demand for these items is now being determined.

Discussions for cooperation on construction of storage facilities have already begun with the French in an effort to create a complete storage and transportation network throughout the west. The Germans have also shown interest in a national storage program and may help extend our efforts to other sites on the road and river transport network.

Surface Water and Desertification. The rainfed agricultural strategy involves two other factors — conserving surface water and combatting desertification. The problems are related. Because of the extensive areas to which they apply, our strategy is to approach these problems only on a selective basis. Investigations of ground water in Kordofan and Darfur have been disappointing. A survey of settlement patterns confirms the visual impression of people gathering at the foot of wadis where farmers obtain the maximum benefit from surface water run-off. Crude water impounding is practiced as part of subsistence agriculture. In addition, during years of good rain, farmers move onto the loose sandy soil outside the wadis to plant

meager crops of millet. Under the stimulus of artificially high prices set for sorghum in Saudi Arabia (and the commensurate opportunity for export), mechanized farming has simultaneously spread to large tracts in central Kordofan. In each case, trees are cut and natural vegetation is stripped away. Once a crop fails during a period of drought, or after the soil is exhausted, cultivation moves on and desertification follows. This type of agriculture will no doubt continue. But experience to date suggests that in the presence of drought nothing can be done to sustain it on a year-in-year-out basis. We will not try.

The current drought has cut deeply into mechanized and traditional cultivation. A substantial portion of the population from the northern and central areas of Kordofan and Darfur (perhaps 500,000) has moved south to better endowed locations. Despite some tensions among the resident and incoming tribes, small steps are being contemplated in Darfur to encourage people to remain in the southern portion of the region where the ecology is less fragile than in their traditional homelands. Sufficient unoccupied land to accommodate them is said to be available.

AID will initiate a survey to determine the potential for selective water impounding in central Darfur and Kordofan. Rains occur between May and August, and in the more extensive wadis, water flows over large areas, leaving sufficient moisture to sustain crops from September through December. In locales where clay soils hold this run off, a few entrepreneurs have used machinery to erect dikes that impound water on relatively large areas. This

technique has provided sufficient moisture for two and sometimes even a third crop produced under commercial conditions. Thus far, vegetables and fodder have been successfully raised. Near El Fasher, perhaps 1,000 square miles of clay soil is susceptible to this treatment. Successful farming using this technology would tend to reduce the competing cultivation on adjacent sandy soils that hastens desertification. Through local currency grants provided under a new approach to locally initiated development (see the section on decentralization), the Mission hopes to encourage this type of cultivation.

Within the next year, the Mission will also add to its staff a forester who has had experience in savannah ecosystems. Currently it is our hope to focus activity in the Acacia Belt that extends across Sudan between latitudes 12 and 15 degrees. From north of El Obeid, the area proceeds eastward south of the Gezira toward Gedaref. Attention will be devoted to strengthening gum arabic production which currently accounts for \$46 million in export earnings. In areas where the possibility of keeping population off loose sandy soils seems likely through local initiative, we will support reforestation with local currency. The Mission has recently initiated "village forestry" in Kordofan under the Rural Renewable Energy Project. Local currency will also be available for the projects of regional governments devoted to curtailing wind erosion in areas having intermittent large-scale mechanized farming.

Research. The Mission's agricultural research effort is a major undertaking and it pertains exclusively to rainfed problems. The Western

Sudan Agricultural Research Project, cofinanced with the World Bank and the Government of Sudan, is an important element of the rainfed strategy. While four research stations will be established under the joint project, our participation will continue to focus on Southern Kordofan and Darfur from the Kadugli station. We are emphasizing short term/problem solving type research that is concerned with (1) the adaptation of improved varieties and (2) production packages which sustain fertility and conserve soil moisture. This approach has been characterized as "down stream" research when compared to long-term endeavors devoted to plant genetics and other basic considerations. This activity as we see it might be likened to agricultural "swat teams." We will pursue selective interventions of specific crops rather than through a comprehensive approach to farm systems. This represents somewhat of a change in the Mission's research activities. Our research will henceforth be guided by production constraints and technical potentials, but it will also treat marketing difficiencies. That extension work which we support will still be an outgrowth of and related to our research. The farmers' fields will continue to be our laboratory.

DECENTRALIZATION AND REGIONAL RELATIONS

Current Situation. For sometime the Sudanese have been dissatisfied with the financial and legal relations which exist between the central government and the eight regions. Since independence in 1956, this relationship has been modified three times. The changes have not been consistent. Lines of authority are no longer clear. Only political bargaining and the personal links of the governors with the President determine the nature of decisions.

At the time of President Nimeiri's visit to the United States in November 1983, government officials asked for further assistance in their efforts to decentralize financial authority. Since then, the matter has been raised repeatedly at senior levels. We have already provided modest assistance in developing regional competence under our Regional Finance and Planning Project. The Mission has now agreed to work with the Ministry of Finance with a view to identifying new areas in which assistance on regionalization might be profitably provided.

