PD-AAX-700
ISN 55821

SUDAN - FY 1988 ESF PAIP

FOR A COMMODITY IMPORT PROGRAM

USAID/SUDAN
May 16, 1988

FY 1988 ESF PAIP

Contents

EXECUTIVE SUMMARY

A.I.D. is proposing a multi-year (three year) performance-based ESF Commodity Import Program (CIP), provisionally projected at $44.4 million including $14.35 million in FY 1988. A major aim of the program is to support structural adjustment of the Sudanese economy. Program levels for the CIP program and other A.I.D. activities will be altered in response to Government of Sudan (GOS) reform progress; for instance, a comprehensive structural adjustment program would argue for increases in the CIP planning level above $44.4 million.

Reform of the economy has been initiated. The Government of Sudan (GOS) is seeking to substantially reduce the panoply of controls that (a) stifles private initiative, driving economic activity underground, and (b) produces significant economic deterioration. A major reform goal also will be demand containment; fiscal excess has produced inflation, resulting in an overvalued exchange rate and export suppression.

With assistance from the IMF and World Bank, a number of reforms were implemented under the first Annual Program of Action for 1987/88, including (a) a 44 percent depreciation of the official exchange rate, (b) the establishment of remunerative domestic procurement/minimum prices in the agricultural sector, (c) the introduction of a "own resources" scheme which has increased the availability of growth-enhancing imported inputs through attracting additional overseas remittances, and (d) the initiation of parastatal reform. The containment of aggregate demand, manifested by large GOS budget deficits, so far has been the weakest element of the program.

A World Bank adjustment program Economic Recovery Credit (ERC), already approved at the Bank Operations Committee level, is expected to encourage the Sudan reform effort. The major reform elements of the ERC have been worked out with GOS technicians, and the credit has the support of the Prime Minister. It has, however, yet to receive final Bank approval and will have to be steered through the new cabinet and the Constituent Assembly. Final World Bank approval will be predicated on GOS compliance with the targets set under the IMF shadow program. Under the ERC, the GOS would be committed, inter alia, to (a) real adjustment in the exchange rate, (b) expansion of the "own resources" scheme, (c) considerable loosening of export controls, (d) easing of price and profit controls, (e) rationalization of investment regulations, (f) acceleration of parastatal reform, (g) removal of structural impediments in the tax system, and (h) liberalization of domestic and export marketing of agricultural crops.

We endorse the elements of reform in the World Bank's ERC, and A.I.D. will seek to coordinate the FY 1988 ESF program closely with the ERC. Indeed, given the magnitude and seriousness of Sudan's economic and policy problems, A.I.D. has concluded that it is of the utmost importance for the donor community to be united in its stance to the GOS for a comprehensive economic recovery and development program. However, decisions about the nature and closeness of coordination must be await the World Bank's formulation of implementation arrangements that are acceptable to us.

We will associate the FY 1988 ESF CIP with the conditionality for the World Bank's ERC. The Bank's ERC, together with our FY 1988 CIP and other donor support, can help establish a sound macroeconomic framework. Once the GOS has commenced the implementation of reforms under the ERC, A.I.D. will return to a more sectoral emphasis in the out years of the three-year ESF. In the out years A.I.D. will emphasize scarce policy dialogue resources on reform of the agricultural sector. A.I.D. has a comparative advantage in working in the sector. Selected issues that may be addressed consist of (a) gum arabic pricing and marketing; (b) the marketing and export of oilseeds, especially sesame and groundnuts; and (c) diesel pricing and allocation policies. GOS movement on these issues would have significant positive economic impact.

Reform in Sudan will not be easy. There is a deep-seated mistrust of market mechanisms, and public resources are poorly managed. Vested economic and political interest groups are well entrenched. It will be difficult to convince the populace that the encouragement of the free play of market forces and private initiative can redound to its benefit. The war in the South, a major drain on the public coffers, represents a fundamental impediment to the successful implementation of a stabilization program. The political turmoil in the country associated with the formation of a new government does not augur well, and Sharia Law adds to the complexities. Moreover, a strong possibility exists that any reform program could be under-funded. Sudan will have to have access to significant amounts of external financing. In light of the country's massive debt servicing requirements, debt servicing could take precedence over economic growth. The failure to make headway in the promotion of growth could erode the commitment to reform.

The CIP program will seek to promote growth. Modest amounts of balance of payments assistance will be provided to the private sector for growth-enhancing productive sector inputs. With foreign exchange in hand, the country's private sector -- very large and diverse by Sub-Saharan standards -- could contribute to economic turnaround. A small portion of CIP foreign exchange may be allocated to the GOS for requisite economic and social infrastructure.

CIP local currency generations will complement and reinforce the ongoing economic policy dialogue. We are giving consideration to the utilization of local currency for the rationalization of the parastatal Sudan Railway Corporation (SRC). A staff reduction of over 9,000 from current levels of 30,000 will be implemented, and local currency is needed to help defray the costs of retiring staff before retirement age.

In light of Sudan's location and immense size, the country is a key to stability in the Horn of Africa and all of East Africa. Stability in the region is imperiled by a stagnant, depressed Sudanese economy, a development that the CIP program seeks to help arrest. Economic revitalization will be encouraged through the promotion of fundamental economic restructuring and the provision of essential inputs to the private sector.

The allocation of foreign exchange under the CIP, however, poses major difficulties. Given the large disparity between the official and parallel rates, CIP foreign exchange will be subsidized heavily. In the past, the GOS Commodity Aid Committee -- the entity charged with allocation of the foreign exchange of the various donor CIP programs -- used considerable discretion; no objective criteria were utilized in the allocation of foreign exchange. A goal of this CIP will be to reduce the discretion, providing some "automaticity." Clearly, reducing discretion represents a second best solution. A preferable solution on economic efficiency grounds would be an auction of CIP commodities, an option we eliminated because of (a) the heavy administrative costs that would be incurred in holding an auction and (b) the inability to specify precisely those commodities to be brought in owing to a lack of information. Another option is the application of an import surcharge, a move that the IMF could object to on the basis that it would constitute a multiple currency practice. Best still would be significant real adjustment of the exchange rate.

ECONOMIC CONTEXT

Overview

The Sudanese economy has been plagued for many years by mismanagement. A manifestation of the economic mismanagement is a deep-seated mistrust of market mechanisms and poor management of public resources. The seeds of these problems were sown during the 1970s, when an attempt was made to boost the economy by (a) a wave of nationalizations and (b) substantial public investments financed by foreign capital inflows. The public sector, with its limited implementation capacity, was unable to effectively manage these investments and began requiring substantial financial support. The situation was aggravated by the highly distorted structure of incentives emanating from the extensive and cumbersome control system over prices, exports, imports and investment. The economy also was affected negatively by an overvalued exchange rate and an inappropriate structure of trade taxes. These factors combined to stifle private investment in efficient productive activities.

