AID 1120-1

PAAD

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO.: Grant No. 650-K-606
2. COUNTRY: Democratic Republic of the Sudan
3. CATEGORY: Commodity Financing - Standard Procedure 650-K-606
4. DATE: March 29, 1984
5. TO: M. Peter McPherson, Administrator
6. OYB CHANGE NO.: Not applicable
7. FROM: Mark L. Edelman, AA/AFR, Mark Edelman, Acting
8. OYB INCREASE: None
   TO BE TAKEN FROM: ESF
9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 62.00 million
10. APPROPRIATION: ESF
11. TYPE FUNDING: ☐ LOAN ☒ GRANT
12. LOCAL CURRENCY ARRANGEMENT: ☐ INFORMAL ☒ FORMAL ☐ NONE
13. ESTIMATED DELIVERY PERIOD: June 1984-Mar. 1986
14. TRANSACTION ELIGIBILITY DATE: April 1, 1984
15. COMMODITIES FINANCED: Commodities declared eligible under the A.I.D. Commodity Eligibility Listing (1978 as revised) will be eligible for A.I.D. financing.

Note: Latest revision - TM 15:64 January 1, 1983)

16. PERMITTED SOURCE
- U.S. only:
- Limited F.W.: $62,000,000 (Code 941)
- Free World:
- Cash:

17. ESTIMATED SOURCE
- U.S.: $62,000,000
- Industrialized Countries:
- Loc. I:
- Other:

18. SUMMARY DESCRIPTION

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

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

A grant to the Government of the Democratic Republic of the Sudan is hereby authorized in the amount of $62.00 million for financing the items described above, subject to the following terms and conditions:

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

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

19. CLEARANCES

	DATE
AFR/DP, HJohnson	6/1/84
GC/AFR, TBork	6/3/84
A/AA/PPC, RDerham	
M/FM, CChristensen	6/11/84
M/SER/COM, PHagan	6/8/84
GC, HBay	
DAA/AFR, PBirnbaum	6/13/84

20. ACTION: ☒ APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE: Mark L. Edelman — DATE: June 29, 1984

M. Peter McPherson, Administrator — TITLE

CLASSIFICATION:

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

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

4. Such other terms and conditions as U.S.A.I.D. may deem advisable.

JUN 2 0 1984

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU: A-AA/PPC, Richard Derham

FROM: AA/AFR, Mark Edelman, Acting

SUBJECT: Sudan: FY 1984 Commodity Import Program Grant, 650-K-606, Amendment

Problem: Your approval is required to authorize an amendment to the FY 1984 Commodity Import Program (CIP, 650-K-606) or $62 million to the Government of the Democratic Republic of Sudan (GOS) from Economic Support Funds. USAID plans to obligate the entire amount in the third quarter of FY 1984. The $62 million will bring the total FY 1984 CIP to $102 million and the total FY 1984 ESF in Sudan to $120 million.

Background: The Action Memorandum for the original PAAD details the economic difficulties facing Sudan and the international effort to support an economic stabilization and reform program in Sudan. The objective of the CIP is to assist the economic recovery of Sudan by helping the GOS overcome a serious balance of payments problem. The FY 1984 CIP includes the first tranche of $40 million for the Petroleum Initiative. This second tranche of the CIP provides $62 million of foreign exchange for other essential public and private sector imports.

Discussion: Over the past year USAID has developed for this PAAD the criteria for targeting CIP commodities in accordance with concerns of major international and bilateral donors analyzing Sudan's balance of payments crisis. USAID has used these criteria to define essential commodities in terms of social and economic stabilization while trying to redirect imports to investment for increased production and export. The CIP is placing new emphasis on the role of rainfed crops in expanding foreign exchange earnings. A higher percentage of CIP commodities than in previous years (50 percent) will be utilized by the private sector. An added emphasis will address USAID's objective of getting more commodity assistance to the rural regions in support of regional development.

Procurement under the Program will be restricted to commodities of AID Geographic Code 941 source and origin. The following is an illustrative list with upper limits of value from which $62 million of commodities may be procured under this CIP:

Commodities	Upper Limit of Value ($ million)
Fertilizer	20
Jute, baling hoops	20
Tallow	20
Spare parts	8
Agricultural machinery and equipment	30
Transportation equipment and parts	10
Telecommunication equipment	6
Industrial inputs and equipment	21
Power generation equipment	20
Earth moving equipment	5
TOTAL	150

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

Aside from the standard conditions precedent to initial disbursement, the Grant Agreement will contain eleven covenants, under the most significant of which the GOS will agree to:

-- Include members of the private sector on its Commodity Aid Committee;

-- Study the foreign exchange rate formula governing conversion of export earnings;

-- Exclude any participation by Sudan's Military Economic Board in procurement or transportation under the CIP;

-- Establish a Special Account into which local currencies from all commodity procurements will be deposited;

-- Study the feasibility of eliminating the 15% discount rate applied to all donor financed commodities in Sudan;

-- Jointly program counterpart funds of 40 million Sudanese pounds for a Regional Development fund;

-- Allocate $7 million ($2 million for the South) to private production-oriented enterprises in the regions;

-- Introduce reforms in the National Electricity Corporation to reduce losses and improve management.

The commodity eligibility date will be the date on which the Agreement is signed. Procurement and financing procedures under this CIP will be those set forth in AID Regulation 1, except for the procurement of technical services.

Proposed tallow, baling hoops, composite flour equipment, and agricultural machinery and equipment procurement can meet the requirement of Section 203 of the International Security and Development Cooperation Act of 1981 that at least 15 percent of ESF funds made available each year for CIP be used to finance the procurement of agricultural commodities or agricultural-related products which are of U.S. origin.

The Executive Committee for Project Review (ECPR) considered this amendment on April 26, 1984, and recommended approval of $62 million for FY 1984. The ECPR noted that the PAAD amendment was well done and commended the USAID for its discussion of criteria for commodities to be imported. Concerning planning for project-like activities financed by the CIP, the ECPR recommended that, for the purpose of identifying the need for economic, financial, and technical analyses, the Mission Director can determine what is a project-like activity. For such project-like activities, USAID/Sudan Mission Orders (Annex E of PAAD) define responsibilities for conducting any required analyses. Thus, some technical services will be required for major procurement proposed under this CIP amendment. An illustrative budget for such services has been added to the PAAD.

The CIP was included in the FY 1984 Congressional Presentation. A Congressional Notification is not required.

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

The USAID/Sudan Office of the Controller will be the overall coordinator for the CIP, responsible for monitoring the performance of the three other USAID offices which share CIP responsibilities: Supply Management; Economic Policy and Program; and Project Operations. The USAID/Sudan officer responsible for the program is Mel Van Doren, Mission Controller. The Africa Bureau Projects officer responsible for the program is Warren Weinstein, AFR/PD/EAP. The SER/COM/ALI officer responsible for the program is Georgia Fuller.

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

No waivers are necessary to implement this CIP Grant Amendment.

Recommendation: That you sign the attached PAAD amendment, thereby authorizing the $62 million amendment to the FY 1984 CIP PAAD for Sudan from the FY 1984 ESF grant program.

Clearances:

AFR/EA, TCornell		Date 5/18/84
AFR/EA, ESpriggs		Date 6/5/84
AFR/PD/EAP, JHeard	(Draft)	Date 5/11/84
AFR/DP, HJohnson		Date 6/1/84
AFR/TR, LHoldcraft		Date 6/6/84
GC/AFR, TBork		Date [illegible]
AFR/PD, NCohen		Date [illegible]
SER/COM, PHagan		Date 6/7/84
M/FM, CChristensen		Date [illegible]
DAA/AFR, PBirnbaum		Date 6/13/84
PPC/PDPR, EHullander		Date [illegible]
GC, HFry		Date 6/14/84

HH+EC

Drafted:AFR/PD/EAP, AReed:aph:5/10/84

Doc. 0836J

SUDAN

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)
AMENDMENT
COMMODITY IMPORT PROGRAM (CIP) GRANT FY 1984

650-K-606 (Amendment)

USAID/SUDAN
Khartoum, Sudan

CONTENTS

Section		Page
I.	Summary and Recommendations	1
II.	Background	3
	A. Origin of the Foreign Exchange Crisis	3
	B. Government Policies and Programs for Economic Recovery	3
	1. Three Year Investment Plan	3
	2. The 1982/83 Standby Agreement	5
	3. Debt Rescheduling	6
	C. Other Donor Assistance	12
	D. U.S. Contribution	16
III.	Justification of the Commodity Import Program	18
	A. U.S. Interest and Objectives	18
	B. AID Assistance Strategy	18
	C. GOS Economic Reforms	19
IV.	Recent Economic Performance	25
	A. Balance of Payments	25
	B. Exports	27
	C. Imports	28
	D. Services and Transfers	32
	E. Capital Account	32
	F. External Debt	34
	G. Foreign Exchange Systems	35
	H. Gross Reserves and Net Foreign Assets	35
V.	Economic Prospects for 1983/84	38
	A. Production	38
	B. Prices	38
	C. Credit	40
	D. Fiscal	40
	E. Foreign Exchange and Trade	42
	F. External Debt and Debt Service	42
	G. Financing Gap	43
	H. 1983/84 Public Investment Program	47
	I. Development Expenditures	50
	J. Monitoring Procedures	51

Section | Page

VI. Development Impact of Proposed Commodity Imports and Relation to U.S. Assistance Program 53

A. Criteria 53
B. Energy 55
C. Tallow 59
D. Lubricants 61
E. Industrial Inputs 64

1. Textile 64
2. Pharmaceutical Raw Materials 65
3. Dry Cell Batteries 70
4. Tinplate 71

F. Jute Sacks/Baling Hoops 72
G. Sudan Airways/Boeing Spare Parts 74
H. Road Surfacing Equipment 77
I. Composite Flour Equipment 78
J. Regional Agricultural Inputs..... 81

1. Agricultural Tractors 81
2. Edible Oil Refineries 84
3. Cold Storage Equipment 85
4. Sorghum Milling Equipment 87
5. Other Agricultural Equipment..... 87

VII. Market Analysis and CIP Allocation 91

A. U.S. Share of Imports 91
B. CIP Pipeline 91
C. Positive List and Tentative Allocation of Commodities to be Procured 92

VIII. Local Currency Component 97

A. Counterpart Generations 97
B. Trust Account Deposits 98

IX. Program Implementation 99

A. Overview 99
B. Implementation Procedures 99
C. Procurement, Financing Procedures and Financial Analysis 100
D. Eligible Commodities 100
E. Procurement Restrictions/Limitations 100
F. Commodity Eligibility Date 101
G. Terminal Disbursement Date 101

H. Port Clearance and Inland Transportation 101
I. Methods of Implementation and Financing 101
J. Import Controls 102
K. GOS Allocation and Control of CIP Funds 103
L. Tentative Implementation Schedule 104
M. Evaluation of Economic Impact and Accountability 104
N. Related Technical Services..... 105
O. Regional Institutions..... 106

X. Other Considerations 109

A. Impact on U.S. Balance of Payments 109
B. Internal Financial Effects 109
C. Use of U.S. Government Excess Property 109
D. Relation to Export-Impor: (Ex-Im) Bank Credits 109
E. Relations to the Overseas Private Investment Corporation (OPIC) Program 109

XI. Recommendations 111

A. Terms and Conditions 111
B. Authorities 114

Annexes

A. Initial Environment Examination

B. Statutory Checklist

C. Bibliography

D. CIP Local Currency Allocation

E. Mission CIP Order

F. Commodity Procurement Implementation Plan

TABLES

Number		Page
1.	Three Year Public Investment Program, Local and Foreign Costs	4
2.	Estimated Medium and Long-Term Public Guaranteed External Debt Outstanding, December 31, 1982	7
3.	External Public Debt Service Obligations, 1984-88	8
4.	Debt Service, 1984	9
5.	Structure and Terms of External Public Debt Commitment Jan 1, 1972 - Dec 31, 1982. Debt Repayable Foreign Currency and Goods	10
6.	Outstanding External Arrears, June 30, 1981	11
7.	Revised Projection of official Aid Disbursement, 1983	14
8.	Balance of Payments, 1983 - 1984	26
9.	Composition of Exports, 1978/79 - 1982	29
10.	Direction of Exports, 1977/78 - 1981/82	30
11.	Composition of Imports, 1978/79 - 1982	31
12.	Origin of Imports, 1978/79 - 1981/82	33
13.	Gross Reserves and Net Foreign Assets, 1973/74 - 1981/82 Outstanding on June 30	37
14.	Changes in Cost of Living Index, 1978/79 - 1982/83	39
15.	Foreign Financing of Central Government Budget, 1975/76 - 1980/81	41
16.	Projected Foreign Exchange Tranasaction fo the Bank of Sudan in 1984	44
17.	External Gap Analysis, 1984	45
18.	Financing Requirements, 1984	46
19.	Domestic Petroleum Resources	48
20.	Private Textile Firms	66

21. Public Sector Textile Firms 67

22. Sudan Airways Traffic Capacity
and Performance 75

23. Sudan Airways Export and Import Cargo 76

24. Exports of Fruits and Vegetables 89

25. Fish Production by Region 90

26. CIP Pipeline 92

27. Illustrative CIP Allocations for FY 1984 93

I. SUMMARY AND RECOMMENDATIONS

A decade ago, Sudan's current account was approximately in balance. Government savings, the difference between current revenues and expenditures, were about 2% of GDP and financed most of public investment, gross national savings were over 11% of GDP and the inflation rate and debt service burden were relatively low. Financial stability, however, was accompanied by economic stagnation.

In the mid-1970s, the GOS launched a major public investment program. Large public investment spending stimulated rapid growth, but the consequent surge in imports, for consumption as well as investment, was accompanied by deteriorating public and private savings rates. The foreign exchange gap resulting from adverse import and export trends led to a rapid increase in external borrowing, while at the same time growing budgetary imbalances led to increased deficit financing by the Bank of Sudan. The consequences were accelerating inflation and rapidly rising debt service obligations. On the production side, inadequate provision was made for maintenance of export-oriented public irrigation schemes, and project selection and implementation problems delayed returns from new investments. Thus, Sudan's GDP growth averaging 8 percent per annum during the mid-seventies could not be sustained. External debts became due before physical assets achieved full production, and the foreign exchange constraints which emerged by the late 1970s resulted in a contraction of imports, leading in turn to production problems in agriculture, underutilization of infrastructure and manufacturing capacity, an erosion of the fiscal base, and a decline in overall economic activity. The result was economic stagnation and financial crisis after 1978.

The Sudanese economy suffers from major structural imbalances between investment and savings, public revenues and expenditures, and imports and exports. External debt servicing, which is ten times export earnings, with imports three times exports, a current account deficit over 10 percent of GDP, a population growth rate over 3 percent, and over half a million refugees from neighbouring countries to be supported, is a major challenge requiring exceptional effort.

In 1981/82, Sudan's economy hit a low point when the trade deficit topped $1.5 billion. Imports were unusally 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 merchandize 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 profitting from the reforms of the early 1980's. All the same, with a debt then topping $7 billion, Sudan was forced to undergo comprehensive debt restructuring and economic reform under the auspices of the IMF, Paris Club, and the Consultative Group of donor countries.

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, falling to around $900 million. With CG pledges of $375 million of program assistance and $680 million of planned debt relief, the GOS will still experience a sizeable residual financing gap. Some donors are considering increased program assistance for specific purposes while the GOS is further examining ways of reducing needs for foreign exchange.

Planned A.I.D. support in 1984 includes $28 million of project assistance, $50 million in PL 480 commodities, and $120 million of ESF support, including an $18 million cash grant signed in February, a $40 million CIP grant planned to support a petroleum initiative, and $62 million of CIP commodities proposed under this PAAD. In 1983, after Saudi Arabia the U.S. was second largest bilateral donor providing 17.5% of $800 million disbursed by bilateral and multilateral donors.

One of the important refinements in the proposed CIP is USAID's special attention to assessing the economic impact of the commodities to be imported under this grant. The economic impact of each category of commodities to be imported is assessed in Section VI. As a result of this analysis a higher percentage than in previous years will be utilized by private firms. In addition, USAID is now directing CIP commodities for the first time toward end users in the rainfed sector which earns more net foreign exchange than the irrigated or industrial sector. With cotton exports not expected to regain the 1970 level until 1988/89, the CIP is placing new emphasis on the role of rainfed crops in expanding foreign exchange earnings. Indications are that the best institutional means for reaching rainfed end users are existing development finance corporations, the Agricultural Bank of Sudan and the Industrial Bank of Sudan, both of which are well established financial institutions which can assess feasibility and provide credit for economically and financially sound projects. A major part of the commodities provided under this grant also is earmarked for continued rehabilitation of the electrical transmission and distribution system which still imposes immense costs on the economy because of power outages.

II. BACKGROUND

A. Origin of the Foreign Exchange Crisis

The initial causes of chronic foreign exchange shortages arose during the early 1970's, when the GOS undertook a major public sector development program and borrowed heavily from abroad to finance the program which, with large increases in petroleum import prices starting in 1973, initiated a period of extreme shortages of foreign exchange from which the economy has not recovered. Lagging exports, a steadily widening trade gap, and growing budgetary deficiencies compound the economic difficulties. Cotton exports, which accounted for 60 percent of total exports and averaged $300 million annually during the 1970's, fell to $158 million, 32 percent of total exports in 1981. Non-cotton exports have offset the decline to some extent but there were virtually no increases in total exports until 1983. Imports, on the other hand, led by petroleum and sugar, increased 90 percent from $1.0 billion in 1976 to $1.9 billion in 1981/82, declining to $1.7 million in 1983 (Table 7).