Despite the attention that is being focused on decentralization, in the background is a lingering fascination in official circles with retaining all true authority at the center. A good example of the nature of devolution to date is in taxation. The regions will be permitted henceforth to collect taxes on personal income and business profits. In 1981/82 an estimated LS 128 million was derived from these sources. Only LS 25.7 million of this amount can be attributed to the five northern regions outside Khartoum. The relative

position of the South is no doubt even worse. Thus, very little real devolution of financial authority has occurred.

In their explanation of the troubling relationship between regions and the center, officials stress the refusal of regional legislatures to levy taxes. There is validity in this complaint. Regional governments see enhanced income mainly in larger grants and shared taxes from the central government. Currently about 75 percent of their income is derived from these sources. The remainder is from locally collected revenues. But officials in Khartoum ignore the fact that economic activity is concentrated around the capital. Moreover, what few taxing opportunities do exist are reserved largely for the Central Government. The regions for example, are not permitted to collect excise duties, consumption duties, corporation tax on new projects or sugar tax.

Total revenues from all sources (grant and tax) are inadequate to meet regional expenditure needs. The central government, however, faces its own revenue crunch and therefore can neither increase grants nor turn over more central government taxes to the regions. The central government has already indicated that grants will, in fact, be decreased in FY 1985. From their present resources the regions cannot achieve sufficiently significant increases in revenue to fund minimal services if central grants are decreased.

Revenues from some regional taxes could be increased, often by simply improving assessment and collection. While this type of increase in revenue would be desirable and would assist in providing funds for needed services,

the gain which could be made from improving a region's own revenue collection would still not be large enough to meet demands. Additionally, some regional taxes, as currently structured are detrimental to productivity, and reliance of them should not be increased because of the harmful effects.

Finding the Appropriate Approach. In 1979 AID was first asked to provide assistance to regional governments. Initially this activity was perceived as a rural development project. Under urging from AID/W this notion was converted to regional planning and financial management. But this idea has been too sophisticated for Sudan's institutional environment. The results have been of only moderate value. Activity has devolved to efforts at developing a planning capability through the training of middle level officials in Kordofan and the South-cum-Equatoria. Actually, we have achieved little more than to instruct a few Sudanese in planning as a paper process. On the financial side of planning, the Mission has attempted to provide the skills that will assure responsibility in the finances of the regions. This has amounted to the training of accountants. Thus, the project can result in little more than better scrutiny of the expenditure of public monies. Unfortunately this is not always synonymous with the facilitating of development.

Usually an activity of modest scope and achievement is allowed to run its course. Thereafter AID and the host government turn to other things. But this has not happened in the case of central/regional financial relationships. Senior officials have returned to us to ask for further assistance. The questions we must ask, of course, are: Can Western type administration be efficient and flourish in this organizational environment? Does AID have any business in a project devoted to legal arrangements as well as administrative improvement? To date, in our assessment of the Regional Finance and Planning Project, we have not confronted this broader issue. But the existence of the issue is implied by those associated with the project when they conclude that the best thing we can do under it is to emphasize training. This amounts to saying that we should give those civil servants who are engaged in regional planning the requisite skills and allow them to take it from there. The underlying suggestion is that we should not or cannot address the legal aspects of the administrative issue itself. There may be wisdom in this course. The lack of skilled employees in the planning units of the regions has been identified by project advisors as a major difficulty in instituting a suitable planning and budgeting operation. The presumption is that if we followed a rational course, we would convert Regional Finance and Planning into a training project.

The Impetus for Financial Devolution. The question that naturally arises is why decentralization and the devolution of authority is so important to development and why the Sudanese are intent on following this course, even as they show the proclivity for holding all real authority at the center?. First of all, conditions do not favor the continuation of a highly centralized

system. The regions are beginning to slip away. And in the absence of clear legal authority to support compliance, central government officials recognize that they are no longer in control of the situation. The South provides a good example of that. The declaration of Sharia' law and the almost total disregard of this move by the Southerners has only made the true state of affairs more apparent. In other areas as well, it now appears that governors are making accommodations on trade and cross-border relations that have little to do with the regulatory authority of Khartoum.

The dynamic that gives impetus to decentralization is Sudan's size. The country is just too big, too diverse, and its physical environment too severe to allow for effective management from Khartoum. A great deal of administration at the local level is a matter of "coping"—overcoming one crisis only to face the next. Highly centralized bureaucracies are notoriously poor at dealing with such conditions. Consequently, pressures arising from the nature of administration itself have pushed the country toward a devolution of authority, but always with the stops and starts of a central bureaucracy that is reluctant to relinquish its control over anything.

The United States is devoted to the continuation of a coherent and united Sudan. The country's future is tied to the exercise of initiative at the regional level in the presence of clear and recognized legal authority held by the central government. Perhaps no activity can be more important to Sudan's development over the next ten years than progress on arriving at some rationalization of the legal and financial relationships between regions and

the center. It is basic to the type of linkage that we see as being critical to extensive economic progress in this country.