As a consequence, the economic base has become fragile and narrow. A largely ineffective parastatal sector of some 140 enterprises and the public sector now accounts for upwards of 50 per cent of GDP and handles 75 percent of exports. The economy has become heavily service oriented (about 50 percent of GDP). The manufacturing sector accounts for only 8 percent of GDP, despite large investments during the 1970s. Over the past decade, agriculture has grown at barely one-half of a percent. Nevertheless, agriculture, accounting for around 33 percent of GDP, remains the largest productive sector. Merchandise exports, consisting primarily of agricultural products, along with official remittances from workers abroad, have been particularly discouraged by the distorted incentives. The policies have had the indirect effect of encouraging transactions to take place in the parallel market, which is now estimated by some to account for roughly 70 percent of all economic activity.

Economic performance also has been affected negatively by the declaration of the Sharia Laws in September 1983, which introduced uncertainties for the business community. Many businessmen proposed to "wait and see," which translated into reduced capital investment, inventory build-up and reduced production levels. Capital flight and out migration of skilled labor stepped up noticeably. Aiming to consolidate the Islamic revolution, President Nimeiri's announcement of a State of Emergency in April 1984 (a) eliminated many constitutional guarantees, (b) granted the military forces full police power, and (c) established Decisive Justice Courts to carry out Sharia Law and Ministerial decrees. Although the emergency was formally ended in September 1984, the structures put in place persisted and use of police power to control the economy continued to hamper market activity.

The Sharia Laws have had an especially adverse impact on the banking sector and tax performance. Uncertainty in administering the laws has had a significant negative impact on financial intermediation, and the elimination of income taxes affected tax revenues negatively.

Further complicating problems is the bitter civil strife in the South, which costs the Government of Sudan (GOS) at least an estimated $450,000 daily and has devastated the lives of tens of thousands of people. Virtually all development projects in the South have stopped, including the construction of a pipeline to proven oil reserves and the digging of the Jonglei Canal, which would increase water for irrigation, improve navigation of the Nile and stimulate economic growth. Sudan has had to sustain large numbers of displaced Sudanese families fleeing the conflict in the South and refugees from Ethiopia and Chad.

In addition, Sudan continues to suffer from the effects of recurrent drought. In 1984 and 1985, resources had to be diverted from development projects for one of the largest drought relief efforts ever implemented. Over 1.1 million metric tons of USG PL 480 foods, representing about 85 percent of total donor food assistance in 1985, was delivered to Port Sudan for distribution in both the eastern and western regions of the country. However, distributions of such large quantities of food to remote areas of Sudan, difficult under the best of circumstances, proved to be an almost impossible task in 1985. Torrential rains swept away the rail line and inundated the roads creating huge lakes which virtually cut off entire populations from the life-saving food deliveries by truck. The U.S. and EEC responded by launching in tandem airlifts to move food to the Darfur area in the West. Moreover, it is evident that, due to inadequate rainfall in 1987 and exports of sorghum stocks from eastern Sudan, food is in short supply again in parts of western Sudan in 1988. This situation has required the transfer within Sudan of food from surplus areas to deficit areas with external funding. Regional infestations of several varieties of locusts and rodents also have reduced the food supply.

As a consequence of these developments, the problems of the economy have reached alarming proportions. Poverty and malnutrition are widespread, and traditional food security structures and the health care delivery system have deteriorated significantly. The real value of both exports and imports has sharply decreased. Consumer goods are in extremely short supply. Investment as a proportion of GDP has decreased significantly and infrastructure is in a serious state of disrepair.

Economic Growth

Sudan's growth performance in recent years can best be described as anemic. GDP has fallen by 5 percent in real terms since 1977. Given rapid population growth of 3.1 percent per annum, average per capita income has fallen 27 percent, a decline of roughly 3 percent per year between 1977 and 1986. The weight of GOS regulations has affected growth negatively. In addition, the foreign exchange required to secure productive sector inputs simply has not been available, and severe shortages of essential production inputs are commonplace.

Government Budget Deficits

In recent years, budget deficits have been exceedingly large, ranging as high as 16.3 percent of GDP, depending on the definition used. Fueled by the war and the need to cover parastatal losses, expenditures have been increasing rapidly, rising on average 33.8 percent since 1982/83. A major problem is the paucity of the tax revenues with which to fund the expenditures. The plethora of controls, which has driven a sizeable portion of the taxable base underground, and the Sharia Laws have affected the tax base negatively. Standing at 12.5 percent of GDP in 1982/83, tax revenues as a share of GDP had declined to 6.8 percent by 1986/87, a very poor tax effort by any standards. The extremely precarious fiscal situation has meant that the GOS has been able to devote little spending to capital expenditures that would increase the productive capacity of the economy. By 1985/86, GOS investment expenditures stood at but 1.8 percent of GDP. Whatever portion of the deficit that was not financed by external cash, commodity and project assistance has been covered by borrowing from the banking system. The borrowing from the banking system took the form of central bank printing of money -- a primary causal factor for the country's rapid inflation. Inflation has been running between 25 and 50 percent per annum.

	1982/83	83/84	84/85	85/86	86/87
	ANNUAL PERCENTAGE CHANGE				
Money Supply Growth	37.1	20.9	46.6	32.1	33.8
Inflation (Officially)	32.0	28.0	46.1	32.1	27.4

Balance of Payments and External Debt

Current account deficits, excluding official transfers, in Sudan have been large. Over the period 1982/83-1986/87 they have averaged almost 10 percent of GDP. In addition to official transfers and capital flows, Sudan's most important sources of foreign exchange are cotton, livestock, and remittances by Sudanese working overseas. In spite of increases in livestock earnings arising from drought-induced sales, overall export receipts have been stagnating. At prevailing global market prices, domestic production costs, and exchange rates, cotton exports have not been profitable. Remittances have been discouraged by the GOS foreign exchange controls and the overvalued exchange rate. Declines in foreign earnings have only been partially compensated by higher assistance receipts, producing import compression and growth stagnation.

While current account deficits have been large, the major difficulties within the balance of payments is the large debt overhang. Sudan's outstanding medium and long-term public and publicly guaranteed external debt exceeds $10 billion, amounting to almost 300 percent of GDP valued at the parallel exchange rate. The loans taken out by the GOS were not self-liquidating: they did not enhance the productive capacity of the economy sufficiently to generate the means with which to make repayment. Lenders, especially Arab states which had viewed Sudan as their potential "breadbasket," underestimated the country's lack of implementation capacity. Multilateral institutions and Paris Club creditors each account for 24 percent of the debt total; other official bilateral creditors -- 32 percent; and private financing -- the remainder.