Sudan's external payments weakened after the mid-1970's from a combination of domestic and external factors, including: (1) slow growth in output, particularly of export commodities; (2) rising public and private expenditures financed mainly by internal and external borrowing; (3) labor shortages resulting from migration of workers to the Arabian peninsula; (4) cost/price distortions arising from controls on prices of key inputs, commodities and profit margins; (5) an overvalued exchange rate which reduced the profitability of exports and encouraged imports; (6) negative real rates of interest which discouraged financial savings; (7) rising international prices of essential imports, particularly petroleum and sugar; and (8) a growing external debt service because of a rise in international interest rates and a sharp increase in indebtedness (Table 2). By mid-1978, the economy faced a severe shortage of foreign exchange and a buildup of external payments arrears.

B. Government Policies and Programs for Economic Recovery

1. Three Year Public Investment Program. In response to the serious economic situation, the GOS, with IMF and IBRD assistance, embarked upon a three-year economic stabilization and development program in July 1979. The program was aimed primarily at reducing the recurring balance of payments deficits and restoring growth to the economy (Table 1). The principal targets were to: (1) raise the growth rate of real GDP from a negative rate in 1978/79 to 4 percent per annum; (2) lower the rate of inflation from the 26.7 percent in 1978/79 to 10 percent by 1981/82; (3) hold the current account deficit to U.S. $400 million by 1981/82 vs. $458 million in 1978/79; and (4) eliminate external arrears. Key measures included fiscal and monetary restraints, periodic exchange rate adjustments, the elimination of import price subsidies, reduced taxes on exports, and the restructuring of agricultural incentives to encourage the increased production of export crops, primarily cotton and to a lesser extent, sorghum.

After assessing GOS performance during the first year of the three-year program, the IMF forecast gradual improvements in the Sudan's balance of payments, beginning 1983. Results during the second year (1981/82), mainly the poor performance of cotton production, led the IMF to terminate the three-year program in favor of annual standby arrangements.

1. Three Year Public Investment Program, Local and Foreign Costs

Sector	1981/82	1982/83	1983/84	1984/85
			Local	
Agriculture	34	50	66	74
Manufacturing	13	10	14	12
Energy and Mining	12	18	17	12
Water	6	9	10	10
Transport & Communication	64	45	42	41
Services	25	25	31	34
Regional Development	42	52	60	64
Total in current prices	196	209	239	247
Total in constant 1981/82 prices	196	182	185	174
			Foreign	
Agriculture	60	91	131	121
Manufacturing	3	15	26	28
Energy and Mining	55	50	50	45
Water	5	10	15	14
Transport & Communication	90	70	75	70
Services	31	21	27	31
Regional development	17	18	21	26
Total in current prices	261	275	345	335
Total in constant 1981/82 prices	261	239	267	236
			Total	
Agriculture	94	141	197	195
Manufacturing	16	25	40	40
Energy and Mining	67	68	67	57
Water	11	19	25	24
Transport & Communication	154	115	117	111
Services	56	46	57	65
Regional development	59	70	81	91
Total in current prices	457	484	584	582
Total in constant 1981/82 prices	457	421	452	410

Source: Ministry of Finance and Economic Planning, Prospects, Programmes and Policies for Economic Development 1982/83 - 1984/85

Economic indicators since 1982 were not encouraging. Development of petroleum reserves in southwestern Sudan has continued but recently was interupted (Table 19). Contracts for construction of a pipeline to transport 50,000 barrels per day were awarded in 1983. Consumption of petroleum products is expected to increase about 10% this year. The disappointing economic performance was accompanied by 37% expansion of the money supply which, with reduced output, increased the rate of inflation. The cost of living index rose 41% during the 12 months through March 1983, compared with 24% in the preceding year (Table 13).

2. The 1983/84 Standby Arrangement. The 1983/84 Standby Arrangement, which covered the period February 23, 1983 through February 22, 1984, was aimed at strengthening the external payments position by: (1) providing encouragement to exports, particularly agricultural products; (2) restraining growth of imports while redirecting their composition toward intermediate and capital goods and away from non-essential consumer goods; and (3) increasing incentives for remittances by Sudanese workers abroad. Specific real and financial targets were set for 1982/83 and 1983/84 to be backed by policy measures. More specifically, the economy was expected to achieve a growth rate of 3.5% in 1982/83 (cotton output to increase about 16%) and, in order to achieve a reduction in the rate of inflation to about 25%, monetary expansion was to be contained to about 28% and the overall budget deficit to be reduced to 7% of GDP. The performance of the economy overall has not met these expectations.

During 1982/83 aggregate real GDP declined 2 percent. Policy steps taken by the GOS to encourage production in irrigated agriculture, including increased procurement prices and rehabilitation of physical capital, increased yields and output substantially. Cotton production rose 29% and yields 24%. However, this growth was more than offset by a sharp reduction in production in rainfed areas due to drought where dura output declined 32%, groundnuts 29%, and sesame 42%. Real agricultural value added declined nearly 8%. Manufacturing output rose somewhat because of improved production of sugar and cement, attributable to rehabilitation. The manufacturing sector continues to operate well below capacity.

Fiscal performance was more encouraging. The budget deficit declined from 9.8% of GDP in 1980/81 to approximately 6.1% in 1982/83. Reliance on bank credit to finance government expenditures declined from 23.7% to 6%. Because of revenue measures, including a change in tariff rates, increases in excise taxes, and higher rents and fees, tax revenues rose 41% and non-tax revenues, 31%, nearly matching the rate of inflation. The increase in government expenditures in 1982/83 is expected to be held in 22%.

The current account improved considerably in 1982/83. Export earnings rose 48% with a doubling of cotton exports. Imports declined 7%, largely because of lower payments for petroleum and of sugar imports. The current account deficit is expected to be less than half of the $1.1 billion deficit in 1981/82.

Improvement in external payments is expected to continue through 1984, largely through increased earnings from cotton and other agricultural exports

which requires continued rehabilitation of capital stock, availability of imported inputs and electricity, and appropriate domestic pricing and demand policies to encourage exports and curtail non-essential imports. The GOS maintains that measures to broaden the free market can be expected to reduce the divergence between the official and free market rate. A major increase in the rate of domestic savings, particularly in the public sector, is needed to increase investment.

While some indicators of economic performance during 1982/83 are encouraging, debt service obligations are expected to exceed exports in each of the next five years and annual debt rescheduling will be required for several years (Table 3).

3. Debt Rescheduling. Three rescheduling agreements between Sudan and official creditors, comprising the Paris Club, took place in November 1979, March 1982 and February 1983. Although Sudan's initial obligations under the 1979 agreement were met on schedule, debt servicing difficulties again became apparent toward the end of the 1981 and, in addition to the inability to meet the principal payments due in October 1981, substantial arrears accumulated on interest obligations (Table 6). The GOS again approached the Paris Club and a meeting was convened in March 1982 to consider a request for further debt relief and an agreement was reached whereby 90 percent of debt service payments due, and not previously rescheduled, between July 1, 1981 and December 31, 1982 were rescheduled. The amount rescheduled is estimated at $180 million. However, mainly because of delays in finalizing the bilateral agreements with the individual creditors concerned and to the continuing foreign exchange constraint, the GOS did not make any payments.

In 1982, the GOS decided to adopt a global approach to the restructuring of external indebtedness in support of a domestic stabilization effort. The structure and terms of the debt are given in Table 5. This process began with the selection of an External Finance Co-ordinator by the GOS and major creditors, in co-operation with the IMF and the IBRD, to coordinate the formulation of a debt rescheduling arrangement. The members of the Paris Club met on February 3 and 4, 1983 and agreed to reschedule all principal and interest payments due before December 31, 1983 and not already paid, on: (1) commercial credits guaranteed or insured by the governments of the participating creditor countries or their appropriate institutions, pursuant to a contract or other financial arrangement concluded before January 1, 1983; (2) loans from governments or appropriate institutions of the participating creditor countries concluded before January 1, 1983; and (3) repayments of principal and interest due as a result of the consolidations concluded or to be concluded according to the Paris Club reschedulings of November 1979 and March 1982. The Club members agreed that only one-half of the interest due in 1983 on the amount rescheduled would be paid. The other half was capitalized and will be repayable in accordance with terms applicable to the other categories of debt under the rescheduling agreement. The total amount rescheduled was estimated at U.S. $535 million. The rate and conditions were to be determined bilaterally between the GOS and the government or appropriate institutions of each participating creditor country. In addition to the rescheduling granted, the participating creditor countries agreed, in principle, to a meeting to consider Sudan's debt service

2. Estimated Medium- and Long-term Publicly Guaranteed External Debt Outstanding, December 31, 1982

Item	$ Million
International organizations	1,346
Foreign governments	3,959
Arab oil exporting countries	2,049
Members of the Paris Club	1,487
Eastern bloc, Yugoslavia	423
Financial Institutions	1,040
Suppliers' credits	379
Memorandum items:	
Debtor balance under bilateral agreement with Egypt	121
Total outstanding debt (disbursement only)	6,724

Source: IMF, September 1983

3. External Public Debt Service Obligations, 1984-88

($ Million)

Item	1984	1985	1986	1987	1988
A. Debt service on disbursed debt	976.2	1,118.2	1,117.1	1,068.9	986.5
Bilateral	633.6	637.7	569.6	517.1	480.5
OECD countries	243.3	215.8	200.2	158.7	153.2
Paris Club I	(86.6)	(85.5)	(80.8)	(32.0	(29.9)
Paris Club II	(29.2)	(18.5)	(18.3)	(33.8)	(46.9)
Paris Club III	(56.3)	(56.3)	(56.3)	(56.3)	(56.3)
Other	(71.2)	(55.5)	(44.8)	(36.6)	(20.1)
OPEC member countries	347.4	386.7	326.2	319.9	298.2
Eastern bloc countries	25.4	23.2	20.8	17.9	14.3
Other countries	17.5	12.0	22.4	20.6	14.8
Multilateral	193.4	225.2	264.0	289.1	263.0
IMF	146.8	177.7	216.1	242.6	216.3
Use of resources	(135.0)	(159.4)	(195.5)	(222.1)	195.8)
Trust Fund	(6.9)	(13.4)	(15.7)	(15.6)	(15.6)
SDR charges	(4.9)	(4.9)	(4.9)	(4.9)	(4.9)
World Bank	11.9	12.8	13.2	11.8	12.0
IBRD	(7.1)	(7.1)	(7.1)	(7.1)	(7.1)
IDA	(4.8)	(5.7)	(6.1)	(6.3)	(7.0)
Other	34.7	34.7	34.7	34.7	34.7
Financial Institutions	149.2	255.3	283.5	262.7	234.0
Commercial bank rescheduling	113.2	219.3	247.5	226.7	207.0
Other	36.0	36.0	36.0	36.0	36.0
B. Debt service on debt yet to be disbursed	96.5	173.5	219.5	267.5	357.7
Total	1,072.7	1,291.7	1,336.6	1,336.4	1,344.2

Source: GOS, IMF Treasurer's Department, IBRD Debtor Reporting System. IMF estimates August 16, 1983.

4. Debt Service, 1984

($ Million)

Item	Principal	Interest	Total
Public or publicly guaranteed debt	515	535	1050
Peat Marwick Mitchell data	475	442	917
Multilateral institutions	127	56	183
IMF	93	40	133
IBRD/IDA	7	6	13
Other	27	10	37
Bilateral creditors	348	227	575
Paris Club	170	136	306
OPEC members 1/	147	83	230
East bloc 1/	14	2	16
Other 1/	17	6	23
Commercial Banks	-	159	159
Rescheduled	-	133	133
Other	-	26	26
Adjustments to Peat Marwick data	40	51	91
Multilateral institutions arrears	40 2/	-	40
Interest on non-Paris Club reschedulings	-	51	51
Servicing of debts contracted in 1983 and 1984	-	42	42
IDA	-	1	1
IMF and AMF	-	30	30
Other multilateral creditors	-	3	3
Bilateral creditors	-	8	8
Private Debt	73	20	93
Suppliers	70	7	77
Pre-1983 obligations	17	1	18
Servicing of debts contracted in 1983-84	53	6	59
Other private debt.	3	13	16
Total	588	555	1,143

1/ Assuming arrears and amounts due in 1983 are rescheduled.

2/ To eliminate remaining arrears. These are, assuming no interest on outstanding amounts—ADB: US $12 million; AFSED: US $2 million; EEC: US $1 million; and IDB: US $10 million.

Source: IMF estimate 12/13/83

5. Structure and Terms of External Public Debt
Commitments Jan. 1, 1972 - Dec. 31., 1982
Debt Repayable Foreign Currency and Goods

($000)

Period Ending	Amount ($)	Interest (%)	Maturity (Yrs.)	Grant (Yrs.)	Grant Element (%)	Grant Equivalent ($)
7212	168,205	3.243	21.5	6.9	46.7	78,541
7312	276,590	4.434	23.2	5.5	39.4	108,936
7412	518,573	5.539	14.6	4.8	28.0	145,264
7512	625,759	5.408	18.0	4.5	29.9	187,317
7612	635,505	5.145	17.4	5.6	30.9	196,182
7712	628,992	5.356	14.1	4.7	27.0	169,770
7812	752,884	4.204	24.1	6.5	41.8	314,456
7912	739,214	4.434	20.2	5.8	38.0	280,922
8012	744,234	3.033	25.6	6.2	49.5	368,719
8112	312,867	7.257	24.1	5.7	32.7	102,341
8212	700,564	3.594	20.6	5.6	42.0	293,913
Total	6,103,387	4.613	20.1	5.6	36.8	2,246,361

Source: IBRD Debt Reporting System

6. Outstanding External Arrears, June 30, 1981

Creditors	$ Million
1. Bilateral	599.1
OECD Countries	274.5
Paris Club I	(87.4)
Paris Club II	(40.0)
Other Bilateral	(0.1)
Other Suppliers	(55.9)
Other financial instit ons	(126.1)
Eastern bloc	53.8
Oil producers	270.8
2. Multilateral	77.8
3. Suppliers	26.8
4. Financial Institutions	188.5
Other multiple lenders	111.8
Arab financial institutions	76.7
5. Short-term	859.0
Financial Institutions	323.0
Suppliers credits	536.0
Total	1,751.2

Source: IMF

obligations due after December 31, 1983. The GOS undertook to negotiate comparable rescheduling agreements with bilateral creditors that are not members of the Paris Club and also with the commercial banks.

Following the agreement at the Paris Club meetings, the GOS began negotiations with Sudan's principal oil exporting country creditors who had indicated that they would provide relief in 1983 of the same type as provided by the Paris Club creditors. Discussions on the rescheduling of debts owed to some of the smaller remaining creditors also have begun. In addition to rescheduling agreements with official creditors, the GOS reached agreement with the commercial banks at end-December 1981 to reschedule interest and principal in arrears. The agreement called for a downpayment of $106 million to be made by March 26, 1982. This downpayment was not met in full, and the banks agreed to defer the unpaid portions for settlement in three installments two months apart, starting September 1982. However, as with indebtedness to official creditors, the foreign exchange shortage prevented these obligations from being met. Approaches were made in February and March 1983 to more than 100 banks participating in the 1981 agreement for a major amendment to the terms of the agreement. By April 5, 1983 all participants in the 1981 agreement had accepted the terms of the modification. Other banks not party to the original agreement have also been approached for refinancing on similar terms. The 1981 agreement was amended so that all principal and interest outstanding as of April 5, 1983 under that agreement were consolidated into a single loan amounting to U.S. $646 million. The loan is technically repayable on demand at the instruction of a group of banks composed of the major creditors. In the absence of such instruction, the consolidated loan will be repayable in accordance with the terms previously agreed, i.e. 17 quarterly installments starting April 5, 1985. Interest in the consolidated loan will accrue quarterly at 1.3/4 percent over the six month London Interbank Rate. Although the debt relief in 1983 has reduced Sudan's debt service obligations to manageable proportions, debt service prospects over the medium term remain very unfavorable.

C. Other Donor Assistance

In 1983, disbursements of official donor assistance were about one third multilateral and two thirds bilateral. Two thirds of the $800 million disbursed was cash or commodity assistance. Saudi Arabia was the largest contributor.

Country/Institution	$ Million	Percent
Bilateral		
Saudi Arabia	178	22.3
U.S.	140	17.5
Germany	50.	6.3
U.K.	35	4.4
Netherlands	34.	4.3
France	30.	3.8
Italy	26.	3.3
Japan	38.	2.8
Other	38.	4.8
Subtotal	553.	69.1
Multilateral	60.	7.5
IBRD/IDA	60.	7.5
Arab Monetary Fund	50.	6.3
EEC	41.	5.1
Islamic Development bank	35.	4.4
Arab Fund	16.	2.0
African Development bank	16.	1.9
IFAD	15.	1.3
OPEC Fund	10.	1.3
Saudi Fund	10.	1.3
Subtotal	247	30.9
Total	800.	100.0

Source: Table 7. IMF

7. Revised Projections of Official Aid Disbursements, 1983

Source	Initial Projections			Revised Projections		
	Cash Commodity	Project	Total	Cash Commodity	Project	Total
Bilateral						
Australia	2	-	2	2	-	2
Canada	8	5	13	8	5	13
Denmark	-	5	5	-	5	5
Finland	2	2	4	-	3	3
France	20	15	35	20	10	30
Germany, Federal Republic of	8	50	58	10	40	50
India	8	-	8	8	-	8
Italy	29	10	39	16	10	26
Japan	20	15	35	12	10	22
Netherlands	14	14	28	12	12	24
Norway	5	5	10	5	2	7
Saudia Arabia	100	-	100	178	-	178
Spain	5	-	5	5	-	5
Switzerland	5	-	5	5	-	5
United Kingdom	15	35	50	10	25	35
United States	130	25	155	120	20	140
Subtotal	371	181	552	411	142	553
Multilateral						
Abu Dhabi Fund	50	-	50	-	-	-
African Development Bank	-	10	10	-	10	10
Arab Fund	-	16	16	-	16	16
Arab Monetary Fund	50	-	50	50	-	50
European Community	23	18	41	23	18	41
International Fund for Agricultural Development	-	15	15	-	15	15
Islamic Development Bank	-	-	-	35	-	35
OPEC Fund	10	-	10	10	-	10
Saudia Fund	-	10	10	-	10	10
IBRD/IDA	10	50	60	10	50	60
Subtotal	143	119	262	128	119	247
Total	514	300	814	539	261	800

Source: IMF, July 14, 1983. Includes disbursements from commitments in previous years.