Addressing the Center/Regional Relationship. From discussions with the Minister of Finance and the President's legal advisor, we have proposed that further assistance begin with two high level advisors who would work with ministers and presidency officials to explore the options for regional configurations that might be available to Sudan. One advisor will be an expert in legal relationships between levels of government. The other will advise the Sudanese on public finance as it pertains to intergovernmental units. Central/local taxes and grants in aid will be the focus of this activity. Detailed studies by teams of Sudanese and expatriate experts will be initiated as our advisors and their Sudanese associates agree that further investigation of one topic or another is essential.

Studies culminating in formal recommendations may not be the most important feature of this activity. Rather, it could be the continuing dialogue between the Sudanese and our experts. We have experienced considerable success in the use of truly prestigious economists whom Sudanese officials recognize from their writings. This applies particularly to officials who have studied in the United States. Often more can be accomplished from short visits by such individuals working with ministers than by a resident expert who works at the middle levels of the bureaucracy. It is only through high level channels that the ground can be prepared for policy change. This approach is particularly applicable to an area that can be as

sensitive as central/region relationships. Outsiders can only identify the options available to the Sudanese. They cannot determine that one practice or another is the precise course to follow. We believe the conditions are good for change. The need is compelling. Senior officials recognize the problem. Unlike many reforms, the initiative is not being taken at the urging of outsiders. It is coming from the Sudanese themselves.

Developing Regional Competence. Even after we confront the broader issue of intergovernmental relationships, Sudanese officials at the regional level will still be left with the task of developing administrative capabilities, particularly as they pertain to economic affairs. Because of our association with this task through the Regional Finance and Planning Project, they have looked to us for further assistance. This is the case particularly in outlying regions whose governors have a difficult time attracting skilled civil servants. The bureaucracies that have been developed in Kordofan and Darfur, for example, have very limited capabilities. Nevertheless, they are the principal consumers of the public monies that are available to these government units. Perhaps 85 percent of expenditures in Kordofan are for officials' salaries. The design of the Regional Finance and Planning Project did little to alleviate the condition. It led to a demand for more civil servants.

Senior Sudanese officials themselves have identified the problem we have had with this project. It was to be found in the observation of the Director of Regional and Local Development when he said that budgeting for the regions

is a political process characterized by bargaining rather than a financial process characterized by administration. Insofar as our approach has been to address the administrative problems of finance, it has missed the mark. Changing the Sudanese budgetary process from one of political bargaining to that of financial administration is a lengthy task that could not be achieved within the competencies of our current project. If a change is to occur, it must begin with the work of the high level experts who will address such issues with senior central government officials.

In the meantime, we can still do something worthwhile at the regional level and within the context of an operationally oriented project -- once we have adapted our activity to political bargaining. The Sudanese have suggested a device that lends itself to this new approach. The Ministry of Finance and Economic Planning has proposed that LS 40 million be allocated to the regions annually for three years from U.S. local currency generations. These monies would be for development. But to provide even this amount could surely invite the regions' using it for recurrent costs, principally the salaries of officials. That has been the experience with previous grants-in-aid from the center. Moreover, the few projects which the regions have initiated under the local currencies provided through the Regional Planning and Management Project have been slow in getting underway. Several have been poorly designed. There has been some question about how well they represent development priorities as seen at the area council level.

Working Through Area Councils. The Mission has responded to the government's initiative with a proposal that should avoid these difficulties. It takes advantage of four aspects of the current situation that should contribute to its success.

1. Area councils exist throughout much of Sudan. They are manageable units, often ethnically defined from colonial times. The level of their services and the qualifications of their staffs are variable. Nevertheless, they provide a mechanism for undertaking development activities at the local level.

2. In many areas the people already accept the idea of "self-reliant" temporary levies and use these to support local development activities. Thus the technique for financing local projects is present.

3. The Government of Sudan is already engaged in an administrative devolution that could eventually allow more financial discretion to the local governments. Thus, in supporting development at the local level, we would not be starting from scratch. A modest momentum exists for such initiatives.

4. The Government of Sudan has now suggested the LS 40 million from U.S. generated local currency for development in the regions. Thus, a means is available for an intervention into local government financing.

The purpose of our activity will be to devise a system for using local currencies to:

- encourage local decision-making and project formulation for development
- strengthen concepts of self-help
- complete projects that contribute to local infrastructure.

To achieve these purposes:

** Area councils would be allocated funds for projects in accordance with the level of self-help and the soundness of their proposals.

** Incentives would be built into the activity by varying the level of project support on some sliding scale depending on the productive nature of the scheme. The projects listed below are for illustrative purposes:

<u>Project</u>	<u>Outside Support</u> <u>(percent)</u>
Grain storage	90
Water for animals	80
Feeder roads (Irish bridges, culverts)	70
Transport cooperatives	60
Village water	50
Buildings for education/health/ administrative services	30

** All projects would be subject to self-assessment by the area council and to review with a regional planning representative. This process should occur in the area in which the project was being proposed and not at the regional capital. The regional representative would have some authority but no veto power. Decisions would be reached through bargaining and would focus on standard criteria which are of two types: general criteria for all projects and criteria specific to certain

kinds of activity. (This second group would take the form of simple standard engineering specifications for grain storage, roads, etc.) The general criteria can address the following questions:

- Is the project revenue producing?
- Does it have high recurrent cost?
- Is there a quick pay off?
- Are there high preinvestment costs? (engineering, purchases of land)
- What proportion of the populace will the project serve?