The large indebtedness produces an extremely heavy debt burden. Debt service obligations falling due in 1987/88 amount to $1.1 billion, resulting in a scheduled debt service ratio of 96 percent.[1] Sudan has been unable to service the debt and, since 1983/84, has been amassing large arrears. Sudan's debt service payments in the first half of 1987/88 amounted to $118 million and the GOS anticipates

[1]The debt service ratio is defined as debt service obligations as a percent of exports of goods and services and private remittances.

additional payments of $110 million over the remainder of the year. Thus, debt service payments will fall far short of those falling due, resulting in additional arrears. By end-June 1988, arrears will likely add up to some $5 billion, including arrears to the IMF of $875 million. In February 1986, Sudan was declared ineligible for IMF resources because it could not honor its payment obligations to the Fund. On the other hand, the country makes its 620(q) and Brooke Amendment payments, although the payments are generally late.

Also symptomatic of the external financial difficulties is the low level of gross official reserves. At $26 million, they constituted only 1.6 weeks of imports in 1986/87.

These difficulties translate into a huge foreign exchange gap. External assistance of $1.5 billion is required in 1987/88 to fill the gap. Moreover, these data understate the extent of difficulties since the gap does not include any payments to reduce arrears.

The data point to major difficulties not only in the near term but also the medium and longer term. Through 1997/98, the IMF estimates that the balance of payments gap, before external assistance, will exceed $1.5 billion annually. Any solution to the difficulties will involve a combination of extraordinary debt rescheduling, debt forgiveness, and exceptional levels of donor support. For instance, any Paris Club rescheduling would have to be provided on terms not hitherto granted. Moratorium interest would have to be no higher than 2 to 3 percent and grace periods and maturities, now a maximum of 10 and 20 years respectively, would have to be extended.

REFORM PROGRAM

Background

Reform of the Sudanese economy has been initiated. The reform program is a response to the country's deep seated economic problems that appear to be primarily an outgrowth of economic mismanagement. The current government recognizes that the economic mismanagement must be addressed in a comprehensive and systematic way, if the current crisis is to be overcome and strong growth is to be restored on a sustained basis.

With assistance from the IMF and World Bank, the first Annual Program of Action for 1987/88 was announced in October 1987. The GOS, together with the Fund and Bank, is now working on the details of a more comprehensive medium-term program which will be embodied in a Policy Framework Paper (PFP). PFPs, whose preparation is required if the IMF is to make resources available under its Enhanced Structural Adjustment Facility, define a structural adjustment program to which the host country is committed.[2]

A $150 million Economic Recovery Credit (ERC) has been approved by the World Bank's Operations Committee. Major details of the credit, which has the support of the Prime Minister, have been worked out with GOS technicians, including the Ministry of Finance. However, the credit will have to receive final World Bank approval and be steered through the Constituent Assembly. Final World Bank approval probably would be predicated on compliance with the targets set under the IMF shadow program. The credit is expected to encourage the reform process in Sudan. Companion World Bank credits --- the 1987 Agriculture Rehabilitation Project III (ARP) and Public Enterprise and Economic Management (PEEM) projects -- also are encouraging reform. ARP is encouraging changes in agricultural incentives to promote production and PEEM is addressing parastatal and civil service reform.

The Sudanese adjustment program emphasizes reform of the structure of incentives and demand management. The GOS is seeking to eliminate the panoply of controls that stifles private sector initiative, driving economic activity underground. The GOS also will strive to break the vicious cycle of (a) fiscal excess, (b) monetization of deficits by the country's Central Bank -- the Bank of Sudan, (c) inflation, (d) an overvalued exchange rate given the authorities' hesitancy to lower the exchange rate, and (e) a stifling of exports.

Annual Program of Action for 1987/88

The goal of Sudan's first Annual Program of Action for 1987/88 was to address economic imbalances by (a) stimulating domestic production, (b) reducing prevailing price distortions, and (c) containing aggregate demand. The program has recorded some success. However, any success in 1987/88 is not reflected in the macroeconomic indicators, e.g. growth, balance of payments, and inflation. These indicators have been overwhelmed by drought. Relatively low levels of rainfall, combined with its bad timing and geographical distribution, contributed to a 60 percent reduction in 1987/88 (from the 1986/87 bumper year) in sorghum production -- the country's main food staple.

A number of reforms have been implemented under the 1987/88 Annual program of Action.

The program provided greater financial production incentives through adjustments in the exchange rate and the establishment of remunerative procurement/minimum prices in the agricultural sector. In October 1987, the official exchange rate was devalued 44 percent; on a trade-weighted basis, the depreciation was on the order of 29 percent. A full pass through of the exchange adjustment in domestic prices was effected with the exception of a few commodities of a highly sensitive nature for

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[2] On December 29, the IMF announced the establishment of the Enhanced Structural Adjustment Facility (ESAF), which provides highly concessional money (1/2% interest with ten year repayments) to low-income countries facing protracted balance of payments problems and undertaking strong macroeconomic structural adjustment programs. The ESAF could make available up to $5.5 billion to Sub-Saharan states over the next five years. These monies augment funds previously made available under the Structural Adjustment Facility (SAF) totaling about $750 million per year.

which an explicit subsidy allowance was incorporated into the budget. At the same time, procurement/minimum prices for the major agricultural products were established at levels which ensured returns in excess of average production costs. The more remunerative procurement/minimum prices already have led to some expansion in the output of peanuts, sesame, and gum arabic.

The availability of critical imported inputs has been increased through the introduction of a "own resources" import scheme. The scheme allows production inputs and selected consumer goods to be imported with minimal restrictions if they are financed through the use of the importer's own foreign exchange, including purchases of foreign exchange from Sudanese working abroad. The liberalization of the own foreign exchange financing scheme is a critical ingredient in attracting private remittances, traditionally a key source of foreign exchange. Indeed, remittances are responding. According to the IMF, remittances should approach $350 million, a 40 percent increase over last year. The higher remittances, through increasing supplies of imported inputs, already may be having a positive impact on industrial production.

Within Islamic banking practices, a "compensatory rate" system has been introduced to increase the level and efficiency of financial intermediation. The GOS will periodically review the adequacy of the rate structure to ensure positive real rates of return on term savings and charges on borrowing. An interest bearing security system also has been inaugurated. While these reforms are steps in a right direction, the compatibility of the reforms with the Islamic injunctions relating to fixed rates on loans and securities continues to produce considerable uncertainty, affecting financial intermediation negatively.

Parastatal reform, in consultation with the World Bank, has been initiated, emphasizing the rehabilitation of specific enterprises and the implementation of sector-wide pricing and management policies.