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

The GOS/CG monitoring group indicate that donor assistance has not been as forthcoming as pledged. According to the GOS, Joint Monitoring Committee, the Consultative Group (CG) meeting in Paris in January 1983 provided aid commitments for 1983 of $740 million, of which $440 million was commodity aid and $300 million project aid. Actual commitments of external aid through October were:

Type	$ Million
Commodity Aid	335.0
Cash Aid 1/	70.0
Project Aid	330.0
Total	735.0

1/ Excluding IMF and AMF credits.
Source: GOS, Joint Monitoring Committee, November 1983.

Although commitments of commodity and cash aid for balance of payments support are in line with commitment pledges by the CG, disbursements were only 68% of the total authorized. No disbursements were made of the new project aid agreements signed during 1983 because of the long lag between commitment and disbursements. Disbursements during 1983 were from earlier agreements. Overall aid commitments for 1983 were substantial but disbursements were low because of implementation bottlenecks. Commitments by IMF and AMF were $202 million and gross disbursements were $148 million through October 1983.

World Bank Group gross commitments to Sudan total $922 million. Of this, $33.0 million are IFC commitments. There have been eight IBRD loans (two on Third Window terms) and 33 IDA credits for a total of 36 projects. Twenty projects are under implementation. About 55 percent of total Bank/IDA lending was for agricultural development. Projects in other sectors include three power projects, two education projects, two highway projects, four railway projects, two port projects, two technical assistance projects, and two industrial credit projects.

In 1983, IDA has committed a total of $130.0 million, of which $80.0 million equivalent was for the Gezira Rehabilitation Project and $50.0

million for the Second Agricultural Rehabilitation Program. The Gezira project is expected, over 5 years, to raise crop yields and production through improved irrigation, drainage and pumping systems; rehabilitation of infrastructure and ginneries; provision of critical inputs; and improvements in training, research and health control in the area. The project, which has a total cost of $230 million, is cofinanced by Italy, the United Kingdom, the Arab Fund and the Saudi Fund for Development. Japan is also considering cofinancing this project. The Second Agricultural Rehabilitation Program will further support the Government's efforts to expand agricultural export earnings through the provision of inputs and spare parts on a fast disbursement basis in the irrigated subsector. Switzerland plans to contribute to ARP II financing.

The Bank group expects in 1984 to disburse a total of about $96 million which would consist of approximately $40 million in commodity assistance under the Second Agriculture Rehabilitation Program Credit and $50 million in project assistance for projects.

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

1. Improved Balance of Payments. Support for development projects and policy actions which help the country to generate or save foreign exchange, with priority to rehabilitation of existing capital investments in agriculture and increasingly, in the future, in other sectors;

2. Key Infrastructure. Support for infrastructure projects which relieve the most critical bottlenecks inhibiting productive output, especially in power and transport;

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

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

D. U.S. Contribution

The U.S. has provided balance of payments support to the Sudan since resumption of the AID program in FY 1978. Concessional sales of PL 480

Title I wheat averaged $10 million in FY 1978 and FY 1979. In FY 1980, a five-year $100 million Title III program was signed. Combined Title I/III imports for FY 1984 are programmed at $50 million, maintaining the FY 1983 level.

U.S. balance of payments assistance also has been provided since FY 1980 through the annual ESF-financed Commodity Import Program (CIP). ESF grants for CIP imports were $40,0 million in FY 1980, $50.0 million in FY 1981, $100.0 million in FY 1982, and $82.25 million in FY 1983 of which $20 million was a cash grant. Our initial ESF-financed FY 1984 cash grant for $18 million was provided in February 1984.

III. JUSTIFICATION FOR THE COMMODITY IMPORT PROGRAM

A. U.S. Interests and Objectives

Sudan has major significance for the U.S. in Africa and the Middle East. Because of its location astride the Nile Valley and along the Red Sea developments in Sudan are of prime importance to the security of Egypt and Arab States. It borders on six other African countries which together with Sudan constitute half the African continent. The interests of these African countries are strongly intertwined. Thus, with both African and Arabic influences, the country's geographic reach enhances its significance.

Sudan has a strong potential for economic influence as its agricultural endowment is superior to virtually all its neighbours. Sudan could become a major food exporter, increasing food security in nearby countries. To do so requires that Sudan continue stringent policy measures to reduce economic distortions, enhance productive capacity within agriculture, promote the private sector role in both trade and production, and improve infrastructure to allow these measures their full positive impact on the economy.

U.S.-Sudanese relations are stronger since the mid 1970's; their outlook of the countries coinciding on a broad range of regional and international issues. Under President Nimeiri, the GOS has openly supported Egypt in the Middle East peace process, and played a constructive role in Arab and African Councils.

In view of Sudan's importance to U.S. interests, the central objectives of U.S. assistance strategy are to encourage Sudan's stability and moderate political orientation. Sudan faces a continuing balance of payments problem and consequent cash flow shortages of the Bank of Sudan. Thus, the AID country strategy gives highest priority to balance of payments and budget support programs that allow Sudan to continue rigorous economic reforms, which are acting to increase tax and export revenues by increasing production and income.

B. Aid Assistance Strategy and Goals

In general, the tools at our disposal for serving U.S. interests are PL 480 wheat imports, debt relief via our Paris Club role, ESF funding through commodities or cash grants and policy dialogues.

During FY 1984, the ESF program level is $120 million. Of this amount, $18 million was provided as a program grant in February 1984. About $40 million is planned for the petroleum initiative and $62 million for the Commodity Import Program. The cash grant assisted the GOS in meeting critical payments.

In FY 1984 CDSS, AID predicated balance of payments support on several economic policy reforms to improve management and efficiency of the economy. The FY 1984 CIP program proposal directly addresses and expedites several of these reforms.

The proposed CIP grant does a great deal to promote U.S. goals for economic reform and stabilization in Sudan. By helping Sudan surmount a chronic foreign exchange shortage, a resonable debt rescheduling can take place at the upcoming Paris Club meeting, bolstering GOS efforts to develop creditworthiness. The $90 million in SDRs released to Sudan with IMF Standby approval facilitates imports of essential items and continuance of local development programs. Such short-term stabilization efforts help Sudan to continue addressing urgent structural problems in its economy through reforms outlined in our overall assistance strategy. The proposed CIP grant will strengthen Sudan's capacity to implement these reforms, all of which are required for long-term stability and growth.

C. GOS Economic Reforms

The GOS has undergone many difficult economic reforms, the fruits of which show in recently increased exports, import reductions and growth in the GDP. In policy dialogues with USAID, the IMF and the IBRD, the GOS has agreed to push for economic reform and past performance demonstrates its will to do so. Since the issuance of their first Three Year Public Investment Program the GOS has undertaken numerous policy measures to enhance Sudan's economic recovery. The list below includes the most important reforms.

1. Exchange Rate Adjustments. The table below shows the chronology of exchange rate adjustments in Sudan since 1978. The adjustments have decreased the value of the Sudanese pound from U.S. $2.872 prior to June 1978 to U.S. $0.77, the official rate in November 1982. The free market rate fell to around $0.50 by July 1983. Devaluations are encouraging production for export and discouraging consumption and non-essential imports. Production of cotton and other export crops is increasing in response to more attractive prices.

The organization of the foreign exchange market has settled to a system of official, and regulated commercial bank exchange rates and a free-market in which dealers are licensed by the GOS. Nearly all import commodities, excluding essentials such as wheat, wheat flour and pharmaceuticals, are imported at the commercial bank rate, reducing or eliminating implicit subsidies. Regarding exports, cotton was moved to the free market rate in June 1981, increasing the surpluses available for export. All unofficial, commercial imports are now financed from the free foreign exchange market.

Foreign Exchange Rate Adjustments

Date	Official $ per pound	Effective $ per pound	Parallel $ per pound
June 1978	2.50	2.00	none
Sept. 1979	2.00	2.00	1.25
Nov. 1981	1.11	1.11	none
Nov. 1982	0.77	0.77	none

Source: Bank of Sudan

2. Export Promotion. An export action program was initiated in 1981. To date, export taxes have been eliminated on all commodities except for a 5% development tax from which sorghum was exempt. The export monopoly by GOS of the Sudan Oilseed Company was abolished. Export proceeds are increasingly valued at free foreign exchange rate but only 25% of export proceeds are converted at the free rate. This seriously limits producer incentives.

The implicit export tax (excluding the 5% development tax) was reduced to 25% from 35% previous to any free market valuation of proceeds. The GOS also reduced its Fumigation Fee by 75% from LS 4.0 to LS 1.0 per ton.

3. Import Restrictions. With devaluation, the relative prices of imports increase and their volume declines. Yields from import duties also increase because the base value increase. To further circumscribe inefficient use of scarce foreign exchange, the GOS banned 39 luxury items. This action is also expected to reduce demand for petroleum products and electricity.

4. Foreign Trade Promotion. The GOS has created an Export-Import (EXIM) Bank to finance exports and essential imports. It is currently operating.

5. Private Investment. In this very important area the GOS has made a number of reforms. In November 1982, a National Development Bank was created with 10 million Sudanese pounds from the GOS and private investors to encourage private sector investment in transportation, food processing, and agriculture. An Investment Bureau now operates to provide a one-stop location where licences, building site permits, tax holidays and customs exceptions may be obtained. There is now a Ministry of Finance Committee established to streamline regulations and procedures for doing business in Sudan. Cotton, textile and sugar parastatals have been reincorporated under the Companies Act. Increases in interest rates on bank deposits and free market exchange rates help attract remittances from workers abroad, thus providing more investment capital. At the same time, the overall climate for foreign and domestic private investment has deteriorated. (See page 24)

6. Elimination of Subsidies. The government has actively pursued a policy of eliminating consumer subsidies. During 1983, prices of petroleum and petroleum products, cigarettes, wheat, wheat flour, bread and pharmaceuticals were raised substantially to match the adjusted import prices for these commodities. The factory gate price of sugar increased late in 1983. The GOS also doubled water and electricity rates in May 1983. As a result, customs duties yields grew rapidly and enormous budget subsidies, LS 82 million for wheat products alone, disappeared. The GOS has agreed in the FY 1984 PL 480 Title I agreement to remove all remaining foreign exchange subsidies in bread and flour in 1984.

7. Public Revenues and Expenditures. Decentralization of direct tax collection to the regional governments may help improve collection. Custom duty revenues show strong increases as base import values move to free market rates. At the same time, the GOS has undertaken to control the growth of recurrent expenditures, and 1982/83 projected expenditures are lower in real terms than those of 1981/82. The GOS has also covenanted under the recently obligated $18 million cash grant to reduce budget expenditures by 7%. The government has declared it will reduce reliance of the banking structure to finance public expenditures and keep deficit financing at prudent levels.

8. Monetary Policies. Having faced inflation rates up to 42 percent in recent years, the government took steps to limit the growth in the money supply. The 1983 target was 26 percent growth annually. To meet it, interest rates on savings accounts were increased to about 14 percent to encourage savings. Concurrently, the demand for money was limited by increasing loan rates to between 17 percent and 21.5 percent.

Money supply is also limited by a requirement that all commercial banks keep 10 percent of their total deposits with the Bank of Sudan, and that amounts due foreign suppliers be deposited in a frozen account.

Credit also is restricted to control inflation. Thus, borrowing between commercial banks is now prohibited. Credit facilities totalling more than LS 150,000 require prior approval; those under LS 150,000 must be reported to the BOS Loans and Commercial Banks Supervision Department of the BOS. Commercial banks may not lend for real estate transactions or for personal loans. Even public sector banks are limited to short-term financing of productive activities. Importers of all but basic goods must now deposit the full value, as opposed to 40 percent, of the letter of credit from their own sources.

9. Government Bonds. The GOS is issuing bonds for public sale. Special bonds in foreign currencies with short-maturities will be offered to workers abroad. This helps fight inflation, increase savings, and attract foreign remittances.

SUDAN: POLICY REFORM

Policy Issue	Status 12/83	Action Required
1. Exchange Rate Adjustment. The Sudanese pound has had a history of being overvalued and set by GOS. Since 1979 GOS also allowed a legal free market to operate. There has been a growing divergence between the official and the free rate. As a result it is difficult for Sudan to compete in the world market at an overvalued exchange rate.	The devaluation of 1978, 1979, and 1982 have brought the official rate down by 73% to Ls. 1.30 per dollar. The official rate is currently about 40% below the free market rate, which averages Ls. 2.10 per dollar. Presently about 60% of exports and 25% of imports are transacted through the free market.	The IMF in its 84 standby is encouraging the GOS to continue with a flexible exchange rate policy. The GOS should maintain a free market exchange rate (by merging the two rates thereby moving all transactions on the free rate.)
2. Import Liberalization. GOS presently imports sugar, wheat, pharmaceuticals and petroleum at the official exchange rate. The domestic prices of these commodities are controlled, leading to under-priced output and services.	USAID Mission has successfully negotiated the transfer of pricing wheat imports from Ls. 0.9 per dollar to Ls. 1.3 per dollar.	USAID Mission is now negotiating (through PL 480) program, the transfer of importation and distribution of wheat to the private sector.
	Petroleum crude refined is presently being imported and distributed by GOS with price controls. USAID mission along with IMF is negotiating with GOS on transferring the importation and distribution of petroleum to the private sector.	Import and distribution of all petroleum products to be in the hands of the private sector and market to determination of the price of domestically sold petroleum.
		In general, Sudan should liberalize imports. Instead of having import controls, GOS should move towards controlling imports through tariffs.

Policy Issue	Status 12/83	Action Required
3. Domestic Resource Mobilization. GOS has relied heavily on domestic borrowing and foreign financing rather than its own saving to finance investment. This has resulted in a reduced availability of goods for export, soaring imports, rapid inflation, and a debt servicing crisis.	a) GDS: the average rate fell from about 7% of GDP in 1978/79 to 0% in 1981/82, compared to an average of 20% for Sub-Sahara Africa.	a) GOS should not dissave, and should generate savings at least up to 10% of GDP during the rest of the decade.
	b) Gov't Budget: the overall budget deficit rose to 10.3% of GDP in FY 83.	b) Current revenues should at least be equal to current expenditures. The IMF targets for '83 are: Reduce the overall deficit to 7.4% of GDP.
	c) Total Revenue: fell from 14% of current GDP in FY 80 to 12.2% in FY 83.	c) Total revenue to increase to 13.2% of GDP.
	d) Total Expenditure: rose to 23.3% of GDP in FY 81 from 22.5% in FY 80.	d) Total expenditures to decline to 20.6% of GDP.
4. Monetary Control. Tighter control on money supply is essential because of its impact on aggregate demand and import demand.	In 1982-83. monetary growth reached 37% as opposed to the IMF target of 28%.	The IMF's proposed new monetary target calls for 18% growth in 1983-84.
5. Increase in Domestic and Export Prices: The GOS practice of setting prices has resulted in major problems in both production and expenditure. Of particular importance have been the prices for foreign exchange, capital, agricultural and industrial products, and public services.	Domestic producer prices have been higher than their border prices for sorghum and wheat. For groundnuts, sesame and cotton the producer prices has been (46.5), (43.5) and (89.2) percent lower than border prices.	Upward adjustments needs to be made in the prices for groundnut, sesame and cotton.
6. Interest Rates. Sudan has traditionally been reluctant to use interest rates to allocate capital, due to political and religious attitudes, and has instead adopted inefficient quantity restrictions on bank lending.	The lending and deposit rates average 15 and 9 percent respectively, but with domestic inflation at 25% p.a. during the three years, negative real rates of interest have prevailed.	More needs to be done to establish prices capital that are positive in real terms and reflect the true opportunity cost of capital.

Policy Issue	Status 12/83	Action Required
7. Public vs. Private Sector Relationships. Although the GOS is undertaking a well-publicized privatization program, events in the past year indicate that the public sector is emphasized at the expense of the private sector. This has resulted in increased inefficiencies and price distortions, a disappointing trend after the policy reforms of the last three years.	The parastatals, according to the IBRD, are growing at a rate of 25% p.a., despite privatization efforts that leave ownership in GOS hands. Recent promulgation of laws regulating companies without prior dialogue with Sudanese businessmen, has damaged private sector confidence in the economic environment. Most alarming the Military Economic Board is entering into production sectors of the economy, in competition with the private sector, at an increasing pace.	The private investment climate must be improved by instituting laws that provide an adequate legal environment for businessmen. Policies must be more consistent and discussed in advance. Government cooperation of productive activities must be stopped to avoid distortions in Sudan's economic recovery.

Overall Summary

GOS has implemented some tough reforms in the last two years, especially in the areas of foreign exchange and producer pricing. But in order for sustained recovery to take place GOS needs to revise the relationship between public and private sector.

IV. RECENT ECONOMIC PERFORMANCE

A. Balance of Payments

From $775 million in 1980/81, the current account deficit widened in 1981/82 to about $1.0 billion, because of an increase in the trade deficit to $1.5 billion. Export receipts were only $350 million, a fall of 20 percent from the previous low level which resulted entirely from a decline in cotton export earnings as the volume reached a new low and international prices fell. Earnings from other exports rose slightly, reflecting volume increases in sesame and livestock and higher international prices for sesame and gum arabic. Import payments increased nearly 16 percent, compared with 20 percent in the previous year, to $1.9 billion.