A point system could be used for pre-assessment of projects with some minimum score being required before a project is funded. The assessment would be completed jointly by the area council and the regional planning officer.

- ** In order to assure a widespread use of incentives, all areas would be given a minimum grant at the outset. Thereafter, the level of support from the regional government would depend on the level of self-help and the quality of an area's projects. Area councils would be assessed on their respective records of implementation and by a post-project evaluation. This evaluation would include questions about whether the councils spent their money and whether they achieved their objectives in project completion.

In this process basic capabilities would be developed at the area council level for making decisions, setting priorities, preparing plans, and implementing projects. All procedures and requirements would be kept exceedingly simple. The range of options among the types of projects that qualify for support would have the purpose of precluding the use of money for nondevelopmental activities. The varying level of support would discourage the less productive projects. The necessity for self-help would encourage

local revenue raising capacity. Final evaluation of a simple straightforward nature would allow for assessment in ways that correspond to administrative capabilities and potential at the local level. This approach would also have the advantage of getting regional planners out of the office and making regional planning more than a paper process. To the extent possible, evaluation criteria would be shaped to reflect upon physical achievement rather than simply to ensure accounting and record keeping.

This proposal is now being discussed with the Ministry of Finance and Economic Planning. Implementation plans are under consideration. One suggestion has been to initiate the activity only in two or three regions where governors are supportive of the idea. The results in these regions would then be compared with those of regions which went about development in other ways. This would allow for the equal distribution of funds during the first year — a step that is virtually a political necessity for the Government of Sudan. During this year, we would observe the various experiences under the regional allocation of local currency. We would then be in a position to make adjustments in the project. We would also have sufficient knowledge to institute new types of training and advisory assistance. Within this context, the training of regional officials would be useful. Development priorities would have been explored and direction provided for new activities. Improved administrative and financial skills would have meaning.

Our approach to the improvement of administration in the regions will rest on the allocation of authority among the various levels of government. It

will emphasize interdependence as well as efficiency. It will complement our efforts to develop agriculture in Kordofan and Darfur with projects and regional allocations from the CIP. By enhancing regional competence in an operational setting that involves more than just a tug of war over "who gets what," a major step will have been taken to develop the linkages and mutually reinforcing relationships that may hold the key to Sudan's economic future.

THE SOUTH

Reconciliation and Development. Southern Sudan is among the least developed places in Africa. It is remote, whether approached from the Congo, the East Africa plains or along the Nile. Its boundaries have no geographic definition. It is loosely construed as the Upper Nile Basin. First Ottoman and then British rule subjected it to an authority that is dissimilar from it in ethnic, cultural and linguistic origins. The great swamps of the Sudd have served to block access to the very authority in Khartoum that colonial politics provided. Seventeen years of civil war was the result. Little development could occur in such turmoil. The war destroyed what basic institutions there were. Even after the much acclaimed settlement of 1972, fourteen years of what Southerners see as pure neglect followed. From the point of view of infrastructure and production, the south is worse off now than in 1955.

Tribal differences have prevented the South from speaking with coherence about its future. Uneasy with a unified regional government, many Southern leaders were nevertheless infuriated by Nimeiri's dividing the area into three regions. Mutual suspicion among the varied peoples of the South is so strong that the political realignment into three regions brought a wholesale repatriation of officials and civil servants back to their tribal homelands. Prolonged administrative confusion has followed.

The discovery of oil in the northern reaches of Upper Nile and Bahr Gazal sharpened the Southerners' sense of neglect. Financial arrangements associated with the Chevron concession were set by Khartoum under terms which made it appear to the South that any benefit would be reaped by the center. For Southerners there would be little more than a pipeline which also pointed north, taking the natural wealth found under their land out of reach. In this atmosphere the implication that the central government intended to impose Islamic law on the nonIslamic South finally provided the occasion for complete alienation. In Upper Nile and Bahr Gazal, civil order has deteriorated as armed bands challenge the central government's authority.

The purpose of Southern leaders is not succession. Even the most outspoken rebels affirm their desire to remain in a unified country. Geography and the primitive state of the South's economy dictate this position. What the Southerners want is more equitable treatment—a bigger slice of the economic pie. The ability of the central government to respond militarily is limited. A reconciliation, therefore, will probably be attempted, and when it is, there will be hard bargaining over economic resources. To assure Sudan's integrity against forces which both the United States and the Government of Sudan see as antagonistic, AID would appear to have an expanded role in improving condition in the South following reconciliation. Our assistance would help assure that whatever political accommodation is reached between the Southerners and Khartoum has sufficient economic content to allow it to stick.