The containment of aggregate demand, a manifestation of which are large GOS budget deficits, so far has been the weakest element of the program. The program sought to limit the overall fiscal deficit. By so doing, GOS bank borrowing was to be reduced from the equivalent of 5.7 percent of GDP in 1986/87 to 2.3 percent of GDP in 1987/88 and monetary growth was to be contained to 23 percent in contrast to annual rates of 37 percent over the previous three years. To assist the GOS in adhering to the program, quarterly monetary and fiscal limits were set by the IMF under a shadow program.

The budgetary situation remains a cause for concern. While the GOS budget deficit on a cash basis, excluding foreign interest payments coming due, is projected at 8.9 percent of GDP in 1987/88, about the same as 1986/87, the deficit, including foreign interest, on a commitment basis will rise from 12.9 to 14.6 percent of GDP.[3] The expenditure side is especially problematic. In particular, outlays on current

[3]The distinction between cash and commitment basis requires clarification. For example, an expenditure on a cash basis is what the government really spent; an expenditure on a commitment basis is what the government should have spent. In some developing countries, deficits on a commitment basis exceed those on a cash basis owing to the build up of domestic arrears.

expenditures in the first half of the year were greater than anticipated, owing principally to (a) the war, (b) higher than expected wage increases granted for 1987/88 (LS 170 million as compared to the LS 63 million envisaged in the program), and (c) new outlays of LS 63 million incurred to provide transportation to members of parliament and other officials. While these expenditures were absorbed within the budgetary contingency provision, remaining reserves to cover overruns in other expenditure areas have been reduced to LS 225 million. At the same time, preliminary budgetary financing data for January 1988 point to an increase in outlays which may reflect settlement of domestic arrears accumulated in the first half of the year. Moreover, defense expenditures, associated with the intensification of hostilities in the South, appear likely to increase in the second half of the year. Indeed, the quarterly central government expenditure targets for March 31 apparently have been exceeded.

However, there are some positive fiscal developments. So far, the GOS is adhering to the monetary targets in the shadow program. Less than expected spending by parastatals has enabled the GOS to meet monetary targets. More important, the GOS is implementing tax reforms, including higher import and stamp duties and excise taxes. Although revenues as a share of GDP were to fall marginally from 10.5 to 10.3 percent, tax revenues as a share of GDP are anticipated to increase from 6.8 to 7.7 percent of GDP. Preliminary data for the first six months of 1987/88 indicate that revenue collections were in line with the targets established in the IMF shadow program. Moreover, substantial growth in receipts can be expected in the remainder of the fiscal year as the full impact of the revenue measures implemented since October 1987 is realized.

The GOS Structural Adjustment Program

The GOS's first Annual Program of Action is a start. However, demand containment must be pursued more vigorously and the private sector continues to be subject to uncertainty regarding the regulatory framework and excessive control. The program that has been worked out with the World Bank under the ERC suggests that the GOS may be committed to tackling these problem areas. Investor confidence will be revived; the GOS will give clear signals of its intention to move from a control-oriented to market-oriented economy with the private sector playing a much greater role than hitherto. A reduction in GOS controls would help encourage the untaxable parallel activities market to move back into the formal economy and help stimulate an efficient production response. In addition, demand management will be reinforced through a phased program, addressing structural impediments in fiscal management.

Exchange Rate

While the October 1987 devaluation to LS 4.5 per dollar was a step in the right direction, the exchange rate remains overvalued. The parallel rate is in the neighborhood of LS 11 per dollar. The GOS's 1988/89 Annual Program of Action will contain additional real adjustment in the exchange rate, although any adjustment is unlikely to be sufficiently large.

Import Controls

The "own resources" import scheme constitutes a significant improvement in import policy, providing the private sector access to requisite agricultural and industrial sector inputs and necessary consumer goods. The GOS intends to expand the scheme by enlarging the list of permissible items.

Export Controls

Export regulations have been nightmarish; they have impeded the growth of non-traditional exports and encouraged transactions through the parallel market. In the past, all exporters as well as importers needed to be registered, and to be registered the exporter must have had a trade license for two years. Once registration had been achieved, the proposed export still had to be licensed; it had to be vetted and approved by the GOS. In some cases, minimum export prices set by the GOS export marketing parastatals have been excessively high, thereby reducing international demand for Sudan's products.

In response to these difficulties, (a) mandatory registration requirements for exporters are to be simplified, (b) minimum prices for exports will no longer be set, except for some livestock, and exporters will be free to enter into contracts at the best possible terms they can obtain, and (c) export licensing will be discontinued except on a few essential food items, with food security implications, and a number of other items based on special circumstances, e.g. international trade agreements. Also, a special ex-post price monitoring system for selected exports will be established to maintain a check on under-invoicing.

Price Controls

Price and profit controls are to be discontinued except for certain essential items. Controls will be maintained on wheat, wheat flour, bread, sugar, basic imported drugs, and petroleum products and temporary price controls will be in effect on a limited number of important but less sensitive essential items (5-10 items) until the end of calendar year 1988, subject to a review. In the past, prices and profits have been subject to controls. While the GOS has encountered difficulties in enforcing price regulations at the wholesale and retail levels, price controls at the industrial and ex-factory level were more easily enforced. As a consequence, producer incentives were depressed and rents have accrued to traders instead. The end result was a stifling of production and investment.

Investment Regulations

With an eye to the preparation of proposals for reforms, the GOS will undertake a complete review of investment laws and regulations. The intent is to streamline procedures for investment approval and make more transparent the criteria for securing incentives. "Red tape" in the approval process will be reduced to a minimum and procedures will be "codified," building as much automaticity into the system as possible. A guiding principle will be the provision of investment concessions on a non-discriminatory basis to both foreign and domestic investors. In general, there will be a shift in emphasis from regulation and controls to investment promotion. The GOS is giving consideration to the establishment of an investment promotion agency. The GOS wants concessions that provide an attractive fiscal climate for genuine investors which, at the same time, do not lead to distortions in the incentive system.

Agricultural Pricing and Marketing

At present, the GOS sets (a) producer prices for cotton, gum arabic, sugar, and wheat, and (b) floor prices for peanuts, sesame, and sorghum. These prices will be adjusted to encourage efficient domestic production. Private sector marketing of agricultural commodities also will be encouraged. At the technician level, the GOS is committed to allowing private sector participation in the market and export of oilseeds, especially peanuts and sesame.

Parastatal Sector

The substantial level of direct and indirect GOS subsidies to the parastatal sector will be reduced through (a) the achievement of fiscal self-sufficiency of the individual enterprises and (b) improvement of institutional arrangements within the GOS and between it and the enterprises. Parastatal reform will consist of (a) a freeze on the establishment of new parastatals, (b) the classification of all parastatals into commercial/non-commercial and strategic/non-strategic, (c) the discontinuing of GOS preferences to commercial parastatals, (d) the allowing of managers and directors of commercial parastatals the same degree of autonomy in price setting allowed to private enterprises, (e) the implementing of plans for elimination of any arrears on credit from the central bank, (f) the clearing of cross arrears among the parastatals, (g) the completing of diagnostic work on 25 parastatals to identify actions to deal with their deficits, (h) the rationalizing of 10 pilot parastatals, (i) the liquidating of the Food Securities and Sugar Companies and divestiture of the Blue and White Nile Agricultural Corporations and the Rea and Kribab Sweets Factories, and (j) the imposing of credit ceilings on the parastatal sector.