Underlying this increase was growth in domestic demand, and the high prices which Sudan had to pay for commodities such as sugar and petroleum. Capital inflows were much higher than in the previous year as a result of disbursements from commitments made at the donor's meeting in January 1982. Since actual principal repayments were small, the net official capital account improved significantly but this was insufficient to prevent the emergence of a large overall deficit of some $326 million compared with $203 million in 1980/81. Export earnings are expected to increase an average of 24% annually through 1985/86. Cotton exports are expected to show strong growth throughout the period. The trade balance will improve only slightly as imports continue to increase. Unless debt rescheduling and donor assistance continue, Sudan's capital account will worsen as official repayments fall due, despite increased trade.

The current account improved during the second half of 1982 as cotton exports revived, import payments declined slightly and the services and transfers account strengthened, largely from increased official transfers. The depreciation of the official exchange rate in November, and the attendant depreciation of the exchange rate in the free market through which most private sector imports are financed, contributed to reduction of imports. The trade deficit declined from more than $1,500 million in 1981/82 to about $1,022 million in 1983 which, together with a large increase in private and official transfers, is estimated to have reduced the current account deficit from more than $1,000 million in 1981/82 to less than $355 million in 1983 (Table 8).

The balance of payments projection for 1984 includes an increase in exports, continued constraint on imports, especially luxury and consumer goods, a small increase in remittance payments, and an assumption that donor project disbursements will slightly increase compared to 1983.

The deficit level, while based on trends underway in the last part of 1983, represents a considerable constraint which is possible and desirable if limits continue in the import of luxury and non-essential items, but will require skillful management to assure that this takes place without undue cutbacks in essential recurrent inputs and without creating disincentives for the flow of remittances.

8. Balance of Payments, 1983-1984

($ Million)

Item	1983 Projection of Stand-by Arrangement	1983 Revised Projection	1984 Projection
Exports	675	634	750
Cotton	238	239	296
Other	437	395	454
Imports	-1,800	-1,656	-1,610
Petroleum	-469	-486	-520
Other	-1,331	-1,170	-1,090
Trade Balance	-1,125	1,022	-860
Services net	-82	-208	-540
Receipts	525	243	270
Noninterest payments	450	-250	-255
Official interest payments	-157	-180	-535
Private interest payments	—	-21	-20
Private transfers	430	430	450
Current account (excluding official transfers)	-777	-800	-950
Official transfers	270	445	
Cash	30	20	—
Commodity	143	309	
Project	97	116	110
Current account (including official transfer)	-507	-355	
Capital account	514	144	
Official receipts	544	235	
Cash	(100)	(83)	( )
Commodity	(241)	(46)	( )
Project	(203)	(106)	(165)
Official payments	-60	-66	-425
Private receipts (suppliers credits)	40	70	70
Private payments	-10	-95	-70
Short-term capital 1/	)	)	
Overall balance	) 7	-211	-1,100
Memorandum item:			
Net Fund financing	154	154	—

1/ Including errors and omissions. Source: IMF, 12/13/83.

Petroleum import costs which have been included in the import projection at the same amount as in 1983, could be reduced if these products could be procured more effectively. High unit costs are caused by Sudan's inability to get the best price due to lack of adequate foreign exchange available to the Bank of Sudan. Petroleum import costs could be reduced by between $60 million and $100 million dollars annually if these products were bought at the most advantageous international prices.

The estimated disbursement of project aid of $275 million is somewhat lower than the $300 million estimated for 1983. GOS records show that project disbursements in 1983 were substantially lower than $275 million. Disbursements should be increased from the $275 million projection to $300 million. Almost all project aid disbursements result from project commitments made in prior years. An increase in disbursements in 1984 requires finding ways to disburse these past commitments more rapidly. To maintain the project disbursement rate in the following years requires new commitments somewhat in excess of the disbursements desired, since there are inevitably delays and dropouts before disbursements actually take place. New project commitments of around $400 million annually are needed to finance project disbursements in 1985 and later at the desired level of about $300 million per year.

IMF drawings under the next Standby Arrangement will be less than scheduled repayments to the Fund for the first time. These transactions, therefore, will have a negetive effect on official receipts and payments.

Official long-term obligations, whether subject to rescheduling or not, are included in the balance of payments table under the appropriate heading including repayments for interest and/or principal due to multilateral organizations, suppliers' credit payments needed to keep these credit lines open, and newly acquired obligations not included in the debt rescheduling.

B. Exports

In 1983, the export sector started to recover. The GOS has undertaken a program to revitalize the agricultural sector and has instituted reforms. In addition to devaluation, the GOS has increased incentives to tenants and begun to rehabilitate the infrastructure of the irrigated schemes.

Cotton export volume of 260,000 bales in 1981/82, was the lowest in many years, 44 percent below 1980/81 exports and 70 percent below 1979/80. The low volume resulted from the poor crop in 1980/81 when area and yields declined because of deterioration of transportation, and ginning facilities, and labor shortages,and poor producer prices. Since world prices were less favorable than in the previous year, cotton export receipts were only $69.4 million in 1981/82 compared with $182 million in 1980/81 and $333 million in 1979/80. In 1983, exports were estimated at $634 million, with cotton receipts increasing to around $239 million (Table 8).

From a peak of 135,000 tons in 1977/78, groundnut export volumes declined to 19,000 tons in 1979/80, in part because of reduced international demand and low world prices but mainly from increased domestic use of groundnuts. In the following two years, however, the volume of groundnut exports rebounded, in

response to rising international prices, to 70,000 tons in 1980/81 and 108,000 tons in 1981/82. In 1982/83, lower domestic production and a decline in prices worked to reduce groundnut exports to only 12,000 tons, thereby reducing receipts from $48 million in 1981/82 to less than $9 million.

Following an agreement with Saudi Arabia in 1979/80, which enabled Sudan to sell higher volumes at prices above world prices, sorghum exports rose from 55,000 tons in 1978/79 to 320,000 tons in 1980/81. To permit fulfillment of the contracts under the agreement, the export ceiling of 200,000 tons, which had been introduced to ensure adequate supplies for domestic consumption, was raised to 400,000 tons in 1979/80. In 1981/82, demand for sorghum tapered off and the export volume declined to 260,000 tons. As a result of the Saudi's reducing the subsidy on sorghum imported from Sudan, export receipts declined to $53 million. Export volume recovered in the second half of 1982 and export revenues rose to $85 million in 1982/83.

Official livestock exports rose sharply from $30 million in 1978/79 to an estimated $ 73 million in 1982/83, which resulted from introduction of large capacity trains for moving livestock from Khartoum to Port Sudan and elimination of export duties on sheep and goat exports in January 1982. Saudi Arabia is Sudan's principal market for sheep exports. Unrecorded exports are estimated to be nearly equal to bfficial export receipts.

The direction of Sudan's exports is shown in Table 10. Western Europe's share of Sudan's exports was unchanged in 1980/81, while the share purchased by the People's Republic of China and Eastern Europe continued to decline. The share directed to Arab countries, mainly Saudi Arabia, continues to increase. France's export share increased in 82/83, while the U.S.'s declined by more than 50%.

C. Imports

Imports rose steadily for several years, reaching $1.9 billion in 1981/82 before declining to $ 1.7 billion in 1983. Major contributions to the increase through 1981/82 were higher payments for sugar, wheat, and wheat flour imports and a large increase in the petroleum imports (Table 11). Wheat and wheat flour imports rose in volume from 159,000 tons in 1980/81 to a record 468,000 tons in 1981/82, resulting largely from a rapid increase in bread consumption in urban arreas and to a lesser extent from poor harvests caused by constraints on irrigation and the availability of other inputs. Sugar import volume also was substantially higher in 1981/82 at 202,000 tons, compared with 107,000 tons in 1980/81, but this increase was more than offset by lower international prices. The large increases in the volume of sugar imports were the result of lower than expected growth in domestic production. A major factor behind the rise in the petroleum imports to $495 million in 1981/82 was the closing of Sudan's only petroleum refinery in early 1982 for lack of crude oil financing, necessitating subsequent imports of higher-cost refined products. However, the refinery has since reopened. In 1981/82, imports of machinery and equipment, particularly transportation equipment, increased, while imports of chemicals, medicines, and manufactured goods declined. Transport related imports rose $87 million, out of which passenger car imports accounted for about $55 million, reflecting legalization of the

9. Composition of Exports, 1980/81-1982

$ million)

Item	1980/81	1981/82	1981	1982
Cotton	182.0	69.4	114.0	123.8
Groundnuts	65.6	48.1	82.6	36.1
Sesame	32.2	41.7	43.1	40.0
Gum Arabic	32.6	43.1	43.9	42.3
Dura (sorghum)	71.4	64.4	52.8	111.4
Vegetable oil and cakes	33.6	26.9	33.6	23.3
Castor oil	-	0.1	0.4	-
Livestock products	43.7	48.9	54.5	63.9
Other	17.8	38.6	29.6	48.6
Sub-Total	478.9	381.2	454.5	489.4
Re-exports	-	-	-	-
Total	478.9	381.2	454.5	489.4

Source: Bank of Sudan

10. Direction of Exports, 1978/79-1981/82

($ Million)

Item	1978/79	1979/80	1980/81	1981/82
Western Europe	171.8	181.6	179.6	143.7
Italy	65.7	70.0	40.1	38.4
Germany, Federal Republic of	24.0	24.4	22.9	15.9
France	28.0	16.5	17.5	33.9
Netherlands	7.8	8.4	30.8	14.5
United Kingdom	14.2	13.4	16.1	15.6
Others	32.1	49.0	52.1	25.4
China and Eastern Europe	179.3	179.2	81.0	40.0
U.S.S.R.	28.0	28.8	20.8	8.2
Poland	8.0	7.6	5.5	4.5
Yugoslavia	47.8	27.2	7.9	7.1
China	61.5	94.4	25.5	14.6
Others	34.0	21.2	21.3	5.6
Western Hemisphere	12.7	13.4	39.3	12.5
United States	12.3	13.4	39.3	12.5
Others	0.2	0.4	-	-
Africa and Asia	163.2	207.0	179.0	185.0
India	17.7	2.2	0.6	1.9
Egypt	29.0	11.4	12.8	20.1
Saudia Arabia	33.5	90.6	136.4	146.3
Others	83.0	102.8	29.2	16.7
Total	527.0	581.5	478.9	381.2

Source: Bank of Sudan

11. Composition of Imports, 1979/80-1982

($ Million)

Item	1979/80	1980/81	1981/82	1981	1982
Foodstuffs	266.2	314.4	371.2	297.6	277.9
Tea	20.0	27.6	25.6	29.0	25.6
Coffee	6.5	11.2	4.4	7.6	5.3
Sugar	122.7	183.6	158.5	151.5	90.8
Other	117.0	92.0	182.7	109.5	156.2
Beverages and tobacco	9.8	23.2	23.4	31.2	26.7
Crude material and petroleum products	259.0	404.4	509.9	375.4	484.8
of which: petroleum products	254.0	393.0	494.8	360.0	471.9
Chemicals and medicine	122.5	139.6	129.4	141.2	136.7
Manufactured goods	240.5	323.2	294.4	368.4	271.8
Machinery and equipment	234.2	231.2	273.0	241.0	290.2
Transport equipment	137.7	140.0	227.0	186.6	243.1
Textiles	70.0	55.8	56.4	60.6	49.3
Total	1,339.9	1,631.4	1,884.7	1,702.0	1,780.5

Source: Bank of Sudan

free market in foreign exchange in July 1981 which facilitated private sector transactions. The decline in imports of chemicals and medicines is attributable to the foreign exchange constraint in the official market.

The decline of imports in 1982/83 resulted from lower imports of petroleum and petroleum products, reflecting lower world prices and a smaller share of refined products, and no sugar imports through October, made possible by a large rise in domestic production and reduced growth of consumption following domestic price increases. The origin of imports is shown in Table 12.

D. Services and Transfers

The services account deficit remained roughly stable over several years amounting to $49 million in 1980/81, $65 million in 1981/82, and $38 million in 1982/83. Between 1979/80 and 1982/83, service receipts doubled, increasing from $261 million to over $500 million. However, revised IMF estimates for 1983 were reduced to $243 million. Receipts from services, government activities, and commissions and management charges have been the major contributors to the increase (Table 8). One explanation for growth is the increasing use of foreign currency accounts for the settlement of transactions. Since late 1979, residents as well as non-residents have been able to hold foreign currency accounts. Most private sector service transactions, which were previously undertaken either in cash or through banks outside of Sudan, have been settled through these accounts. However, there are certain services, such as payments for education, repatriations of profits, and some freight and insurance payments which can be transacted with foreign exchange purchased at the official exchange rate. In addition to interest payments, service outflows largely consist of travel and transportation expenditures and payments for services provided. With the exception of interests payments, service outflows grew by 48 percent between 1979/80 and 1982/83 to $403 million. Actual interest payments amounting to $169 million have been reduced by a failure to discharge contractual obligations and by the substantial debt relief from both official and commercial bank creditors.

Transfers receipts, mainly remittances from Sudanese workers abroad and official commodity and project grants, have grown steadily over several years and increased 40 percent in 1982/83, mainly because of the decision by aid donors in that year to channel assistance as grants rather than loans. Three channels existed for workers' remittances: (1) exchange into Sudanese pounds through the banking system at the official exchange rate; (2) deposits made directly into a foreign currency account with a Sudanese bank; and (3) transactions into Sudanese pounds through a licensed dealer at the free market exchange rate. Practically no transactions have been at the official rate since legalization of the free market in July 1981. Most of the remittances have been through the free market as the free market rate became more attractive.

E. Capital Account

The deficit in current account receipts and payments which has widened over several years, to a large extent, has been financed by foreign borrowing, much of it in the form of cash and commodity loans as well as borrowing for

12. Origin of Imports, 1978/79-1981/82

($ Million)

Item	1978/79	1979/80	1980/81	1981/82
Western Europe	567.5	624.9	687.6	677.6
United Kingdom	173.5	162.4	219.4	197.4
Germany, Federal Republic of	114.0	123.8	103.0	122.8
France	84.8	106.4	112.8	119.8
Italy	54.3	33.4	43.6	51.2
Belgium	21.3	44.8	29.4	79.4
Others	119.6	154.1	179.4	110.0
China and Eastern Europe	105.8	99.2	130.6	103.6
China	50.8	41.6	57.2	55.4
Czechoslavakia	13.0	15.2	9.0	6.0
Yugoslavia	16.5	13.2	15.8	4.4
Others	25.5	29.2	48.6	37.8
Western Hemisphere	73.3	143.8	198.4	238.8
United States	62.3	125.2	120.6	226.0
Others	11.0	18.6	77.8	12.8
Africa and Asia	181.6	196.8	259.4	243.7
Japan	77.8	51.8	74.6	88.2
India	41.8	33.4	34.6	33.8
Pakistan	3.8	22.6	10.4	7.8
Others	58.2	89.0	139.8	113.9
Arab countries	209.7	275.2	355.4	621.0
Total	1,137.9	1,339.9	1,631.4	1,884.7

Source: Bank of Sudan

specific projects. Given the difficulties which Sudan has had in meeting external debt service obligations, most of these loans have been provided on concessional terms and have resulted from efforts by major donors to ensure an adequate amount of such finance. Gross capital inflows, which averaged about $500 million in 1979/80 and 1980/81, are estimated to have risen to about $685 million 1981/82, largely as a result of the donor group meeting in January 1982. Most of the cash and commodity loans have been provided by Arab countries, mainly Qatar, Saudi Arabia, and the United Arab Emirates. Following the donor group meeting, however, there were substantial commitments from France, Italy, Japan and the United States. Loans for development projects also have continued from bilateral and multilateral sources. The general scarcity of foreign exchange in the official market has prevented meeting debt service obligations and substantial payments arrears were accumulated. Actual cash payments on debt service obligations, principal and interest, therefore, have been relatively low.

F. External Debt

A recent review of external indebtdness and debt maturity was carried out by Peat, Marwick, Mitchell and the Bank of Sudan (Table 2). The GOS has worked with IBRD to streamline the collection of debt data for the World Bank's Debtor Reporting System.' This has resulted in major revisions to the estimates of external indebtedness and are only available for the recent past.

Sudan's external public disbursements indebtedness, including net use of Fund credit at the end of 1982 is estimated to be $6.7 billion (Table 2). The distribution of the debt indicates that foreign governments accounted for 61 percent of the total, followed by debt to international organizations (19 percent) and to financial institutions and suppliers (15 percent and 5 percent, respectively). Among the bilateral lenders, Saudi Arabia and Kuwait were the largest. Of the multilateral lenders, other than the IMF, the World Bank group was the biggest creditor, followed by the Arab Fund for Social and Economic Development, the Islamic Development Bank, and the Arab Monetary Fund. Table 4 gives estimates from Peat, Warwick, Mitchell data on debt service in 1984.

During 1983, a comprehensive accounting of the debts was undertaken by the London accounting firm of Peat Marwick Mitchell working with a debt committee set up by the Sudanese Government. Sudan's very large annual external debt service obligation present serious difficulties and will continue to require substantial rescheduling (Table 4).

At the end of 1982, the outstanding official external debt, debt to foreign commercial banks, and a relatively small private debt was $7.4 billion. By the end of 1983, taking account of repayments of principal, capitalized interest, and new loans, the total is estimated at $8 billion, an increase of about $600 million.

Total interest and principal payments in 1983 were planned at $434 million. In addition to payments to multilateral creditors, payments to the bilateral creditors were arranged as follows. The amounts due to principal and interest were consolidated and rescheduled. Half of the interest was to

be repaid, and the other half was added to the rescheduled amount. The payments, determined by bilateral agreements with each creditor, have been or are in the process of being paid. Arrangements with the commercial banks were similar, and the agreed payments, totaling $30 million, are being paid on schedule.

In 1984, the debt service requirements will be very large for all three categories of creditors—multilateral, bilateral and commercial banks. The total, including private debt, is projected to exceed $1 billion, which would equal 75 percent of external receipts from exports, services, and remittances.