Over the years Sudan's donors have assumed sizeable commitments in the South. Currently AID has \$59 million committed to the South in four active Development Assistance projects. They constitute a well balanced portfolio, giving attention to human needs (health), infrastructure (roads and river transport) and production (agriculture). They have been designed to provide basic services and facilities -- rural health clinics, road maintenance, and improvement of basic agricultural infrastructure.

Any expanded program for the South will have to await a political settlement. Security conditions and administrative disarray preclude an earlier expansion of our activities. New initiatives in the South would mean additional resources and personnel. They would require, therefore, a major policy decision by State - AID/W. The following proposal is illustrative--notions to get the thinking started with regard to what we might be able to do. It is submitted in response to State 075329.

Conditions in the South do not lend themselves to a sophisticated macroeconomic strategy. In the first instance, policies won't matter as much as physical rehabilitation. Before there can be any thought of systematic development, we must do what we can to get things moving again. Through physical rehabilitation of production facilities, infrastructure and human resources we will attempt to get the economy back to its 1955 level. We must devote our attention to activities that are highly visible -- that have an immediate impact. Thus, we will seek out targets of opportunity. An early step will be an assessment of existing infrastructure and production

facilities that are not now being operated. That which can profitably be put into service will be repaired. It will take short term expatriate technicians to do the job. Examples of facilities to be assessed are the partially installed power plant at Juba and the abandoned canning factory at Wau. This type of activity is already on Southerners' minds. The Minister of Agriculture for Bahr Ghazal has recently asked for assistance in raising tomatoes to be processed in the Wau plant.

Another essential ingredient in any successful approach to Southern development will be to build on projects that are already underway. Recognizing that human needs must be addressed, we will determine if there are additional things to be done in health. Agricultural assistance will be directed to the small farmer through road repairs, rehabilitation of small irrigation facilities, anti-rinderpest campaigns, marketing assistance and the like. In conducting this work, we will explore the possibilities for using those private voluntary organizations that are in place and already engaged in such activities.

Human needs should also be interpreted as human resources, and a special survey of skills available in the South would be useful to assure full utilization and mobilization of whatever talent does exist in the area. In the first instance, those with special skills will be used in our projects. But the survey will be a discrete activity. Its results might themselves suggest something in the way of development. One of these is an enhanced training initiative which would be an important element in any long range

strategy. As part of this survey and the facility inventory, we must run down ideas, suggestions and stories about potential for economic activity. One of these is the report that many of those previously employed in Uganda's tobacco industry are now refugees in Southern Sudan. If this is true, do they constitute a coherent resource that could be put to work? We would have to find out.

Already, as part of our regional orientation, we are exploring the possibility of devoting a segment from the CIP to Southern Sudan. A need has been identified among the small holders who have 35-50 feddans in coffee, tea or tobacco. Dry season irrigation would be of value to these operations. CIP financed inputs can include small pumps and pipe. The possibilities for the same types of commodities we contemplate in our Darfur/Kordofan dry farming strategy would also apply to the South. These would include small sorghum mills, vegetable oil refineries, cold storage and improved farm implements. In such a special program, we might have to find a way to permit purchasers of CIP products to buy through a local currency credit facility. In conjunction with our existing Southern Regional Agricultural Development Project, we might also want to consider larger elements of local currency, as well as additional commodities. It might also be advisable to add new elements to the Southern Road Maintenance and Rehabilitation Project, particularly for feeder roads.

A major new feature of AID strategy for Africa is the Economic Policy Initiative which, with Congressional approval, will be funded with \$500 million over a five year period. Guidance to date from AID/W suggests that

Sudan may not be considered among the recipients. The rationale for this decision is that the Sudanese economy and AID program are too big for an element from the EPI to buy high-leverage reform. To do so could take the entire \$500 million. But the perception changes if we think of the EPI in terms of Southern Sudan only. Before including the South among the five to ten recipients of EPI funds, we would require peace, reconciliation, and a renewed dedication on the part of the Khartoum Government to the development of the South. Many of the objectives we have noted in our regional/decentralization strategy could become covenants for special EPI assistance. A reform package of this nature would be fundamental.

Essentially, the package would amount to some system for regularizing financial relations between the center and the regions. Particularly in the South, an EPI induced reform could address major problems this paper has identified -- overcentralization, too much emphasis on control at the expense of cooperation among economic entities, and the absence of the linkages that allow for private sector economic activity. Coherent center/regional relations would provide the framework for the first systematic approach to development of the South.

In the case of Southern Sudan, local currency allocations might also be justified for recurrent costs in health and education. But this would be tricky business. We could not enter such a venture without a plan for weaning regional governments away from this support in two or three years. Realistically, local currency is a Sudanese resource. By making special

allocations to the South, we would not be adding anything, only directing development support to one activity when it might have been used for another.