Fiscal Management

Agreement with the Fund on monetary and fiscal targets will be a major element of GOS Annual Program of Actions that ensue in the wake of the 1987/88 Annual Program. In seeking to comply with fiscal targets, the GOS, however, so far has responded in a rather ad hoc fashion. Fundamental restructuring is required. This is most exemplified by the country's woeful tax effort. The tax effort, at less than 7 percent of GDP, has been deteriorating in recent years and now compares very unfavorably with that in other developing countries. There is a need to get the informal sector back in the tax net. To deal with the structural impediments, a number of actions are envisaged.

- Tax administration capacity has been exceedingly weak. Organizational and procedural reforms in the Tax Department and Customs and Excise Department will be formulated and subsequently implemented. For instance, strong consideration will be accorded to establishment of a master file of tax payers.
- The GOS intends to reduce excessive reliance on import taxes and move toward a broad-based consumption tax on imports and domestic production. However, a broad-based consumption tax will take considerable time to implement; major strengthening of the tax administration capacity will be required.
- A simplified tariff structure will be adopted to protect domestic enterprise.

- As for the excise tax, it will be extended to more products; the number of different rates will be reduced to simplify administration; and specific taxes will be converted to an ad-valorem basis. Specific taxes, based on volume rather than value, had resulted in declining real revenues with inflation.

- Business also will have to pay taxes in the year that the income is generated. In the past, taxes were seldom paid in the year they were due. The payment of taxes by businesses was the outcome of long, arduous negotiation with the GOS. In light of the country's high inflation, this resulted in erosion of the real value of the receipts.

An attempt is being made to rationalize the public investment program. Completing or rehabilitating viable on-going projects will take precedence over new projects, and any new projects will emphasize infrastructure development to relieve production and marketing bottlenecks.

Reform Prospects

Reform programs are never easy to implement. By their very nature, the programs constitute an attack on vested economic and political interest groups. In Sudan, however, the uncertainties and risks associated with reform are likely to be especially acute. Sudan has a long way to go. Comprehensive reform is indeed required in Sudan, and any reform program will necessarily be extremely complex, containing many diverse elements. Also, a new Government that may provide a greater role for Islamic fundamentalist elements is now being formed. The GOS has been slow in introducing promised revisions of the Sharia Laws, and any new coalition may exacerbate difficulties. The Sudanese populace may not be ready to openly embrace the use of market forces and private initiative. The war in the South, a major drain on the public coffers, poses particularly significant risks. The war constitutes the major impediment to successful implementation of a stabilization program in Sudan. An escalation of the war would preclude the GOS from meeting fiscal and monetary targets that underpin the reform efforts. Finally, an underlying problem is the country's massive debt servicing requirements. A fine line will have to be trodden. A strong possibility exists that the reform program could be under-funded. Debt servicing could take precedence over growth. The failure, in turn, to make headway in the promotion of growth would likely undermine the GOS commitment to structural adjustment.

NEGOTIATING OBJECTIVES AND STRATEGY

USG Political Objectives

In light of Sudan's location and immense size, the country is a key to stability for all the states in the Horn of Africa as well as for Egypt and East Africa. In addition to its strategic location, U.S. interests in Sudan derive from its historically constructive approach to Middle East politics, its political and diplomatic influence in the Arab and African worlds, its recent entry into the small club of African democracies, and its potential as a food exporter to the Middle East. Constructive relations with Egypt are a prime concern. Even a simple shift in policies on control of the Nile waters could prove disastrous to the Egyptian economy. A friendly and stable government in Sudan also affects the outlook of governments in the Arabian Peninsula and ultimately U.S. influence in the Persian Gulf. Similarly, as one of the larger USG assistance programs in Africa, our actions and their success attract attention and influence perceptions throughout the region. The change in government, including the turnover by the military to democratic rule and the commitment to democracy, have directed increased attention on Sudan.

The country's economic performance, through affecting its political stability, influences regional stability and realization of U.S. objectives throughout northeast Africa and the Middle East. Frustration with the Nimeri regime's economic policies eventually released long-developing political disillusionment with dictatorial rule. Inevitably it has made Sudan's political environment increasingly sensitive to economic hardships that persist from historical mismanagement, drought, civil war, and the Sharia Laws. In light of the newly installed democratic government pursuit of political stability, economic revitalization has taken on a new sense of urgency. The CIP program will encourage economic revitalization through the promotion of fundamental economic restructuring and the provision of essential inputs to the private sector. With foreign exchange in hand to purchase requisite productive sector inputs, the country's private sector -- very large and diverse by Sub-Saharan standards -- could contribute to economic turnaround. An economic turnaround, in turn, could have a positive impact on neighboring states' economic performance.

The immediate USG response is a multi-year (three year) performance-based CIP program, provisionally projected at $44.4 million, including $14.35 million in FY 1988. Perhaps the most important objective will be support of the country's structural adjustment efforts. The program also will provide balance of payment support, including the provision of critical productive sector inputs to the private sector. A small portion of CIP foreign exchange may be allocated to the GOS for requisite economic and social infrastructure. In the absence of growth-enhancing balance of payments support, structural adjustment efforts would be doomed to failure. Local currencies generated under the CIP program will be utilized to support structural adjustment and stabilization of the Sudanese economy.

Structural Adjustment

To support structural adjustment of the Sudanese economy, a multi-year performance-based ESF CIP program is proposed. The size of the program, the embargoed $25 million from the FY 1985 CIP, and PL 480 and DFA allocations will be utilized as incentives.[4] If a comprehensive structural adjustment program were to be vigorously implemented, planning levels for the multi-year CIP program could be increased above the current $44.4 million; utmost efforts would be undertaken to release the embargoed $25 million; PL 480 would be set higher than $60 million; and

[4]The U.S. Treasury has held up disbursement of the $25 million. Treasury would like to use the proceeds to repay IMF arrears.

DFA would be more than the planned $15 million. At the other extreme, in the complete absence of reform, we propose to provide no ESF assistance at all in FY 1988-90; no efforts would be undertaken to release the embargoed $25 million; PL 480 would decline to $25 million in FY 1989 and none in FY 1990; and there would be no new DFA starts in FY 1989-90. GOS reform progress would be gradated, ranging from (a) comprehensive reform, (b) modest substantive reform, (c) a minimal reform effort, and (d) no reforms, and A.I.D. resources would be altered accordingly (See Table I).