G. Foreign Exchange System

Sudan has a triple exchange system with an official exchange rate at LS 1.30 = U.S. $1.00 since devaluation in November 1982, a regulated commercial bank rate of LS 1.8 = $1.00, and a free market rate which has depreciated from about LS 1.75 = $1.00 in December 1982 to about LS 2.2 = $1.00 in March 1984. On February 27, 1983 four commercial banks were licensed to operate in foreign exchange along with the foreign exchange dealers. In March, seven additional banks were given licenses. Private sector imports, except for pharmaceuticals, were required to be financed from the free market and 25 percent of all export proceeds were to be sold to banks at the free market rate. The remaining 75 percent is to be surrendered to the Bank of Sudan at the official rate. On May 18, 1983 the foreign exchange dealers' licenses were suspended and they were requested by the authorities to re-apply for licenses after having incorporated their business.

H. Gross Reserves and Net Foreign Assets

Gross reserves of the Bank of Sudan have remained extremely low, falling in 1982/83 to the equivalent of 3.4 days of imports.

Gross Reserves of Bank of Sudan

Year	$ Million	Days of Imports
1979/80	17.8	4.8
1980/81	42.8	9.6
1981/82	29.9	5.8
1982/83	16.4	3.4

Source: IMF

Short term external liabilities of the Bank of Sudan have increased more than tenfold since 1974/75 which tripled the size of negative net foreign assets to nearly $1.0 billion in 1981/82 (Table 13).

13. Gross Reserves and Net Foreign Assets, 1973/74-1981/82
Outstanding on June 30

($ Million)

Item		1976/77	1977/78	1978/79	1979/80	1980/81	1981/82
Monetary Authorities	112	-589.0	-604.0	-602.0	-751.0	-1,168.2	-1,206.1
Convertible Foreign Exchange	113	25.0	22.0	31.0	61.0	70.4	53.5
Net bilateral claims	114	-36.0	-41.0	-37.0	-58.0	-86.6	-102.9
Net IMF position	115	-134.0	-92.0	-145.0	-235.0	-523.8	-350.3
BOS ST external liabilities	116	-340.0	-391.0	-384.0	-456.0	-540.6	-709.2
Kuwait loan liabilities	117	-104.0	-102.0	-67.0	-63.0	-87.6	-97.2
Commercial Banks	118	38.0	58.0	99.0	191.0	370.2	223.2
Assets	119	55.0	81.0	120.0	265.0	546.2	334.9
Liabilities	120	-17.0	-23.0	-21.0	-74.0	-176.0	-111.7
Net Foreign Assets	121	-551.0	-546.0	-503.0	-560.0	-798.0	-982.9
Memo: INTL reserves	77	23.1	21.9	27.4	40.5	30.8	20.5

Source: Bank of Sudan

V. ECONOMIC PROSPECTS FOR 1983/84

A. Production

Recovery of agricultural output from rainfed areas and expansion in irrigated agricultural and manufacturing production are expected to result in 4.4 percent growth in real GDP in 1983/84. To encourage production of agricultural exports and import substitutes, the GOS is giving highest priority in allocating credit and foreign exchange to the rehabilitation of public agricultural enterprises. The focus of policy will continue to be on cotton production, the principal source of export earnings. The improvements in financial returns to cotton farmers and higher standards of field operations over the last two years have increased yields and total output.

In the 1983/84 growing season, the GOS intends to raise again domestic procurement prices for cotton varieties to reflect rising international prices and the depreciation of the Sudanese pound, and to expand the area under cultivation about 11 percent through machinery and equipment, fertilizer, and insecticides procured under World Bank agricultural rehabilitation loans. An important ingredient in rationalizing incentives to farmers has been the levying and collection of land and water charges according to different crop watering requirements to ensure that the cost is recovered from all crops and not from cotton alone. This system, introduced at the start of the 1981/82 season, encountered collection difficulties for crops that were marketed directly by tenants. During the next agricultural season, the management of the various schemes plan to improve collection through more effective control over the marketing of crops and by preventing growers of crops other than cotton from planting the next cycle of crops until they have paid water charges.

To increase productivity in sugarcane production and sugar refining, the Government recently increased the factory gate price paid for sugar produced at the Kenana estate and other sugar refineries. The increases raised the procurement for Kenana Sugar from LS 400 per ton to LS 537 per ton for the first 150,000 tons and to the import equivalent, currently about LS 554 per ton, for production in excess of that, and for sugar procured from the other four refineries from LS 250 per ton to LS 400 per ton. These increases are expected to improve income of the refineries, permit better maintenance and higher wages for cane cutters, and increase capacity utilization. Further increases in output require substantial capital investment for modernization and upgrading of equipment.

B. Prices

To suppress inflation, the GOS, since the mid-1970s, controlled prices of key consumer goods and the profit margins of retailers, and introduced a review process for authorizing price increases by domestic manufacturers (Table 14).. The prices of nearly all consumer goods, including the essential goods, have been either administratively increased or allowed to rise in response to international price movements and exchange rate changes. Electricity and water rates were doubled in May 1983. The prices of bread were increased by 41 percent on July 8, 1983, thereby eliminating the budget subsidy. The subsidy on pharmaceutical products resulting from prices

14. Changes in Cost of Living Index, 1978/79-1982/83

(Percent)

Item	Weights	1978/79	1979/80	1980/81	1981/82	March 1982-March 1983
Food, beverages, and tobacco	60.5	31.3	26.9	35.8	21.0	41.9
Housing	11.3	-0.8	45.5	13.2	28.9	20.5
Clothing	6.8	11.7	15.3	5.9	32.4	44.0
Transport and Communication	4.0	50.6	24.4	47.9	24.6	29.1
Other	17.5	40.0	25.0	25.0	24.2	37.7
Overall Index	100.0	28.2	27.6	30.7	22.6	37.7
Memorandum Item: Change in retail price of dura (sorghum) in Khartoum		10.8	5.2	108.7	21.4	-

Note: Index prepared from budgetary survey for employees working in the Greater Khartoum area earning more than LSd 500 per annum in 1967/68.

Source: Ministry of Finance and Economic Planning

calculated from the exchange rate prevailing before the November 1982 devaluation (LS 0.90 = U.S. $1) has been eliminated.

Budget subsidies have been removed. The GOS is committed to adjusting the prices of consumer goods sold by the public sector to ensure that no budgetary subsidies re-emerge, has attempted to simplify and expedite the procedure for reviewing and approving price increases by domestic manufacturers and to allow manufacturers to use the free market exchange rate for the valuation of imported inputs for purposes of cost calculations.

C. Credit

Since monetary expansion in 1982/83 significantly exceeded the target for the year, the GOS has adopted a target of 18 percent for 1983/84. Achievement of this target and 4.4 percent growth of real GDP is expected to reduce inflation to about 20 percent.

To reduce the rate of credit expansion and excess liquidity of commercial banks, the Bank of Sudan, during August 1983, imposed a 10 percent reserve requirement on all bank deposits, and instructed banks to transfer the counterpart of all customer payments of local currency against foreign settlement to a blocked account maintained with the Bank of Sudan. The Bank of Sudan plans to: (1) issue directives to banks establishing priorities in credit allocation; (2) prohibit the extension of credit to purchase land and real estate and credit on personal guarantee; (3) increase margin requirements for the opening of letters of credit for non-essential imports; and (4) raise margins for advances against pledging of certain goods. Credit to public entities will be subjected to increased supervision to ensure that amounts drawn are consistent with production requirements. Activities of the Cotton Public Corporation, which is responsible for the marketing of cotton, will be monitored more closely to ensure that seasonal credit which is extended at harvest time is effectively retired by the end of the marketing season. Regarding negative interests rate, the GOS maintains that interest rates have a minor role in allocating resources and does not favor increasing nominal rates.

D. Fiscal

Preliminary projections of central government revenues and expenditures for 1983/84 indicate that, without additional measures, the overall deficit for the year would be LS 1,158 million (10 percent of GDP), implying an unfinanced gap of LS 436 million to be filled from domestic sources.

The additional budgetary effort included elimination of budget subsidies on wheat and wheat flour by raising the price of wheat to domestic millers by 57 percent, from LS 230 per ton to LS 360 per ton, and of flour bakaries by 61 percent, from LS 305 per ton to LS 492 per ton, on July 8, 1983. These increases eliminated the budget subsidy of LS 82.8 million in 1983/84 and will generate a net profit of LS 5.6 million on wheat/flour transactions. The GOS has agreed to curtail the rapid increase in demand for bread, including the elimination of the implicit foreign exchange rate subsidy, not later than July 1984. This will result in some reduction in the rate of tax currently

15. Foreign Financing of Central Government Budget, 1975/76-1980/81

($ Million)

Item	1977/78	1978/79	Provisional Actual 1979/80	Budget 1980/81	Revised Budget 1980/81	Provisional Actual July-December 1980
Grants	3.7	7.2	42.0	60.0	79.0	57.2
Commodity	-	-	30.5	-	38.0	-
Development	-	-	11.5	-	41.0	-
Loans	46.0	162.0	266.0	399.8	321.0	118.6
Cash	-	-	128.5)	)	)	109.2
Commodity	-	-	29.0)	189.9)	151.0)	
Development	-	-	108.5	209.9	170.0	
Total	49.7	169.2	308.0	459.8	400.0	175.8
Less: Repayments	-23.3	-22.8	-70.4	-37.2	-37.0	-
Equals: Foreign Financing	26.4	146.4	237.6	422.6	363.0	-

Source: Ministry of Finance and Economic Planning and Bank of Sudan.

incorporated in the price of bread since July 8, 1983. The GOS is: (1) eliminating preferential duty on certain spare parts and raw materials to generate LS 40 million in additional revenues annually; (2) increasing the customs duty on a wide range of imported goods by 3 percentage points, to 13 percent, to yield LS 51 million in the current fiscal year; (3) improving adminstration of the excise tax by posting excise department personnel in factories and applying a form of capacity taxation to yields LS 15 million in additional revenues; (4) reinstating the 15 percent excise tax on sugar produced by the four nationally owned sugar mills to yield an additional LS 4 million in the current fiscal year; and (5) eliminating subsidies on pharmaceuticals to generate LS 16 million in expenditure saving from the domestic banking system, and LS 60 million from domestic non-bank sources.

E. Foreign Exchange and Trade

An IMF paper on the official exchange rate concluded that with the current cost structure of major agricultural crops, agricultural yields, prevailing world prices, and arrangements for surrendering export receipts (75 percent to be surrendered at the official rate of LS 1.30 = U.S. $1. and 25 percent at the free market rate), the effective export rate provides sufficient financial incentives for increasing production of export crops. AID has strong reservations about this conclusion. Excess demand in the economy, capital flight, institutional changes in the market, and speculative factors have led to divergence between the two rates. The GOS plans to narrow the differential between the free market rate and the official rate and have taken a number of initiatives including restraints on overall credit expansion, increased restrictions on credit for imports, and more effective application of existing bans on certain luxury imports. The reinstatement of bank dealings in the free market and relicensing of foreign exchange dealers is expected to increase the supply of foreign exchange and enhance confidence in the market.

F. External Debt and Debt Service

To reduce external debt service the GOS negotiated debt rescheduling arrangements covering 1983 with principal creditors, made ad hoc arrangements for the settlement of other claims, and approached smaller creditors with proposals for debt rescheduling. Since the beginning of the year, the GOS has made every effort to meet obligations of the 1983 reschedulings.

The magnitude of the external debt and annual debt servicing obligations, however, is so large that relief is necessary for a number of years. Without debt relief debt service obligations would exceed export earnings during each of the next five years (Table 3). The IMF and the World Bank have been asked to assist in preparing for a rescheduling of obligations due in 1984. The Consultative Group (CG) for Sudan met in mid December 1983. At the time of the CG the balance of payments gap was estimated to be $1.25 billion. Assuming a Paris Club debt rescheduling of $680 million similar to 1983, the expected 1984 gap would be $570 million. At the December 1983 CG meeting the donors pledged $475 million in quick disbursing commodity/cash aid thus bringing down the estimated balance of payments gap to $95 million without taking into consideration savings which could be realized if the planned petroleum facility were in operation during the first half of 1984.

G. Financing Gap

The slow down in imports during the second half of 1982 and the first half of 1983 is expected to continue, reinforced by restraining domestic financial policies and the price effects of continuing depreciation of the free market foreign exchange rate. Imports of sugar will be lower than projected because of higher domestic production. Exports are projected at $634 million, an increase over 1982, mainly from cotton (Table 8). Export receipts in 1983 are somewhat below the target level of $675 million because of reduced groundnut and sesame production, and a decline in export receipts from dura because of a drought in Kordofan and a ban on exports. The trade deficit in 1983 is likely to be smaller than projected and should improve substantially in 1984.

An important element in funding the unfinanced external gap in 1983 was the additional aid disbursements from pledges at the January 1983 meeting of the Consultative Group and debt relief. External assistance, grants and official capital receipts, in 1983 were expected to be about $850 million compared with U.S. $1 billion in 1982. Project and commodity grants and commodity loans will be larger than previously expected, offset by a shortfall in project loans. With the substitution of grants for loans, the current account balance in 1983 is expected to be about as projected despite a shortfall in exports and higher external interests payments. The balance of payments is expected to have a overall deficit of $211 million.

The trade balance is expected to improve in 1984. Earnings from cotton and other agricultural crops are projected to increased 18 percent along with a 3 percent decline in imports. The growth of cotton exports is predicated on a considerable increase in shipments from the 1982/83 crop, another good crop in 1983/84 and a strengthening of demand and higher prices. The growth in other exports is expected from a recovery of groundnuts and sorghum from drought in the rainfed areas and expansion of livestock exports. The composition of imports should favor intermediate and capital goods.

Transfers are expected to grow slowly because of low growth of private remittances partly as a result of the economic slowdown in the Arabian peninsula and uncertainty over GOS foreign exchange policies. The current account deficit will increase because of large official interest payments (Table 8).

The IMF estimates the overall deficit in 1984 without debt relief and non-project assistance is $1,100 million (Table 16). The financing gap before debt rescheduling is estimated at $760 million (Table 17).

Debt service obligations for 1984 prior to debt relief are estimated at $1,143 million which includes $535 million of official interest payments, $20 million in private interest payments, $515 million in official principal payments, and $73 million in private principal payments (Table 4).

IMF projected a figure of $150 million for resources required by the Bank of Sudan (Table 17). Foreign exchange in the free market is not readily accessible to the Bank of Sudan. While the Bank of Sudan plans to take measures during 1984 to increase the flow of foreign exchange available. BOS

16. Projected Foreign Exchange Transactions of the Bank of Sudan in 1984 1/

($ Million)

Receipts		Payments	
1. Exports	515	1. Imports	840
Cotton	220	Petroleum 2/	520
Other	295	Other	320
2. Invisible receipts	90	2. Invisible payments	55
		3. Debt service payments without debt relieft	960
		Principal	425
		Interest	535
3. Total receipts	605	4. Total payments	1,855

Financing Gap, without foreign assistance and debt relief 3/ 1,250

Source: IMF, 12/13/83

1/ Excluding project aid and related imports.

2/ Assuming financing costs of 20 percent or more.

3/ Without a stand-by arrangement, the financing gap would be U.S. $100 million larger.

17. External Gap Analysis, 1984

($ Million)

Item	Estimate 1984
Trade Balance	-860
Exports (merchandise)	750
Imports (merchandise)	-1,610
Services (Net)	-540
Receipts	270
Noninterest payments	-225
Official interest payments due	-535
Private interest payments	-20
Private Transfers	450
Current account (excluding official transfers)	-950
Official transfers and capital account transactions	-150
Official project assistance	275
Official non-project assistance	-
Official payments due 2/	-425
Private receipts (suppliers credits)	70
Private payments	-70
Overall balance prior to non-project aid or debt rescheduling 3/	-1,100

1/ Imports could be reduced if petroleum imports were procured at spot market prices.

2/ IMF net capital transactions are expected to be zero in 1984. Interest charges of $40 million are included under Official Interest Payments due.

3/ Excludes $150 million of foreign exchange needed by the Bank of Sudan to meet external obligations.

Source: IMF, 12/14/83

18. Financing Requirements, 1984

Item	$ Million
Overall Balance 1/	-1,100
Resources required by Bank of Sudan 2/	-150
Overall requirements (before non-project aid or debt relief)	-1,250
Estimated non-project assistance	490
Financing gap before debt rescheduling	-760

1/ Imports could be reduced if petroleum imports were procured at spot market prices.

2/ Foreign exchange needed to balance inflows and outflows of official foreign exchange transactions by Bank of Sudan; this will result in an equivalent increase in revenues in the commercial banking system.

Source: IMF, 12/14/83

resorted to short term borrowing during 1983 to meet foreign exchange obligations. Thus, it has not been possible to build up the reserve balance which IMF projected for 1983, and approximately $150 million in additional foreign exchange will be needed by BOS in 1984 if it is to be in a position to meet its foreign exchange obligations.

With these assumptions, IMF estimated the remaining financing gap at $760 million. If rescheduling of payments to official bilateral creditors and commercial banks were as agreed in 1983 ($50 million and $30 million respectively), GOS obligations would decrease by approximately $680 million. The availability of funds for debt service obligations is at least as limited as last year and a $80 million gap still remains. A possible approach to closing it is through a reduction in the cost of petroleum.

Aid terms need to continue to be the softest possible since Sudan should not increase its debt burden more than absolutely necessary to secure the funds needed to finance its essential requirements. The medium term economic recovery program is predicated on maintaining a delicate balance between spending and income, and will require extreme care on the part of the Government and donors to assure that the aid projects undertaken make a positive contribution to the recovery at the minimum possible cost.