Many of the things suggested here would require interpretations of AID practices. They could not be undertaken unless State-AID/W concluded that the conditions confronting the Southern Sudan justified unusual measures. As a special undertaking, it might require a special task force and a special source of funding. We could not hope to do the job simply by diverting resources from our on-going program and strategy. A specially assigned project officer and a program officer-cum-economist would be needed to supplement the resident staff in Juba. Currently it consists of two officers with general development capabilities. One has an agricultural background. In addition, there is a general services position and a personal services contract engineer. The latter is currently on a temporary assignment. With regard to the funding for this venture, a proposal will be submitted as an amendment for the 1985 Annual Budget Submission.

In terms of mobilization for the rehabilitation of the South, the job is bigger than that which AID would or should undertake. Other donors are currently working in the South. The task lends itself to donor coordination. We will initiate this effort at the next Joint Monitoring Committee meeting. If the prospects for a political reconciliation seem promising by next December, the South should be a special topic for consideration at the Consultative Group Meeting.

An aspect of reconciliation that will have special significance is oil. No doubt the Southerners will want specific assurances on the regional distribution of the returns from this resource. But it is likely that they will also want something tangible. Prior to the idea for a pipeline from Bentu to Port Sudan, there was some talk of a topping plant that would produce gasoline and diesel at the site of the oil field. The notion proved to be symbolic--evidence of progress for the South in overcoming one of its many problems, a perpetual fuel shortage. The necessity from an ancilliary smaller pipeline to bring in a distillant that was needed to cut the waxy crude, thereby allowing it to flow the 600 miles to Port Sudan in the main pipe, vitiated the need for a topping plant. This secondary pipeline could also bring product -- gasoline and diesel -- to Bentu without the expenditure for the topping plant. But the Southerners will still want assurances. And this will be a sensitive topic. Their claims and fears cannot be brushed aside with the assertion that the pipeline produces the same results as a topping plant and for less -- an arguement that will appear to many to hinge on abstract economic points. This is not to suggest that AID fund a topping plant. But an awareness of the issues that are likely to arise is necessary if we are to work our way toward more stable conditions in the South.

A program of this sort should put us in a position to formulate a special development strategy for the South. The first requirement, however, is for quick evidence of improvement. This proposal rests on that premise. From a more long range standpoint, we already have the elements that suggest a development strategy for the South. The presence of coffee, tea and tobacco,

as well as the existence of the Southern Access Road could mean exports -- through Kenya. The River Transport Project and the resumption of work on the Jonglei Canal would stimulate trade with the North. These two links, combined with the resources represented by oil, make economic development feasible.

But with the best of luck, progress will be slow. In addition to the physical obstacles to be overcome, there will be the necessity to move along in the virtual absence of technical and administrative capability in the regional governments of the South. And even after reconciliation with the North, the South will remain divided. Equatorians have vowed, for example, never to succumb to the domination of the Dinka of Upper Nile. In any strategy we devise, it will be necessary to include a response to such political attitudes. It will be necessary to have an aspect of strategy devoted to administrative improvement of public service. But it could be a mistake to hang too much on public service. The South constitutes an unusual problem. It will require special techniques if physical and economic conditions are to be improved. A program of ordinary configurations could easily get bogged down -- to the disillusionment of both the developer and the developing. As in the case of other aspects of our strategy, our work on the South during the coming year will be devoted to an exploration of what we might do.

DONOR COORDINATION.

The complementarity and linkage of donor coordination are only beginning to emerge in Sudan. Yet, coordination is necessary if we are to avoid duplication of effort and increase the effectiveness and impact of Sudan's large multi-donor external assistance program. To address this issue the Government established a Joint Monitoring Committee (JMC) in early 1983 at the urging of the Consultative Group for the Sudan. The JMC provides a mechanism for Government and donor representatives to meet quarterly to review the Three Year Public Investment Program, to provide information on their respective aid programs (including actual disbursements), and to prepare for the annual meeting of the Consultative Group. The Sudan's JMC has attracted world-wide attention and has been cited as an appropriate mechanism by which donors and the aid receiving country can review assistance programs and economic progress in light of a unified development effort.

The JMC is still in an early stage of development. To function in an effective manner, the committee needs far better data about Sudan's economy — information on key economic sectors, development constraints, domestic revenues, projected foreign exchange earnings, the external debt situation, and the overall performance of the economy. In turn, the donors should provide detailed data and information about their projects and program aid in terms of purpose, scope, technical assistance levels, financial contributions, and actual timing of disbursements. Donors should keep one another informed

about proposed new project/ program initiatives and planned changes in assistance levels. From such coordination, facilitated through the JMC, new efficiencies can be introduced into the overall donor assisted development effort.

To assist the JMC achieve this capacity, USAID has proposed to the Government the establishment of a National Data File. Under this plan, both the donors and the government would contribute data. To start, donors would provide detailed information about their projects and assistance levels (technical and financial), including timing of actual disbursements. The government, through the Bank of Sudan and the Ministry of Finance and Economic Planning, would provide data on the national accounts, balance of payments and external debt. Both donor and government data would be updated on a continuous basis.

The National Data File would be maintained by the Ministry of Finance and Economic Planning (MFEP). USAID proposes to provide the necessary financial and technical assistance to establish a microcomputer facility to serve as the depository of the JMC's information. Data would be supplied to all members of the JMC quarterly in advance of JMC meetings. Considering the nature of the activity, it would be inappropriate for the Mission to consider its support for the National Data File a project, but we will give it the attention that a project deserves.