To move forward with the FY 1988 ESF CIP of $14.4 would require that the GOS at least undertake minimal reforms. The 1987/88 Annual Program of Action as well as commitments for additional reforms under the World Bank's ERC are steps in the right direction. We may want to consider release of the CIP at the time of World Bank approval of the ERC. Prior to any release, we would conduct our own independent assessment of GOS reform progress. Final Bank approval of the ERC probably would be contingent upon GOS agreement with the IMF on a shadow program. Moreover, approval also probably would be predicated upon GOS introduction of a number of reforms up front. The timing of the release of FY 1988 CIP funds will be resolved in the PAAD. In any event, we will want to continue to monitor very closely economic developments in Sudan.

To obtain leverage, the FY 1988 program could be provided in tranches. We will not utilize that option. Instead, leverage will be obtained through altering multi-year planning levels, including ESF, PL 480, and DFA.

In assessing reform progress over the near term, the key elements consist of the following:

- adherence to fiscal and monetary targets set under any IMF reform program,
- significant real adjustment of the exchange rate,
- enlargement of the list of permissible items under the own resources scheme,
- easing of price controls,
- financial sector reform including reduction of uncertainties arising from the Sharia Laws,
- discontinuance of export licensing,
- cuts in diesel and wheat bread subsidies,
- reduction in GOS employment, and
- amendment of the GOS parastatal role in gum arabic pricing and marketing and private sector participation in the marketing and export of oilseeds.

A comprehensive structural adjustment program would include the above elements. The failure to make progress in these areas would constitute a minimal reform effort. A.I.D./Khartoum will be responsible for gradation of the GOS reform effort.

We endorse the elements of reform contained in the World Bank's Economic Recovery Credit (ERC) which will provide encouragement for structural adjustment in Sudan. Therefore, we are prepared to enter into a parallel arrangement with the World Bank on the ERC subject to Bank specification of allocation procedures for dispensing CIP foreign exchange and implementation arrangements that are acceptable to A.I.D.

TABLE I.

PROGRAM OPTIONS FOR USAID/SUDAN

Option I	Option II	Option III	Option IV
		Programmatic Assumptions	
Major economic reforms undertaken.	Modest substantive reforms undertaken, but at a slow pace.	Minimal reforms undertaken.	No reforms undertaken.
1. FY 88-90 ESF multi-year program at more than the planned $44.4 million.	FY 88-90 ESF multi-year program at no more than the planned $44.4 million.	FY 88 ESF for $14.35 million, no ESF during FY 88-90.	No ESF during FY 88-90.
2. Local currency generations for budget support.	Local currency generations for budget and project support.	Local currency generations for project support only.	Local currency generations for project support only.
3. Efforts to release embargoed $25 million from FY 85 CIP.	Effort to release embargoed $25 million from FY 85 CIP.	No effort to release embargoed $25 million from FY 85 CIP.	No effort to release embargoed $25 million from FY 85 CIP.
4. PL 480 increases to at least $60 million per year.	PL 480 holds steady at $40-60 million per year.	PL 480 declines from $40 to $30 to $20 million during FY 88-90.	PL 480 declines to $25 million in FY 89 and none in FY 90.
5. DFA at more than the planned $15 million per year during FY 88-90.	DFA at no more than $15 million per year during FY 88-90.	Limited DFA starts in FY 89-90, funding between $5-10 million per year.	No new DFA starts in FY 89-90, reduce funding to $5-6 million per year.

pc:proption

The World Bank's $150 million ERC, together with our ESF package, PL 480 Title I monies, and any other donor monies, would constitute a very attractive package for promotion of reform.

We do not plan to cede to the Bank responsibility for implementation of the CIP. We will continue to follow our own commodity procurement regulations. In consultation with the GOS, we will outline CIP procedures and methods of allocation.

Balance of Payments Support

The CIP will furnish balance of payments support primarily through the provision of critical productive sector inputs, e.g. intermediate and capital goods; small amounts of CIP foreign exchange also may go to the public sector for infrastructure. It is true that the amounts envisaged under the CIP -- $14.4 million in FY 1988 -- are not large in comparison to needs. The $14.4 million would fund 1.6 percent of the country's 1987/88 current account deficit and an even smaller portion of total imports -- 1.1 percent. However, together with the $40.0 million FY 1988 P.L. 480 and $25.0 million FY 1985 ESF programs, A.I.D. balance of payments assistance is nearly 7 percent of total imports. In the absence of A.I.D. funding, real output growth would be lower. In Sudan, there appears to be a strong positive correlation between imports of productive sector inputs and growth. For instance, over the 1981/82-1985/86 period, productive sector inputs fell more than 30 percent. During the same period, real output fell at an annual rate of 3.2 percent.

The growth impact of the CIP balance of payments support could be disproportionate to its size if the funding could be directed to areas where key bottlenecks exist. We do not have sufficient information at this time to specify precisely where those bottlenecks may be. In the interim, for the proposed CIP, imports will be targeted only in a very general sense. An analysis of licenses provided by the GOS central bank under the own resources import scheme suggests heavy demand for raw materials, spare parts, building materials, and iron; dollar values over the August 1987-March 1988 period approximate $74, 40, 30, and 27 million, respectively. Which sub-sectors of the economy account for the demand is unclear. Further analysis may permit development of a more directed CIP at the PAAD stage.

We will seek to have most of the foreign exchange under the proposed CIP go to the private sector. No more than 25 percent will be allocated to the public sector. One of the failings of past CIPs was the inability to assure that CIP allocations were made to the private sector in the amounts envisaged; the private sector only received about 28 percent of the foreign exchange. In recent years, however, the private sector share has been on the rise, exceeding 80 percent in the most recent CIP allocation.

Local Currency

As a general precept for the multi-year CIP program, the uses to which the local currency can be utilized will be linked to reform progress. The more progress that the GOS makes in implementing reforms the greater flexibility it will have in the utilization of local currencies. If the GOS were to implement a comprehensive reform program, local currency could be utilized to support specific policy reforms, including recurrent line items in the budget. In the absence of reform, local currency would be reserved for project support.

FY 1988 CIP local currency will complement and reinforce the ongoing economic policy dialogue. As part of a multi-donor supported effort, A.I.D./Khartoum is considering the provision of assistance for the rationalization of the parastatal the Sudan Railways Corporation (SRC). A staff reduction of over 9,000 from current levels of 30,000 will be implemented, and local currency is needed to help defray the costs of retiring staff before retirement age. The consultant firm Coopers and Lybrandt is working out the details of the staff reduction program, whose funding requirements could be sizable. A portion of CIP local currency also will be set aside for a Trust Fund to help cover expenses incurred locally by A.I.D./Khartoum.