In summary, the IMF 1984 recovery program is:

1. About $490 million non-project aid disbursements;

2. Additional project aid commitments of about $400 million for high priority development projects in order to maintain an adequate level of project aid disbursement beyond 1984;

3. Debt rescheduling similar to that provided in 1983; and

4. A workable system to procure petroleum products at favorable international prices.

Covering the financing gap through concessional, program-type official aid is preferable to covering it through debt rescheduling. Program-type can help not only to purchase critical imports required for production and export activity but also to free funds to retire high cost debt. Such retirement will enable the country to restore creditworthiness. Closing the gap through debt rescheduling buys time at the cost of a rapid build-up of future debt service payments.

H. 1983/84 Public Investment Program

The fourth annual revision of the Three Year Public Investment Program (TYPIP) recently was completed. 1/

1/ GOS, Prospects, Programs and Policies for Economic Development, 1983/84 - 1985/86.

19. Domestic Petroleum Resources

Oil Field	Date Tested	Highest Individual Test rate (bpd)
Abu Gabra 1	August, 1979	564
Abu Gabra 3	April, 1980	1,462
Unity 3	June, 1980	2,249
Unity 2	February, 1980	2,939
Unity 5	October, 1980	3,137
Unity 7	February	2,838
Unity 8	March, 1982	4,223
Unity 9	September, 1982	4,223
Unity 10	July, 1982	3,833
Unity 11	December, 1982	3,739
Talih 1	March, 1981	2,929
Talih 2	February, 1982	5,400
Adar 1	October, 1981	990
Adar 2	December, 1981	655
Yale 1	March, 1982	1,073
Sharif 1	July, 1980	2,340
Kaikang	May, 1981	1,353
Heglig 1	September, 1982	2,550
Heglig 2	December, 1982	588
Unity 14	February, 1983	3,300

Source: Chevron Co. of Sudan

The fourth TYPIP drops the year 1982/83, adds estimates for 1985/86, and sets out objectives for the next three years including projects to be implemented, priorities in resource allocation, resources to be mobilized, and policies and measures to be adopted and provides a framework within which the next three annual development budgets will be prepared.

The 1983/84 development budget was prepared within the priorities of the third TYPIP. The size and sectoral composition of the development budget are in line with the investment program. The compositon of investment finance is also consistent with the program when adjusted for devaluation.

Of the total investment program during the fourth year, 15% is allocated for regional development. Larger regional allocations are envisaged for the later years as planning and implementation capability of the regions improve. The central government recently decided to transfer the administration and proceeds of specified central taxes to regional governments to augment financial resouces.

All estimates have been updated using latest assumptions regarding inflation, the exchange rate, and real growth rates. Nevertheless, the underlying development strategy and criteria for sectoral allocation of investment remains unchanged with emphasis on rehabilitation of existing production capacity.

Aggregate investment in current and constant 1981/82 prices in the third and fourth Public Investment Program are:

(LS Million)

Investment	TYPIP III	TYPIP IV	Percent Increase
Total investment in current prices	1,650	2,384	44
Total investment in constant 1981/82 prices	1,283	1,462	14

Source: GOS, November 1983

In 1983/84, most of the expenditure will be for rehabilitation of on-going projects with minimum expenditure on new projects.

The fourth TYPIP includes a chapter entitled "Prospects for Private Investment". The private sector was encouraged, for the first time, to participate in formulating a private sector investment program, and pave the way for effective investment in the private sector. However, the contents of the chapter illustrate the limited amount of thinking which the GOS has devoted thus far to encouraging private investment. The GOS recovery program requires clear, positive policies to encourage private production of exports and import substitutes. The CG meeting in Paris

recommended a set of comprehensive policies and action programs to support the private sector.

Capital formation in Sudan is low compared with other countries. Gross fixed capital formation is estimated to be LS 1,170 in 1982/83, 13.2% of GDP at current market prices. If the increase in stock of LS 250 million is added, gross capital formation was 16.1% of GDP. Private investment is 52% of gross fixed capital formation. The IBRD, World Development Report, shows gross domestic investment (GDI) was 12% of GDP in 1980.

During the 1960s GDI declined an average of 1.3% annually. During the 1970s, GDI increased 6.7% annually. Therefore, gross fixed investment rates of 12 or 13% in the early 1980s may be regarded as considerable progress compared with previous decades. However, a better comparison is investment rates in other rapidly growing countries. In Egypt and Korea, for example, GDI in 1980 was 31% of GDP, in Ivory Coast 28%, and in Saudi Arabia 26%. By constrast, GDI was 5% of GDP in Ghana, 3% in Uganda, and 11% in Guinea. The rate of investment in Sudan is below the average of low income economies, excluding China and India, which averaged 15% in 1980. The average for middle income economies was 27% and for industrial market economies 23%.

A condition of Sudan's emerging from the ranks of low income countries is to increase productive capital formation to much higher levels. Economists agree that capital formation or technical progress, or a combination of the two, are the dominant causal forces in economic growth.

Equally significant is the small portion of total capital formation in Sudan provided by the private sector. In 1982/83, gross fixed capital formation by the private sector was only 7.6% of GDP. By comparison, gross private domestic investment in the U.S. averages approximately 17% of GDP. The implication, therefore, is that the productive potential of the private sector in Sudan is under-utilized. To increase private investment rapidly, the investment climate must be favorable for risk capital and entrepreneural ventures.

The focus of GOS policy in the next few years needs to turn sharply in the direction of encouraging private investment, particularly now that the prospects of reasonably adequate public services have improved following rehabilitation of the electrical system. This point was emphasized at the Consultative Group meeting in Paris in December. USAID expects to help the GOS to assess the investment climate and needs of the private sector and propose a strategy and program of action for supporting domestic and foreign private investment.

I. Development Expenditures

Final development expenditure figures are not yet available. Provisional estimates of centrally-financed development expenditure in 1981/82 and 1982/83 are:

Source	1981/82 Budget	1981/82 Actual	1981/82 % of Budget	1982/83 Provisional Budget	1982/83 Provisional Actual	1982/83 % of Budget
Local Currency	167.0	163.8	98	221.6	199.0	90
Foreign Currency	306.1	142.6	47	280.6	130.0	46
Total	476.1	306.4	64	502.3	329.0	65

Source: TYPIP IV.

The major cause of shortfall in development expenditures was the lack of foreign currency. The local currency component was largely spent. Disbursements of project aid have been slow mainly because of implementation bottlenecks.

J. Monitoring Procedures

1. Joint Monitoring Committee. The Joint Monitoring Committee in the Ministry of Finance and Economic Planning meets quarterly and includes local representatives of all donors resident in Khartoum. The main purposes of the Committee are to monitor implementation of economic and financial programs for recovery and facilitate mobilization of donor assistance. Specific objectives of the Committee are to:

a. assure consistency of projects with the recovery program;
b. assess the adequacy of foreign and local project financing;
c. prepare the annual rolling Three Year Public Investment Program;
d. review the performance of parastatal enterprises;
e. increase private sector involvement in economic activity including an action program for stimulating this sector; and
f. improve national accounts and other data, particularly fiscal and monetary, for macro-economic projections.

The responsibilities of the Joint Monitoring Committee were discussed and approved at the first meeting in March 1983. Quarterly meetings were in July and November. The Monitoring and Evaluation Unit of the Ministry of Finance and Economic Planning is the secretariat.

2. Commodity Aid Committee. The GOS also has established a permanent Commodity Aid Committee under the Minister of Finance and Economic Planning to ensure coordination in utilization of commodity aid from various sources. The objectives of the committee are to:

a. formulate a general annual plan for commodity aid with periodic updating as may be necessary, taking into

consideration national and sectoral requirements, various sources, and bilateral and multilateral agreements;

b. allocate and reallocate if necessary, the contracted commodity aid to various recipients in the public and the private sectors;
c. monitor the utilization of commodity aid, undertake necessary follow-up action, and prepare periodic reports;
d. periodically review the foreign exchange budget, coordinate that budget with commodity aid availabilities and requirements, and follow-up performance; and
e. review and approve the food aid policy and programs.

A circular letter was sent to central ministers, regional governors, and donor representatives in Khartoum explaining the purpose and terms of reference of the Committee. A procedure has been adopted to assess commodity aid requirements of various ministries, departments, and public corporations which is to be implemented in the near future and a procedures manual for utilization of commodity aid has been prepared. Three reports concerning utilization of commodity aid in 1983 were submitted to the committee which has met nine times since early 1983. A system of accounting for counterpart funds also is under review. USAID is looking for ways to improve private sector participation in the committee's decisions.

3. Directorate General of External Finance. At the urging of the Consultative Group, the functions of the Directorate have been expanded to:

a. prepare proposals on external finance policies, procedures and strategies both at the national and international levels within the political and economic framework of national priorities, plans, programs and policies;
b. monitor international capital markets and advise the GOS on external resource mobilization; and
c. prepare quarterly and annual reports on: (1) the level and structure of existing external debt; (2) the level and composition of debt service obligations; (3) forecasts of future debt service payments; (4) external finance mobilization and results; (5) bottlenecks hindering capital inflow and utilization; and (6) corrective measures required to remove bottlenecks.

The Debt Management Unit prepares quarterly and annual reports for the IBRD Debt Reporting System. The IMF is expected to provide technical assistance to the Directorate.

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

A. Criteria

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

1. Need.

To identify the major categories of essential imports, a positive list of high priority items proposed by the GOS was constructed which establishes upper limits of imports in each category. To arrive at this positive list, the GOS worked with teams from the IMF, UNDP and IBRD and established guidelines for Sudan's requirements of essential commodities. Essential was determined in terms of social and economic stabilization to keep Sudan's economy going at the current level while trying to redirect imports where possible to investment for increased production and export. The GOS/IMF guidelines/criteria was then meshed with commodities needed to fulfill requirements of the World Bank assisted Export Action Program resulting in the Three Year Investment Program. The final Three Year Investment Program was presented to the Consultative Group donors in December 1983 for program and project financing.

In accordance with the priorities of the CG backed Three Year Investment Program, highest priority in both policy reform and investment allocation was given to agriculture to which USAID's Development Assistance portfolio has contributed a significant component. Agricultural machinery and spare parts which did not fit into an AID Development Assistance project and which had demonstrable impact on short and medium production of food and exports were placed on the list for consideration under the proposed CIP. Analyses by AID, particularly in our studies on rainfed agriculture, have indicated that net foreign exchange impact of the proposed agricultural inputs is highest for agricultural imports in the rainfed sector.

During the CG, presentations recognized the critical role of energy in the rehabilitation of the agricultural sector. Both the need to reform import, marketing and distribution of petroleum products and the need to rehabilitate electricity infrastructure which supports the irrigation and transport sectors would have to have preeminence in the rehabilitation program. USAID intends to address the issues of petroleum procurement in a separate CIP. To address the acknowledged importance of rehabilitation of the electrical transmission and distribution system, AID has accorded once again a high priority to electricity rehabilitation.

Finally, and quite significantly, current foreign exchange and other financial policies have been working against a robust but highly disadvantaged private sector. In addition to encouraging GOS through covenants to modify policies which discourage private enterprise and investment, USAID has examined requests by GOS for imported commodities with an eye to the legitimate needs of Sudan's private sector. Many of the recipients of industrial as well as agricultural inputs will be private entrepreneurs who are economically efficient and have a significant impact on employment generation.

2. Policy Reform.

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

3. Regional Impact.

A somewhat new emphasis will be the use of the CIP to reinforce USAID's emphasis on regional development. Appropriate institutional mechanisms have been identified or established to assure a higher regional component of the CIP than has occurred in the past. For example, USAID and GOS are currently examining the possiblity of using the Agricultural Bank of Sudan and the Industrial Bank of Sudan who have branches in the regions and whose clients are almost exclusively private borrowers.

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

4. Consistency with National Plan for Economic Development and Effectiveness of the National Plan. The Sudan Three Year Public Investment Plan (TYPIP IV), formulated in collaboration with the International Bank for Reconstruction and Development, places highest priority on rehabilitation of export producing industries along with reforms and balance of payments support. The Three Year Plan is revised annually to incorporate the next year and has been endorsed by the Consultative Group. The International Monetary Fund has taken the lead in assessing balance of payments requirements for quick disbursing assistance and endorses the policies of the Plan.

5. Impact on Agricultural Production and Exports. In nearly every category, the proposed imports have a direct or indirect impact on agricultural production and exports. Agricultural inputs, such as tractors, are the key foreign exchange component of agricultural exports. Energy

supplies are essential to agricultural production which is dependent on reliable electrical supplies. Similarly, lubricants are important in production of sugar. The import of tallow frees high value edible oils, mainly sesame and groundnut oil, from domestic consumption which contributes to exports and net foreign exchange earnings. Industrial inputs are essential for the output of other sectors and provide value added through domestic processing. Dry cell batteries are an important source of light, for example, in rural areas.

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

7. Use for Productive, Employment Generating, Cost Effective Purposes. The information provided in the following sections demonstrate that each category of imported commodities is for a high-priority, productive use, employs significant manpower, and is an economically rational use of these commodities. Electrical equipment, lubricants, and industrial chemicals, are critical inputs to production on which other industries depend for output and income. Imports of industrial inputs for domestic production will increase and stabilize employment, add value to output, and save foreign exchange.

B. Energy

Under this Commodity Import Program, $15 million for commodities and related technical services will be provided to improve the reliability of the transmission/distribution systems on the Blue Nile Grid. This Grid is the major source of electrical power in the Sudan and services both the irrigated agriculture sector between the Blue and White Niles as well as the industrial capacity in and around Khartoum. This activity is a continuation of efforts begun in FY 1982 under an earlier CIP and is consistent with IBRD-coordinated plans for Power IV.

The public electricity installed capacity in the Sudan is about 307 MW, of which 160 MW is hydroelectric and the balance is thermal. However, due to age and lack of spare parts and major overhauls, the reliable capacity is of the order of 214 MW. The principal generating and transmission facilities are located in the Blue Nile Grid (BNG) along the Blue Nile with an installed capacity of 229 MW, of which 175 MW is hydro. The BNG produces about 87 percent of the public electricity systems' total generation. The BNG supplies the city of Khartoum and surrounding areas, as well as Sennar, Damazin, Wad Medani, Hassa Heissa, Es Suki, Singa and other individual centers; and irrigated schemes at Sennar, Wad El Hadad, Guneid, Rahad and Gezira. The distribution of energy consumption (kilowatt hours) is estimated to be: residential, 40.5%; industrial, 39.5%; agricultural, 10.5%; and other 9.5%. The National Electricity Corporation (NEC), a publicly-owned electric utility, is responsible for operations on the Blue Nile Grid.

Continuing execution of the IBRD-financed Power III project is adding additional generating capacity to the Blue Nile Grid. Recently two diesel units of 10 MW each have gone into service at the Burri Power Station in Khartoum with a third 10MW unit to follow in the coming months. A 40 MW hydro unit (number 5) has become operational at the Roseires Dam powerhouse in Damazine with another 40 MW unit (number 6) to become operational this year. Two steam-powered generating units of 30 MW each are expected to come on stream at the Khartoum North power station within one year.

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

Based on these studies and funding limitations, specifications were prepared and approved in the spring/summer of 1982 for the most urgently needed transmission/distribution equipment in the areas of telecommunications systems, mobile maintenance equipment and preventative/emergency power systems equipment which had an estimated cost of $18.5 million. An initial allocation of $16.3 million was made under the FY 1982 Commodity Import Program for these commodities. A technical assistance contract was subsequently signed with Bechtel National Inc., to assist the NEC with the procurement and installation of these commodities. Tenders were received and evaluated and procurement contracts were executed prior to the end of CY 1983. As of March 1984, the majority of the equipment has been received and installed by the NEC, with the assistance of the contractor. All equipment ordered under the FY 1982 CIP will be in operation prior to August of 1984. The expeditious handling of these commodities can be attributed to the performance of the contractor, timely coordination by the GOS implementing agencies, primarily the NEC, and continuing support by the Mission and AID/W.

To continue BNG rehabilitation efforts, the NEC received a $1.0 million supplement from the FY 1983 Commodity Import Program to cover costs for international transportation, manufacturer's representatives start-up and operator/maintenance training, additional engineering services and equipment. The overall cost of Phase I BNG rehabilitation commodities is $17.3 million, over $1 million less than the estimates prepared in 1982. The final cost of the Bechtel National Inc. technical assistance contract is estimated at $1.6 million, part of which was financed under the CIP and part under the DA Energy Planning and Management Project.

As a continuation of these efforts, the FY 1984 Commodity Import Program includes $15 million as a second phase of the BNG transmission/distribution

reliability improvement program. The following list illustrates the proposed commodities and related technical services:

Item	Quantity	Estimated Cost ($ 000)
Substation units 33/11 KV, 20 MVA	6 each	4,800
Power cable, 33 KV, 3/C, 300 MM2	75 KM	4,000
Power cable, 11 KV, 1/C, 750 mm2	5 KM	225
Conductor, 220 KV	200 KM	1,000
Switchgear, 33 KV	15	700
Vibration Dampers, 220 KV	11,000	330
Test equipment and tools	1 lot	200
Telecommunications equipment	1 lot	445
Street lighting control switches	5,000 units	250
Calculator/billing machines	12	250
Technical assistance		2,000
Contingency		800
Total		15,000

The final list of commodities and related services will be developed during March/April 1984 during which time a power/utility systems expert will assist USAIL and the NEC with: (1) an evaluation of the phase 1 BNG short-term reliability improvement program; (2) developing a priority list of commodities under phase 2, within the context of the 1981/82 BNG reliability improvement program ($80-100 million list) and within plans for Power IV; (3) identifying necessary commodity-related technical service/training requirements, based on experience with the phase-one program; and (4) determining other institutional features of the phase-two program.