The Mission is prepared to share its program content, levels of assistance and future plans with the JMC. We believe most if not all donors will follow suit. However, if the donors are to coordinate their assistance programs and view Sudan's development effort in common light, it is absolutely essential for government and the IMF to agree to provide in a timely fashion economic statistics, provisions of Standby Arrangements, and data on government performance.

In order to give an institutional quality to the Joint Monitoring Committee, the IBRD has assigned a person to work full time for one and possibly two years on donor coordination. The scope of work for this position is still to be developed. The assignment, however, indicates the seriousness with which donor coordination is being approached. USAID supports this effort whole-heartedly.

We envision that the periodic reports from the JMC, and the dialogue they facilitate, will help identify the need for economic analysis on specific economic issues and policies. Such analysis could be "second generation" output from the JMC, after the donor's have a better understanding of the economic circumstances (needs, constraints and performance) facing Sudan. USAID is prepared to assist the JMC conduct priority economic studies under existing or planned USAID planning and policy oriented projects (e.g., Policy Analysis and Implementation, Agricultural Planning and Statistics, Energy Planning and Management and Macro-Economic Policy and Planning).

While a good start has been made on donor coordination, already a problem has arisen. A few government officials have expressed extreme sensitivity over informal meetings of donor representatives. The fear apparently is that the donors might be "ganging up". We have also noted the position taken by the Sudanese representative at the Consultative Group when he suggested that it would be a mistake to rely too heavily too soon on this new device. Yet, working sessions of donor representatives are essential if there is to be true coordination and if the semi-annual report from the Ministry of Finance and Economic Planning to the Joint Monitoring Committee is to be discussed in any meaningful fashion at the formal meetings. Sudanese sensitivities, in fact, demonstrate why this informal contact is necessary.

In addition to formal coordination, there is the matter of cooperation -- the idea of donors working together jointly on the same activities. And in Sudan there is a surprising amount of cooperation taking place. Cofinancing among selected donors can have important benefits for both the economy and our project portfolios. In terms of projects, a joint effort with another donor enhances the possibilities for increased levels of investment, larger numbers of beneficiaries, and greater sectoral and geographic impact. Examples of USAID participation in this type of coordination include the planned Kosti/El Obeid Road with Norway and the African Development Bank, and both the El Obeid/Dubeibat Road and the silt clearing operation at Roseires Dam with the Netherlands. Our largest planned initiative involving co-financing, the Petroleum Import Facility, is expected to include participation by Sudan, Saudi Arabia, Germany, France, the Netherlands, the United States and possibly

Italy. Other projects implemented with donor co-financing include the Western Sudan Agricultural Research Project with the IBRD, the Southern Access Road with the EEC, and the Southern Road Maintenance and Rehabilitation Project (SORMAR) with German Aid. In fact, under SORMAR, USAID has taken the leadership role to coordinate donor supported road maintenance activities in the South. Our support for rehabilitation of the Blue Nile Grid and Khartoum electric distribution system is being undertaken in cooperation with the IBRD-led power consortium. USAID will continue to seek projects that can be effectively co-financed with other donors. This approach means greater precision in targetting assistance.

Beyond cooperation on joint projects, the Mission has now begun to program local currency into those activities of other donors in which we are otherwise not taking part. As the technique is developed, it provides USAID with an entree to all major donors. It is anticipated that within the next two years, USAID will have made informal arrangements with most major free-world donors. Under these we will provide at least part of the local currency required to execute their projects. Such an approach gives other donors the assurance that Sudanese Government promises of local currencies will be met -- a useful developmental purpose for programming USAID-generated local currency. It will afford as well an opportunity to involve other donors in tracking and reporting on utilization of USAID generated local currency. Our requirement under this type of cooperation is that (1) the Ministry of Finance and Economic Planning approve, (2) the recipient donor devote the foreign exchange savings to additional activity in Sudan and (3) the donor submits to USAID the

regular progress reports required of local currency supported activities. We currently have such an arrangement with EEC and have agreed to support a British agricultural project in the South. Preliminary discussions for similar arrangements are underway with UNDP. We have also reviewed the possibilities for local currency financing of a vocational school to be built and staffed by Korea.

HUMAN NEEDS

Health. Efforts in health continue to be focused in the southern and western regions. In the past two years, health care facilities in these areas and the country as a whole have declined, owing to the government's severe budget constraints. With less financing, drug shortages have occurred and medical facilities and equipment have deteriorated. We estimate, that over the past three years, the number of physicians in the country has been halved as they seek better opportunities in the Gulf States.

In the face of these conditions, the Mission has shifted emphasis in health strategy from expansion to consolidation. Rather than training new rural health personnel, though they are still sorely needed, we are upgrading the skills of current personnel through retaining and the strengthening of management, supervision, planning and budgeting capabilities. In line with this approach, we have decided to building only one of the five new training centers planned under the Rural Health Support Project. Rather, two existing functioning facilities will be renovated. More emphasis is being placed on generating local revenue to replace that which formerly came from the central government and developing cost-sharing mechanisms for financing health care. At the policy level, we are assisting the central government develop information upon how priorities can be set and resources more effectively allocated.