THE A.I.D. NICHE IN THE REFORM EFFORT

One of the major conclusions of the recently completed report Evaluation of Commodity Import Programs (FY 1980 Through FY 1987) is the need to adopt an economic policy dialogue agenda that is realistic. Any agenda should be sufficiently narrowly focused that it is does not place an undue burden on staff. It also should reflect the political and social realities in Sudan.

Given the magnitude and seriousness of Sudan's economic and policy problems, A.I.D. has concluded that it is of the utmost importance for the donor community to be united in its stance to the GOS for a comprehensive economic recovery and development program. Once the GOS has commenced the implementation of reforms under such a program, donors, including A.I.D., will return to a more rational division of labor, building upon each other's comparative technical abilities and funding opportunities.

Therefore, we are proposing to associate the FY 1988 CIP with the conditionality contained in the World Bank's ERC. If implemented faithfully, the ERC, together with our FY 1988 ESF CIP, should contribute to the establishment of a sound macroeconomic framework. Once such a framework has been developed the multi-year CIP program A.I.D. policy dialogue efforts would, in the out years, emphasize reform of the agricultural sector. We would not take on the entire agricultural sector; selected areas of emphasis would include (a) gum arabic pricing and marketing, (b) oilseeds marketing, and (c) diesel pricing and allocation system. Reform in these areas is critical to the future viability of the Sudan economy and would have significant positive impact. A.I.D. has established a comparative advantage in the agricultural sector, and past A.I.D. involvement in the sector has made it easier to raise sensitive subjects with the GOS. The emphasis on the agricultural sector in the out years for the multi-year CIP program, which would support Bank and Fund reform efforts in the country, will be reinforced by a proposed A.I.D. agricultural sector grant.

Reform of the agricultural sector could lead to a revitalization of the sector, which we view as the primary engine of growth in Sudan. The sector dominates economic activity, accounting for 33 percent of GDP, providing employment for well over 60 percent of the labor force, and furnishing the lions share of merchandise exports. The droughts in 1984 and 1985 and inadequate rainfall in 1987 have served to reinforce the need for agricultural sector rationalization.

The emphasis within the agricultural sector is preliminary. As we continue to engage in discussions with the GOS, the economic policy dialogue agenda could be altered. Some areas could be dropped; others added. In seeking to make progress on reforms in the agricultural sector and any other areas of economic dialogue, A.I.D. will utilize technical assistance available under the on-going Project Analysis and Implementation Project (PAIP). For this reason, A.I.D. does not plan to allocate a portion of the FY 1988 CIP for technical assistance.

Gum Arabic Pricing and Marketing

A.I.D. will be seeking to alter the role of the GOS parastatal -- the Gum Arabic Corporation (GAC) -- in the pricing and marketing of the commodity, a reform that is supported by the World Bank, EEC, and WFP as well. Sudan accounts for 75 percent of global gum arabic production, most of which is marketed in the U.S. and Europe. The GAC acts as both a monopsony and monopoly; it essentially is the sole buyer and marketer of the commodity. The GAC has sought to maximize profits by providing low prices to producers and charging foreign buyers high prices. Unfortunately, the low producer prices have served to discourage production and high prices charged to foreign buyers have (a) rendered the commodity uncompetitive, encouraging the emergence of substitutes and the possible permanent loss of overseas markets, and (b) affected Sudan's foreign exchange earnings negatively. In tandem with GAC controls, "black market" activity has arisen; roughly 30 percent of U.S. gum arabic imports are smuggled out of Sudan by private sector exporters.

A.I.D. has drawn up the terms of reference for a study analyzing alternative gum arabic pricing strategies. We expect to have a report in hand by the end of August. On its own, the GOS is undertaking a parallel study on the issue. Over the near term, we would expect to see a change in pricing strategy, including the payment of more remunerative producer prices and the setting of more realistic prices on overseas markets. Adjustments in pricing strategies are expected to produce higher domestic production and greater foreign exchange earnings. For 1986/87, gum arabic production totaled 25,000 metric tons and foreign exchange earnings were $57 million. A goal in the medium term is private sector participation in the marketing of the commodity, a goal that will be more difficult to achieve. Some argue that a public marketing agency is required to maintain high quality of the export product.

Oilseeds Marketing

The marketing and export of oilseeds -- peanut and sesame -- is in the hands of a GOS parastatal, the Sudan Oilseeds Corporation (SOC). While the SOC is supposed to be the sole purchaser of oilseeds, in practice there are sales to private traders. Nonetheless, it is felt that, if private trading were legalized, the resulting increased competition for oilseeds would result in producers receiving higher prices and producing more. In addition, the SOC does not transmit the incentive effects of exchange rate changes to producers in the form of higher prices. On the export side, the SOC has not maintained high quality standards, thereby reducing potential foreign exchange earnings.

The GOS recently set up a national committee to explore mechanisms through which the role of SOC in marketing of oilseeds would be minimized. The results of this committee's deliberations will most likely call for the private sector's participation in both domestic and export marketing of oilseeds.
Reform of oilseeds was part of the reform process started in 1979, when the monopoly of the SOC in domestic and export marketing was removed. This led to increased exports of peanuts in 1981, at which time Sudan became the second largest exporter of peanuts in the world after the U.S. While oilseeds production and exports may not necessarily reach the 1981 level as a result of reform in oilseeds marketing, a recovery from present low levels is anticipated. In 1986/87, peanut production totalled 379,000 metric tons; foreign exchange earnings were $67 million in 1987/88. As for sesame, in 1986/87 production and foreign exchange earnings totaled, respectively, 216,000 metric tons and $40 million.

Diesel Pricing and Allocation System

An area of potential future emphasis of the multi-year CIP program is the diesel pricing and allocation system. Diesel is subsidized by the GOS and its allocation is administratively determined. The subsidies, which totaled $93 million in 1987/88 using the official exchange rate as a conversion factor, lead to economically inefficient use of the commodity and encourage capital-intensive rather than labor-intensive production technology. In large-scale mechanized rainfed agriculture, the diesel subsidies result in over-mechanization rather than an intensification of agriculture. Less use should be made of diesel and other high import-content and subsidized (through the overvalued exchange rate) items such as tractors for planting and harvesting. There also are indications that GOS allocations have discriminated against traditional rainfed areas which hold potential for increased gum arabic, oilseeds, and other export crop production. Hence, the current diesel pricing and allocation system affects production negatively in those areas, primarily in western Sudan.

A.I.D. will encourage the GOS to examine the costs and benefits of diesel pricing and allocation procedures. A.I.D. will use the PAIP project to fund analyses. Ministry of Finance and Economic Planning representatives already acknowledge that the current system is not equitable. Reform progress would reduce GOS expenditures, encouraging fiscal prudence, and allow a more efficient and equitable use of diesel.