Commodities under phase two of the CIP, Blue Nile Grid Rehabilitation Program will be provided within the overall plans developed by the World Bank for Power IV. The main objectives of Power IV are to:

1. rehabilitate existing facilities in the Blue Nile Grid (BNG) and the Eastern Grid (EG), and to assure their efficient operation through the provision of spare parts, in conformity with the Government's strategy for the economy;

2. provide additional generation capacity in the BNG and EG to meet at least cost the forecast increase in demand during the latter part of the 1980s;

3. increase transmission capacity in both grids to transmit the generated energy to the main load centers;

4. increase the capacity of the subtransmission and distribution networks in the Khartoum area and areas of the BNG outside Khartoum to improve reliability of supply;

5. continue efforts for institutional improvements and strengthening of NEC's organization and operation through comprehensive management and staff training programs which are being carried out through Power III Project;

6. carry out a load management and energy conservation study; and

7. provide fuel oil transportation equipment to assure supply of fuel oil requirements to thermal power stations in the Khartoum area.

Improving the reinforcement of the transmission/distribution systems of the BNG is a high priority for Power IV, and we can therefore expect a close complementarity between it and CIP assistance.

The economic costs associated with interruptions in electric service are substantial. The power failure of July and August 1983 cost Sudan 10 percent of its industrial output. The annual industrial loss from regular shedding because of strains on the system is in excess of 20 percent. Fixed and some variable expenses continue for a factory owner, including labor charges under Sudanese law, even if a plant is not producing. These losses are some of the most costly to the economy because these funds would otherwise be available to a small group of entrepreneurs who have progressed from trading to become industrialists. These losses reduce internal financing for new investment.

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

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

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

As mentioned earlier, the timely procurement of commodities financed under the FY 1982 CIP is attributable to the assistance by Bechtel National Inc. to NEC. Also, A.I.D. waived the requirement for procurement through formal competitive bid procedures. Thus, Bechtel was able to speed up procurement on behalf of NEC through its San Francisco office by informal solicitations of offers or quotations from potential suppliers. USAID is of the opinion that similar arrangements should be made for the utilization of the $15 million proposed under the FY 1984 CIP because NEC does not have yet the capability to undertake on its own formal competitive procurement on such a scale.

C. Tallow

Tallow, an important ingredient in the manufacture of soap, is included in the CIP for the second year, because of its positive impact on a labor-intensive, import-substitution industry. The importance of imported tallow as a low-cost substitute for valuable cotton-seed oil has been emphasized by the Ministry of Industry, which has prohibited soap factories from using cotton-seed oil because of shortages of edible oil. Since cotton-seed oil is a popular cooking oil, it must be replaced by higher value exportable oils, such as groundnut and sesame, and by imports of refined edible oils. The availability of $5 million in CIP funds for tallow allows the Ministry to save foreign exchange by decreasing oil and soap imports and increasing high-value edible oil exports.

The 50 soap factories in the Sudan require about 60,000 tons of tallow annually to operate at current levels of capacity (55%). Last year the $6 million in financing available under the CIP permitted imports of about 9,000 tons. Production problems encountered by the soap industry are familiar — shortage and delays in supplies of raw materials, continuous shortage and unavailability of spare parts for obsolete machines, scarcity of technical skills and expensive employment of unskilled workers, and continuous power failures. Although only the first constraint is addressed by CIP tallow imports, industry sources say that shortages of tallow are the main bottleneck to production.

As a result of these constraints, Sudan's soap factories produce only 95,000 to 100,000 tons annually, about 5.8 kg/year per capita , although installed domestic capacity is 9.65 kg/year per capita. Even though annual domestic production is supplemented by imports of 7,000 to 15,000 tons of soap, per capita consumption of soap is only one-fourth of that in developed countries and only one-half of per capita consumption in Egypt. The total capacity and production of Sudan's soap factories in 1983 is:

Type	Tons Capacity	Tons Produced
Laundry Soap	160,400	88,220
Bath Soap	12,960	7,100
Soap Powder	10,080	5,540
Total	183,440	100,860

A new ban on imports of bath soap will increase the pressure on the domestic soap industry to increase output.

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

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

Note: One ton of tallow produces 1.5 tons of soap
Source: United Company for Industries

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

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

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

Tallow is directly pumped from the ships to tanker trucks. Bulk facilities exist in the port and the soap factories have facilities to receive bulk tallow. Specially equipped, 50-ton trucks are available from private companies. Two yards in Khartoum North are used if necessary for storage. Construction of additional bulk storage is planned for Port Sudan and Khartoum. Services rendered to the soap factories by the Unity Company for Industries are included in the price, i.e. the cost per ton delivered to the factory.

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

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

D. Lubricants

Although the Sudan's lubricant requirements have grown significantly since 1980, annual imports of lubricants and greases have declined, resulting in critical shortages in the transportation, agricultural and manufacturing sectors. Industry sources say the decrease is mainly the result of foreign exchange shortages, and estimate a shortfall of 90,000 barrels, worth about $10.8 million at world prices, in calendar year 1983, with the prospect of larger shortages in 1984. CIP imports of $5 million of base oils, and $1 million of finished products are proposed.

Base oils are a fast disbursing item with immediate balance-of-payments impact. Base oils will be imported in bulk by Mobil and Shell Oils, through Port Sudan, as in the past, for blending in their Port Sudan refinery. The procurement cycle should be no more than three months. Finished products will be imported by Total and Agip for immediate retail sale.

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

1. Shut down of industrial machinery, resulting in decreased output, transportation bottlenecks and spoiled perishables, and

2. Reduced economic life of capital equipment. Inadequate lubricantion shows up in the form of higher maintenance costs and early replacement of machinery.

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

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

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

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

In calendar year 1983, supplies were severely limited for all customers. A total of 220,000 barrels (45 US gal/bbl) worth $30 million in the world market will be imported for Sudan's domestic needs, a decrease from 1980 and 1981 imports. About $20 million of the foreign exchange was financed by the GOS; the remaining $10 million was supplied by emergency balance-of-payments grants from the Dutch (two installments totalling $6 million) and the Italians (a total of $6.5 million, of which $3-4 million was used in 1983). Even so, industry sources estimated a shortfall of 90,000 barrels, worth $10.8 million in foreign exchange in 1983.

The year 1984 opened with fresh stocks purchased with a late 1983 Italian loan of an additional $3.5 million and a January 1984 Dutch grant of $2.6 million, both of which came just in time to avoid national shortages in the critical harvest season. The lubes imported with this money lasted through end-February, at which time a $3 million base oil shipment funded by Mobil and Shell arrived in Port Sudan. This should carry the country through mid-April, after which, according to Mobil, the only prospects for more are further Dutch and USG aid. Given the shipment to shipment financing of lubricants, it is not possible to estimate supplies or the shortfall in 1984, although demand was nowhere near satisfied by the supplies imported in January and February.

For instance, heavy industries managed to satisfy their essential needs in 1983, partially because of preferential treatment by the oil companies, but also by reducing inventories. Although production was not interrupted, heavy industry faces 1984 with depleted stocks, with no foreseeable opportunity to replenish them.

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

Even though sugar industry output rose 75% in the 1982/83 season, the annual consumption of lubes and greases remained constant at about 9,000 barrels a season. To meet needs, the sugar mills drew on stocks, but suffered major shortages of lubes such as circulatory oil for the turbines, transmission oil, mill bearing greases and oils, and automative lubricants. At the New Halfa mill, 3,416 barrels of lubricants were ordered for the 1982/83 season, of which less than 50% was delivered.

The 1983/84 season began in late October, with depleted stocks and the prospect of further shortages in 1984. Industry sources estimated that lube requirements rose by 10-20% in 1983 to about 11,000 barrels. Decline in output due to lack of essential lubes was avoided only by last minute Dutch and Italian aid. For example, at the New Halfa mill, two barrels per day of Mobiltac LL are needed to lubricate the main shaft of the cane press, or about 150 barrels for the entire season. Although the cane harvest began in late October, New Halfa had only 20 barrels through November 1, or a 10-day supply, with no prospects for more until the aid came through. At the Sennar Sugar Mill, 220 drums of a specialized grease had to be shipped by airfreight, at a cost of $18,000, to keep the mill from shutting down.

The transportation industry was forced in some areas to take vehicles out of service because of lack of lubes, resulting in prolonged harvest time and rising prices. El Roubi Transport, a major company with about 100 vehicles, delayed the delivery of government supplies, including fertilizers, because half of its fleet was unable to operate.

The private sector, an array of bus companies, taxis, and small industries, has been hit the hardest, though financial statistics are unavailable. Lubes and greases were unavailable in retail markets from May to October 1983, and even when supplies were available before then, GOS security forces rationed customers to one gallon.

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

Most of the FY 84 CIP funds will be used in 1984 to import mainly base stocks, to be blended and packaged domestically, which is more cost-effective than importing finished products. Distribution of CIP-funded lubes will be determined by Shell and Mobil. Since the GOS has issued increasing numbers of import licenses for automative and diesel engine lubricants, private sector demand for private generators and vehicles seems currently satisfied by imports of finished products. The primary beneficiaries of additional imported base oils will be the industrial sector and government services.

Lubricant Demand and Supply

(1000 bbl)

Year	Stock	Quantity Supplied	Quantity Demanded 1/	Shortfall	Percent Shortfall
1980	0	235	235	-	-
1981	0	231	258	27	10
1982	0	197	281	84	30
1983	0	220 (est)	314	94	30

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

E. Industrial Inputs

1. Textile. Two types of commodities valued at $1.0 million are requested under the CIP for private textile firms:

a. Sizing Material: modified starch, maize starch, oils and lubricants which are used to strengthen yarn before weaving.

b. Finishing Materials: caustic soda (sodium hydroxide), hydrogen peroxide and dye stuff which are used to convert grey fabrics into bleached, dyed, and printed fabrics.

The largest textile factory needs $6 million of industrial chemicals annually to produce about 60 million yards of grey fabrics will not be processed to bleached and printed fabrics and the finishing section of the plant would be idle. CIP and other bilateral sources do not supply all the industrial chemicals needed and textile firms must compete for free market foreign exchange to import chemicals and other needs.

The textile industry is the largest industrial activity in Sudan, primarily an agricultural country, which has grown from only two privately-owned plants in 1975 to 21 public and private factories now in operation. Growth of the industry has increased the quantity of Sudanese-made cloth available to consumers and saved foreign exchange through import substitution. Inflated costs for imported machinery and for local building

materials and supplies increased initial investment costs more than originally planned. Declining cotton production and GOS emphasis on lint cotton export, at the expense of local consumption and processing, have caused shortages of cotton for domestic processing. Power failures, unreliable transportation, shortages of management and skilled labor, and competition from lower cost foreign producers partly because of an overvalued currency, have hurt the industry, as have politically motivated management decisions. Acute shortages of foreign exchange affect the textile industry. Raw materials and spare parts are in short supply and new equipment is hard to finance. These problems have resulted in a decline in output to only 15-20% of total capacity. However, the long term rationale of the industry to add value to Sudanese agricultural products is sound. A substantial internal market exists for inexpensive cotton cloth which is largely untapped. If infrastructure bottlenecks are reduced and cotton supply problems overcome, Sudanese spinning and weaving should become a profitable industry which can save substantial foreign exchange through import substitution and earn foreign exchange through exports.

Of the 21 textile factories in the Sudan, 10 are privately owned. Public sector spinning and weaving factories are managed by the Spinning and Weaving Corporation which was formed by ministerial order in 1975. In addition, there are 46 garment factories for toabs, the national dress for women, sheets, and towels. Textile factories are distributed throughout the country and employ 25,000 workers. The capital investment in the textile industry including firms producing ready-made clothes, sheets and towels, is about one billion Sudanese pounds, of which the public sector share is 60%. The total capacity of both the public and private sector factories in semi-finished and finished weaving is about 344.5 million meters annually. The total utilized capacity in spinning is about 9,800 tons annually. Although economic analysis of the productivity and competitiveness of the textile industry is not readily available to USAID, domestic processing is assumed to be feasible at the appropriate shadow exchange rate.

2. Pharmaceutical Raw Materials. Private pharmaceutical manufacturers have requested $4 million for raw materials, a use which can have high payoff in saved foreign exchange. Although Sudan's domestic market for pharmaceutical products is large and growing, production has been extremely low in recent years because of power failures, shortages of spare parts, restrictive pricing policies by the GOS, and lack of foreign exchange for import of chemical inputs.

Procurement of the pharmaceutical raw materials will be done by the companies who have presented lists of their input needs to the Ministry of Commerce through the Ministry of Industry. The $4 million will be allocated by the MCCS to these companies on the basis of need. Procurement will be undertaken under AID negotiated procurement procedures, and AID Special Provision 40.1 and 40.2 will apply to each transaction. Disbursements will be effected through a Bank Letter of Committment.

Industry sources say that unavailability of imported raw materials is the primary reason that the industry, with an estimated capacity of 900 million tablets per annum, produced an estimated 50 million tablets in 1982, only 6% of capacity. As a result, Sudanese factories could not fulfill any

20. Private Textile Firms

	Name	(Ls. 000) Local	(Ls. 000) Foreign	Total Capacity Spinning (000 tons)	Total Capacity Weaving (millions yds)	Utilized Capacity Spinning (000 tons)	Utilized Capacity Weaving (000 yds)	Utilized Capacity No. of Workers
1.	The Sudanese Textile Company	10,000	49,864	15.00	105.0	5.5	31,000	9,000
2.	Khartoum Spinning & Weaving Company	2,200	-	4.50	42.0	1.8	20,000	3,000
3.	Blue Nile Spinning & Weaving Company	26,923	41,700	2.70	42.0	-	6,000	1,942
4.	Sinnar Weaving Company	141	12,800	2.10	-	1.2	-	544
5.	Wad Medani Textile Company	3,426	11,806	2.10	19.0	1.3	9,000	1,099
6.	Cotton Textile Mills	5,000	11,000	1.60	13.0	1.5	11,000	1,700
7.	Red Sea Spinning Company	2,380	14,333	2.10	-	1.8	-	600
8.	The International Weaving & Spinning Factory	25,500	4,500	4.52	2.0	1.2	1,200	772
9.	Gezira & Managel Spinning Company	10,859	39,795	1.6	12.0	-	-	-
10.	Gumiza Textile Factory	2,300	10,500	1.50	-	-	-	-
	TOTAL	88,729	196,298	37.72	235.0	14.3		18,657

Source: Spinning and Weaving Corporation

21. Public Sector Textile Firms

Name	Product	Capacity (Tons/Meters)	No. of Workers	Invested Capital (LS million)
Spinning Factories		Tons		
Port Sudan Spinning Factory	Fine Spun Yarn	5,300	1,800	13.9
Khartoum North Spinning Factory	Fine Spun Yarn	2,680	670	6.5
Elhab Abdall Spinning Factory	Fine & Course Spun Yarn	10,350	1,800	17.2
Subtotal		18,330	4,270	37.6
Weaving Factories		Million Meters		
Shendi Weaving Factory	Grey Fabrics	6.9	415	4.9
El Dueim Weaving Factory	Grey Fabrics	6.9	415	4.9
Kosti Weaving Factory	Grey Fabrics	6.9	415	4.9
Kadougli Weaving Factory	Grey Fabrics	6.9	415	4.9
Nyala Weaving Factory	Grey Fabrics	6.9	415	4.9
Managala Weaving Factory	Grey Fabrics	6.9	415	4.9
Subtotal		41.4	2,490	29.4
Spinning, Weaving & Finishing Factories				
Friendship Textile Factory	Bleached, dyed & printed fabrics	16.0	2,000	11.5
Gaddo Textile Factory		15.0	2,000	38.3
Subtotal		31.0	4,000	38.3
Total		—	10,760	105.3

Source: Spinning and Weaving Corporation

government tenders for pharmaceuticals in 1981, 1982 or 1983, which forced the GOS to make up the shortfall with expensive, imported finished pharmaceuticals.

Seven pharmaceutical factories are licensed for production--five Sudanese, one American, and one Greek--with a total capital investment of over 7 million Sudanese pounds. All are private except a new factory owned by the Military Economic Board, which is not eligible for CIP funding. They produce about 15% of Sudan's consumption of tablets, capsules and syrups. The other 85% is imported as finished products. Chloroquine products and aspirin tablets are the primary items produced in the Sudan, followed by chemotherapeutic and antibiotic medicines.

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

For example, the Sudanese Chemical Industry Company accepted a contract, most of it for chloroquine tablets and syrups, aspirin and sulpha products, worth about 7 million Sudanese pounds, for delivery in 1983, Unable to obtain from the BOS the $3.2 million in foreign exchange needed to import ingredient chemicals, the company is attempting to delay delivery until the end of 1984. Another company, in a similar situation with a $3 million foreign exchange requirement, failed to deliver 75 million chloroquine tablets and 1.5 million bottles of chloroquine syrup in 1983.

Unfilled local tenders have direct impact on Sudan's BOP. Allocations of foreign exchange by the MFEP to the Ministry of Health (MOH) for overseas purchase of pharmaceuticals have a provision that the MOH can increase imports by 20% to explicitly cover shortfalls resulting from local, unfilled tenders. In 1981-83, the MOH imported $40-50 million in finished pharmaceutical products, some 10-15% or $4.7 million, of which was included to cover unfilled domestic tenders. For example, the GOS attempted to replace 150 million chloroquine tablets by letting bids on the international markets. By paying four times the international price, the MOH procured 65 million tablets. A 25 million-tablet donation by the Gulf states raised the total to 90 million, still far below public health requirements.

Industry production for private sector retailers fared somewhat better. Unlike the companies producing for GOS tenders, which were forced to rely on the financially-strapped BOS for their FX, companies using private sector outlets were able to buy FX on the black market and operate at near-to-full capacity. Although retail prices of pharmaceuticals are

controlled, their profit margin is evidently high enough to permit import of inputs at black market rates.