- village midwives trained to deliver basic MCH/FP health interventions including oral rehydration therapy, family planning and education in immunization and nutrition in 90 villages along the Nile in Khartoum Province;
- in preparation for the 1983 Census of Sudan, 16 Government of Sudan Department of Statistic employees trained at the U.S. Bureau of Census in cartography and data collection, analysis and use;
- research conducted on the implications of emigration to the Gulf for the GOS public sector productivity, the influence of infant mortality on reproductive behavior, male attitudes toward family planning and the relationship of consumer durables and household amenities to family size.

Our strategy over the immediate planning period will be primarily one of continuing support for current initiatives in the delivery of family planning services. Most of these are in the early stages of development. We will concentrate on making low-cost family planning services acceptable, available and accessible to our areas of focus: Western and Southern Sudan and Khartoum. Wherever possible, we will consolidate the fifteen activities funded from AID/W and attempt to develop a closer relationship between these and our mission-funded efforts. In this regard, we will provide local currency to establish the National Population Committee as the coordinating body for population policy and demographic research in the Sudan. In another new initiative, the role of the private sector will be emphasized through a proposed contraceptive commercial retail sales project to achieve cost-effective contraceptive distribution, particularly in Khartoum.

Refugees. Sudan is compelled to support a burgeoning refugee population whose numbers have swelled to an estimated 650,000. This includes 450,000 from Ethiopia and 150,000 from Uganda. The primary reasons these people have sought asylum in the Sudan are political, flight from the military and drought. There is little prospect for an early repatriation of the majority of these refugees. Meanwhile, Sudan has accepted its role as a country of asylum, despite the heavy economic burden associated with it. The government is committed to a policy of economic self-sufficiency for refugee settlements and integration of refugee assistance into overall development. Although refugees are not granted citizenship, public land is made available to them and there is no prohibition against their obtaining business licenses or employment. The cost of supporting this refugee population far outweighs the increases which these people bring to productivity.

Government responsibility for refugee affairs rests at the national level with the Office of the Commissioner for Refugees in the Ministry of Internal Affairs. The Commissioner is charged with implementing refugee assistance and related development projects and with coordinating activities with other government agencies and external donors.

U.S. assistance to refugees is provided in three general forms: project assistance to refugee impacted areas, multilateral assistance through UNHCR and the World Food Programme (WFP), and support of specific PVO activities. We anticipate continued assistance along these same lines over the next several years. The largest portion is provided by project grants such as the

Port Sudan Water Supply, Eastern Reforestation and Gedaref Water Supply System projects. These initiatives are targetted on communities where both refugees and Sudanese will benefit from safe and reliable water supplies, availability of fuel wood and less depletion of soils. The UNHCR, the chief counterpart agency to the Government of Sudan's Commission of Refugees, administers refugee operations in the Sudan. The WFP supplies emergency food aid to new arrivals for the first few months while they get settled and seek employment. In addition, specific PVO assistance is directed to health and education activities. Rather than emergency aid with few development benefits, our strategy is to direct assistance toward investment in human capital resources that will foster national development.

PROGRAM FUNDING

In order to implement this proposed country development strategy, long range funding levels as presented in the FY 1985 Annual Budget Submission will be required. These include annual ESF levels of \$120 million through FY 1987, after which some reduction to \$100 million for FYs 1988 and 1989 may be feasible. Annual PL 480 levels are straight-lined at \$50 million per annum through FY 1989. Our DA Account in the FY 1985 ABS shows a steady annual increase from \$27 million in FY 1984 to \$41 million in FY 1989. The increase in our DA levels and reduction in our ESF funds in later years reflect the gradual shift of our program from one of economic stabilization to longer term growth and development.

Our DA levels, however, have of late been subject to reductions. The FY 1984 OYB DA Account has been reduced to approximately \$22.7 million. For FY 1985 our ABS AAPL level is to be \$30 million. Any decrease would seriously hamper our ability to carry out our emerging country development strategy. It would be particularly counterproductive to any new initiative in the South. In addition, the proposed Macro-Economic Policy Project which we hope to initiate in FY 1984 would have to be delayed until FY 1986. This would adversely affect our program of policy dialogue and reform with the Government of Sudan. A second example is our Kordofan Rainfed Agriculture Grant (KORAG), which complements major GOS policy reforms and a series of other AID investments in Western Sudan. It stands near the center of our efforts to encourage linkages by supporting viable activities in the regions. Initiation

of KORAG would have to be delayed at least one year (until FY 1986) if our DA levels are significantly reduced. Our country strategy combines economic stabilization with policy reform and necessary investments in the rainfed areas of the West and South. The minimum levels of DA as proposed in the FY 1985 ABS must be maintained if we are to realize the objectives of our development assistance in the Sudan.