Other A.I.D. Economic Policy Interventions

Selected other issues of critical economic importance will be addressed by the CIP. One such issue is public sector employment. Fiscal prudence is one of the keys to success of the GOS structural adjustment program, and excessive public sector employment has contributed to the fiscal excess that has been so evident in recent years. Innovative ways to reduce the excessive civil servant rolls will be sought. A.I.D. supports reduction of public employment through early retirement programs and through divestiture of parastatal operating units that can be private, self-financing concerns. To that end, A.I.D. is giving consideration to participation in a multi-donor supported, staff reduction program for the Sudan Railway Corporation (SRC). Success in the pilot SRC case could be a model for other parastatal reform efforts in Sudan.

There also is a need to know more about the constraints faced by the informal sector which has been driven underground by the weight of GOS regulations. We already have a good understanding of the macroeconomic impediments affecting adversely the informal sector. However, there are undoubtedly a minutia of regulations at the more micro level -- registration requirements, licenses, etc. -- of which we have little knowledge. In this regard, a private sector profile and a private sector assessment will be undertaken this summer. We would anticipate that these studies/reports would assist in defining areas of economic policy dialogue for any future CIP programs.

A.I.D. already is encouraging economic reform through other program activities. Perhaps the outstanding example is wheat bread pricing, production, and distribution. Utilizing the PL 480 Title I program as a vehicle, A.I.D. is continuing efforts to encourage the GOS to reduce the wheat bread subsidy while ensuring access to bread for low-income consumers. A.I.D. also is seeking to increase private millers and bakeries' freedom to make product line and pricing decisions. Progress in these areas will reduce GOS expenditures, increase the role of private millers and bakers, and help on the margin to save the country foreign exchange. Progress also would increase the consumption of sorghum, the country's staple which in non-drought years is generally produced in abundance. A.I.D. and the GOS will be co-funding an analysis of the means to best implement policy options for reducing the bread subsidy. One option will be to increase the production and consumption of composite sorghum-wheat bread. A.I.D. has recently resolved the technical issues surrounding the milling of composite flour. The GOS already has agreed to expand the "unofficial" policy of selling unsubsidized flour to a number of private bakeries. In turn, these bakeries are no longer constrained by GOS product type, price, and profit regulations.

PROGRAM IMPLEMENTATION

Analysis of Past CIP Programs

CIP obligations have totalled $473 million of which $398 million has been disbursed (see Table II). The $75 million that has yet to be disbursed includes the $25 million that has been embargoed by the U.S. Treasury with the remainder obligated in public and private sector contracts and letters of credit. There have been nine programs. The first was signed in FY 1980. There have been no CIP obligations since FY 1986. The primary objectives of past CIP programs were multiple, including balance of payments support, encouragement of economic reform, and the promotion of

TABLE II.

ACTUAL DISBURSEMENT FROM SUDAN'S SET OF

CIP GRANT AGREEMENTS AS OF SEPTEMBER 30, 1987

(IN MILLION U.S.$)

Year	CIP(601) FY 1980	CIP(602) FY 1981	CIP(603) FY 1982	CIP(604) FY 1983	CIP(606) FY 1984	CIP(608) FY 1985	CIP(609) FY 1986	TOTAL CIP IMPORTS
Amounts Obligated:	$40	$50	$100	$60.25	$102	$111	$10	
1980	19.6							19.6
1981	8.47							8.47
1982	6.72	31.5	25.0					63.22
1983		13.8	53.8	21.2				88.8
1984	5.07	4.1	16.2	20.2				45.57
1985		.5	2.9	3.1	43.6			50.1
1986			.08	5.6	39.3	39.3		84.28
1987			.15	.32	7.5	21.1	9.4	38.47
TOTAL DISBURSEMENTS	39.86	49.9	98.13	50.42	90.4	60.4	9.4	398.42

Note: (1) Actual disbursements by A.I.D. occurs at the time the commodity is shipped from its source.
(2) Figures include private and public sector imports

Sources: Agency for International Development, Congressional Presentation Annex 1, Fiscal Year 1982-1988, and Internal USAID/Sudan unpublished data.

private sector activity, among others. In meeting these objectives, the CIP programs have achieved mixed success.

The almost $400 million that has been disbursed since 1980 under the CIP programs did finance essential imports that Sudan could not have supported from foreign exchange earnings. However, the infusion of badly needed foreign exchange was not rapid. The time between the signing of a CIP agreement and full disbursement has lengthened over time from approximately two to three or four years. While the increasing delays that have occurred in disbursing the CIPs can be attributed, in part, to economic and political turmoil in Sudan, the delays also are a result of A.I.D. efforts to promote economic policy reform and to enhance the developmental impact of imported commodities. There were simply too many policy conditions attached to the agreements and the selection of those imports to be supported has become complex, involving negotiation and compromise between A.I.D. and the GOS Commodity Aid Committee. The financing provided under the CIPs also has been modest in comparison to total Sudanese foreign exchange needs; the CIP share of total imports has been between two and five percent.

Only limited success was encountered in encouraging reform. By FY 1985, encouragement of reform had become A.I.D./Khartoum's primary and overriding rationale for CIP assistance. In addition to compliance with IMF fiscal and monetary targets, the CIP programs have sought reforms, including (a) revision of the private sector investment code, (b) evaluation of the efficiency of public enterprises in the agricultural and agro-industrial sectors and phase out of those found to be inefficient, (c) removal of foreign exchange subsidies on all GOS commodity imports except wheat flour and medicines, (d) exchange rate reform -- specifically amendment of the foreign exchange rate formula governing the conversion of agricultural export earnings, (e) establishment of an efficient system for the financing, procurement, importation, allocation, and distribution of petroleum products, and (f) rationalization of the National Electric Corporation. Some reform progress was initially made. Sudan revised the formula for conversion of foreign exchange for all crops except cotton and gum arabic, resulting in an effective currency depreciation at the time of nearly 48 percent. Reforms also were made in the petroleum sector. The use of international competitive tenders reduced petroleum costs by almost 30 percent, and the GOS rationalized petroleum prices. However, the modest success A.I.D. experienced in CIP economic policy dialogue in the areas of macroeconomic and financial reforms were soon overtaken by political and economic developments. Of the 66 special covenants incorporated into the CIP agreements, 41 were not met; five were only partially met; and it cannot be determined if eight were met or not. Only twelve of the 66 covenants were clearly met.

Although increasing allocations of CIP funds are now going to the private sector, the sector has been accorded but 28 percent of funds that have been disbursed since FY 1980. The designers of the CIP programs had envisaged a sharply higher private sector share.

Nonetheless, the program has had economic impact. Public and private sector imports have included intermediate and capital goods. Specific items consist of agricultural implements, bailing hoops, electric power generation equipment, fertilizer, industrial chemicals, jute bags, oilseed crushing equipment, spare parts, tallow, tools, and transportation equipment, among others. These imports