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

The situation in 1984 looks no more promising. The 1983-84 foreign exchange budget, prepared by MFEP, allocates $29 million to the public sector for import of finished pharmaceuticals and $15 million to the private sector for both finished products and raw materials for the domestic production of pharmaceuticals, a total foreign exchange allocation of $44 million. This is far less than needed to satisfy even urgent demand. In 1983-84, local industries will require about $16 million for raw materials inputs to keep the private sector supplied at current levels and to begin filling government tenders.

CIP commodities can help fill these critical industrial needs, especially since MFEP is reforming pricing policies on government pharmaceutical tenders. Negotiations underway with support from USAID will allow the industry to purchase foreign exchange at the commercial bank rate of LS 1.8=$1, a liberalization of exchange rate regulations. Such a reform will increase industry demand for foreign exchange at commercial bank rates as production for government tenders activates factories that have operated at 20 to 40% of capacity for the past two years. CIP will be allotted both to private companies producing for government tender and those producing for private sector retailers. In particular, these commodities coupled with the pricing reforms will complement USAID's Northern Primary Health Care Project, which provides technical assistance for the medical logistics unit of the Ministry of Health which handles procurement and distribution of medical supplies.

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

Without considering the humanitarian aspects of increased medical supplies or the economic effects of a healthier population, increased and more reliable domestic pharmaceutical output would also: (1) employ Sudanese in the industrial sector; (2) prevent purchase of medicines at inflated international

prices; (3) encourage the GOS to reform pricing controls on a highly visible consumer item; and (4) shift scarce foreign exchange away from high-cost finished products toward lower-cost raw materials.

Illustrative Pharmaceutical Chemicals
Required in 1983-84

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

Note: Excludes Nicholas Laboratories

1/ Includes Citric Acid Anhydrous, Sodium Citrate and Potassium Citrate.
2/ Includes Dextrose Monohydrate and Dextrose Anhydrous

3. Dry Cell Batteries. Union Carbide Ltd., has requested $2 million for raw materials to produce dry cell batteries. A project to establish a plant in the Sudan to produce D-size, dry cell batteries was approved in June 1973. The plant commenced operating in January 1976 with a fixed investment of $2.3 million. Equity in the company is divided between Union Carbide Corporation (84%) and Sudanese shareholders (16%). In 1981, the management committee approved the addition of a second D-size cooker at an investment of $3.7 million. This expansion is scheduled to commence commercial production soon. The company was granted an initial five-year tax holiday ending December 1980. For the expansion, the tax holiday was extended to December 1984.

Dry cell batteries are an important consumer good in Sudan, since 75% of the population is rural and depends mainly on battery powered lights and transistor radios for information about events in the country and the rest of the world. Import of raw materials saves foreign exchange, adds value to domestic production, increases employment and income, and provides tax revenues to government.

Union Carbide has 604 employees and is the largest U.S. manufacturing company in the Sudan. The company produces about 60 million batteries a year and sells the entire output in the domestic market. A black market exists for dry cell batteries which is why the company plans to install a new production line for another 60 million batteries. Prices are controlled by the Ministry of Industry which allows a 15% profit. Production would supply 98% of domestic demand for dry cell batteries.

The company imports $24 million of industrial inputs. Total requirements from the U.S. are $7 million annually. Under CIP, Union Carbide proposes to import: (1) tinplate botton and top covers; (2) manganese ore; (3) cytalene black; (4) amonium chloride; and (5) zinc chloride.

Year	Sales Volume (million) D	C	AA	Sales ($000)
1976	22.0	-	-	4.9
1977	33.6	-	-	7.4
1978	45.1	-	-	9.9
1979	45.5	-	-	10.2
1980	47.4	-	-	9.4
1981	51.9	0.2	1.3	12.4
1982	64.2	0.9	2.3	13.7
1983	72.0	1.5	3.5	17.4

Source: Union Carbide Ltd.

Procurement will take place over a 10-month period. As in the past, Union Carbide will purchase materials either from its head office in the U.S. (sole source) or from Code 941 countries such as Taiwan under AID negotiated procurement procedures. Disbursement will be by Bank Letter of Commitment, and ought to be completed within one year.

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

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

F. Jute/Sacks/Baling Hoops

The Sudan Gezira Board (SGB), the Agricultural Bank of Sudan (ABS) and other public agricultural corporations[1/] have requested CIP funds for jute products and baling hoops, for which an allocation of $14 million is being considered. Without bags for the picked cotton and dura, hussian cloth to protect cotton bales and baling hoops to bind the huge circular cotton bales, export of cotton and dura would not be possible. Although a small fraction of the total value of these exports, jute products and hoops are strategic inputs for the marketing process.

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

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

The SGB is located between the Blue Nile and the White Nile south of Khartoum. The idea started as an experimental cotton plantation in Tayiba in 1910, irrigated by pumps. In 1925, Sennar dam was completed which is considered the actual beginning of the Gezira Scheme and irrigation by gravity. The year 1950 was a milestone when the scheme was nationalized and the Sudan Gezira Board set up to run the scheme. The scheme occupies 2.2 million feddans. The principal crop is cotton however groundnuts, sorghum, wheat and vegetables are also produced on the scheme. Because of deterioration in physical facilities of the scheme, a comprehensive rehabilitation program financed by IBRD is underway to modernize production. SGB represents the 103,000 tenants of the SGB, who cultivate 15-40 acres each. Policy reforms are underway aimed at increasing financial incentives to farmers in conjunction with a proposed $300 million Gezira rehabilitation program.

Jute products also are required by the Agricultural Bank of Sudan (ABS) for private producers in the rainfed sector. The ABS is wholly owned by the GOS. It was established in 1957 as the sole, specialized agricultural

---

1/ Including: (1) Rahad Agricultural Crop; (2) Blue Nile Agricultural Corp; (3) While Nile Agricultural Corp; (4) New Halfa Agricultural Corp; (5) Suki Agricultural Corp; (6) Zidab Agricultural Corp.

development credit institution in the country. ABS provides facilities for the promotion and development of agriculture and other related activities, providing such services in cash, goods, or services to persons who are primarily engaged in agriculture or allied and subsidiary industries.

Since 1969, the bulk of ABS financing has been for semi mechanized rainfed agriculture. ABS has been a major source of credit to the farmers who are active in sorghum or sesame production in the rainfed sector. The farmers receive credit both in cash and kind as short and medium-term loans. A major component of short term credits are jute bags and tractors and wide level discs for medium-term credit. As security for loans the farmers pledge their produce.

In the 1983/84 season, the area under mechanized crop production in rainfed areas is 4,272,969 feddans, out of which the ABS expects to provide short term finance for 1,018,614 feddans in the demarcated rainfed schemes. The ABS supplies about 80% of medium-term credit requirements. The annual requirement of jute bags for rainfed agriculture and private irrigated agriculture is estimated to be around 18,000 bales ($3,240,000), 85 to 90% for the rainfed sector, the remaining 10% for the private irrigated agriculture, mainly in the northern region.

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

The procurement of jute products is expected to get underway in July/August 1984 through the issuance of a formal tender. Bids will be opened in Khartoum, and a Direct Letter of Commitment will be issued to the lowest responsive bidder.

Baling hoops for the 84/85 cotton harvest are needed in-country in the last quarter of 1984. Because testing of more than one supplier's product has not taken place during the 83/84 ginning season, procurement will be sole source from the U.S. manufacturer who has supplied baling hoops to the Sudan Gezira Board for the past 4 years. Disbursement will be through a Direct Letter of Commitment.

G. Sudan Airways/Boeing Spare Parts

Sudan Airways provides Sudan's only integrated transport system linking all parts of the country with Khartoum. Many regional towns in the west, south and north depend on air transport for passenger service, cargo and mail. External flights serve Europe, neighboring African countries and the Arabian peninsula. CIP funds will be used to satisfy the airline's requirements for Boeing spare parts.

Recent "privatization" efforts by the GOS have left the ownership of Sudan Airways to a new company, called Sudanese Air Transport Company. As in the past, procurement of spare parts will probably be undertaken through a Direct Letter of Commitment to Boeing in order to permit immediate delivery of urgently needed aircraft parts.

The Sudan Airways fleet consists of two Boeing 737s, which are used on both internal and international flights, three Boeing 707s, which fly mainly to the Gulf and Europe, and three Fokker F-27s, which service the smaller regional towns in Sudan. All of the planes are aging; the 737s, for example, are both seven years old, and the 707s are four to six years old.

The 737s and the Fokkers are the core of Sudan's internal air transport network. The 737s link Khartoum to Port Sudan, Kassala, Dongola, El Obeid, Juba and other regional towns, and also fly Juba-Nairobi, Dongola-Cairo, and Khartoum-Jeddah routes. The Fokkers, primarily passenger planes, fly to smaller landing strips in Meroe, El Fasher, Malakal, Nyala and other remote towns. The demand for passenger services has far outstripped supply in Sudan as air in the only year-round, safe, and fast method of transport available. The seat factor ratio (a ratio of passenger miles to seat miles) is 70% for internal flights, a very high percentage by international standards. Sudan Airways calculates that it fills only 20% of the demand for passenger transport, and is currently attempting to increase the number of flights to Juba. In addition, the airport in Juba is being enlarged to receive the 707s on a new Khartoum/Juba/Nairobi flight.

With a cargo capacity of six tons, the 737s also carry virtually all of Sudan's internal air cargo, keeping the regions supplied with pharmaceuticals, foodstuffs, fresh fruits and vegetables, spare parts, and other essential and consumer commodities. The 737 Nairobi/Juba flight is the South's main source of supplies from Kenya.

Sudan Air also serves several international routes, in competition with many other airlines, and is considering purchasing rather than leasing its third 707. Despite the foreign exchange earned on international flights, however, Sudan Airways cannot claim to be a net foreign exchange earner. Its total revenues in 1983 were LS 86 million (calculated at $1 - LS 1.3), only 35% of which was received in foreign currency. In contrast, 65% of the airline's expenses were in foreign currency. The vital nature of the airline's services, however, justify the foreign exchange drain it imposes on the national economy.

22. Sudan Airways Traffic Capacity and Performance During 1978/79 and 1982/83

Period	Flight Capacity ton/km	Cargo		Passenger		
		Quantity transported ton/km	% of Total Capacity	Passenger Capacity (km)	Passengers Carried (km)	Used Capacity as of % Total Capacity
78/79	204,332	75,602	37.0	1,199	704	59
79/80	172,837	80,743	47.0	1,398,837	744,251	53
80/01	135,079	67,407	50.0	1,039,705	617,951	59
81/82	192,200	187,600	98.0	1,385,400	756,900	55
82/83	211,420	206,360	97.6	1,523,940	832,590	54

Source: Sudan Airways

23. Sudan Airways Export and Import Cargo, 1976/77-1982/83

Year	Exports	(Kg) Imports
1976/77	780,660	2,277,196
1977/78	1,146,767	1,715,684
1978/79	1,039,824	1,547,689
1979/80	1,154,581	1,800,875
1980/81	794,748	1,364,565
1981/82	446,196	1,332,123
1982/83	490,816	1,509,335

Source: Sudan Airways

CIP funds for essential spare parts will enable Sudan Air to maintain important routes linking remote areas of the Sudan, and to increase services in response to heavy demand. They will also keep open cargo routes which are necessary for internal trade.

H. Road Surfacing Equipment

The GOS is constructing a 100-kilometer gravel road between El Obeid and Dubeibat in Kordofan Region since early 1981 which is being financed by the Dutch Government. Construction, to gravel standards, is expected to be completed by the summer of 1984. The road consists of an embankment with subbase material available in the area, and is being constructed to improved standards by ADUCO International BV, a Dutch construction firm. It connects with a paved road from Dubeibat to Kadugli, and when completed will provide an all-weather link between major markets and political centers in Kordofan.

Traffic volume has increased considerably during the construction stage beyond that originally projected during the design phase. For example, recent traffic counts show that an average of 250 trucks per day utilize this road, while the assumption during project design was that only 100 trucks would use this road daily. Consequently, a much higher road maintenance cost will be associated with this gravel road than was originally anticipated, even though the high traffic counts boost the economic rate of return.

Because of these increases in traffic, a study has been prepared which estimated revised annual maintenance costs of this road, given the increased traffic counts, and compares it with the construction and maintenance costs associated with construction of a base course and application of double surface treatment, i.e. asphalting. The analysis shows that the initial costs of surfacing are higher but that the annual maintenance costs are much less. Benefits are also obtained by savings on vehicle operation costs. The cost comparison shows that net benefits are highest if the road is constructed to a full asphalt standard. The internal rate of return (IRR) is 30% over a period of only 10 years. The net present value amounts to LS 6,145,000 at a 10% discount rate over a ten year period.

The GOS has requested that the USAID Commodity Import Program finance this road surfacing/maintenance effort by supplying a portion of the equipment/spare parts, estimated at $2.0 million. The equipment list includes:

28 trucks (10m3 capacity)	2 bitumen tanks
3 loaders	1 bitumen distributor
1 bulldozer	5 chipping distributors
3 graders	1 mechanical broom
3 rollers	6 4-wheel drive vehicles
5 water trucks	1 rock drill set, including compressor
1 crusher complete	1 service truck
1 fuel tank 10,000/t	1 deep loader

The Dutch Government will support this effort with technical assistance. The GOS will cover local expenditures possibly with CIP local currency generations. When surfacing is completed, the equipment will be utilized for maintenance and other general surfacing requirements in the Kordofan Region, possibly on the Western Agriculture Marketing Road. Maintenance operations will be the responsibility of the regional branch office of the Roads and Bridges Public Corporation, which will be upgraded through the Western Agriculture Marketing Road Project.

This allocation is particularly attractive from a developmental perspective. The Kordofan Region produces commercial crops, including livestock, sorghum, groundnuts, sesame and gum, that are among Sudan's principal net foreign exchange earners. This particular road link connects southern Kordofan, an area of considerable agricultural productivity and even greater potential, with the Region's marketing center of El Obeid, given the existence of the paved, all-weather road between Kadugli and Dubeibat. Additional reductions in transport costs by asphalting consequently will have a direct impact on agriculture production and export earning capacity. Supply of road surfacing commodities is consistent with USAID's country development assistance strategy which emphasizes rainfed agriculture production, particularly in the the Kordofan Region. The El Obeid-Dubeibat Road also would link with the Kosti-Umm Ruwaba-El Obeid (Western Agriculture Marketing) Road which USAID proposes to cofinance with the African Development Bank.

Implementation of this activity will begin with a finalization of plans for relative contributions and responsibilities between the Government of Sudan and the referenced donors. We expect this to be completed in April/May 1984. Once the final list of road surfacing equipment is developed by the Roads and Bridges Public Corporation, which is the implementing agency of the government, formal tenders will be issued and evaluated. When the equipment arrives in country, it will be turned over by the Roads and Bridges Public Corporation for use by the Dutch contractor, ADUCO, to utilize in the surfacing operations. Upon completion, the equipment will be returned to RPBC for other road surfacing and maintenance operations in Kordofan Region. Disbursement of the $2 million earmarked for this procurement will be effected through Direct Letters of Commitment.

I. Composite Flour Equipment

The $3 million in the 1984 CIP for sorghum mills and composite flour blending equipment is part of a long-term, USAID-GOS effort to reduce Sudan's dependency on imported wheat, provide cereal calories at lower cost, and rationalize GOS flour and bread pricing policies. The effort has been furthered by several vehicles including composite flour and sorghum research by the Food Research Center at the University of Khartoum, an economic feasibility study on composite flour undertaken by the Agricultural Planning and Statistics Project, policy dialogue and reform in connection with PL 480 agreements and specifically the FY 84 Title I Agreement which contained, among others, a self-help measure for a commercial trial of sorghum-wheat flour to be conducted during 1984. Under this Agreement, USAID offered CIP support for the importation of sorghum mills and composite flour blending equipment. The

mills and blending equipment, which fulfill USAID's commitment, have strong implications for food security and foreign exchange savings.

USAID's objective is to reverse the trend toward substituting wheat for sorghum in consumption and to amend the structural distortions arising from failure to utilize a comparative advantage in sorghum production. Sudan is traditionally a sorghum producer and exporter. Sorghum exports have increased 16.4% annually since the early 1970s, in large part because of high prices in the Saudi Arabian market. In 1982/83, 23% of foreign exchange earnings were from sorghum exports. At the same time, sorghum production increased only 6% annually, indicating a decrease in supplies available to Sudanese consumers. This decrease was made possible by the large 12.4% annual increase in wheat imports, which reached 465,000 tons in 1982/83. At $218/ton, CIF Port Sudan, this level of imports has an annual value of $100 million. However, since most imported wheat is supplied under PL 480 or other donor aid programs, Sudan has not had to allocate this level of foreign exchange allocations for its importation to date.

The rapid increase in wheat consumption, despite its high cost is due to an important consumer convenience factor, subsidized wheat pricing policies, technological limitations and recently relative shortages of sorghum in the domestic market due to drought over the past two years and the pressure to export sorghum for foreign exchange earnings. Wheat bread has increasingly substituted for the traditional "bread", kisera, in part because bread is more convenient to consume particularly for meals consumed away from the household. This trend has also been enhanced by wheat subsidies which have kept bread prices artificially low. The recent shortages of sorghum for the domestic market have also driven-up the price of sorghum flour, the basic ingredient used in kisera production, thus encouraging substitution toward wheat bread.

Since sorghum cannot be used to make white bread, it has traditionally been eaten as kisra, a flat pancake-like staple food. Because the bran is difficult to remove, the sorghum flour is off color. These characteristics have made sorghum flour an inferior bread flour. In the Sudan, where wheat has been available from donors on concessional terms, coupled with the above factors, consumers have been encouraged to increasingly switch away from the traditional kisra to French-style wheat bread.

The normal consumer preference for wheat has been exacerbated by GOS subsidies of wheat, wheat flour and wheat bread. Wheat has been imported at subsidized exchange rates, and bread price increases have not kept pace with domestic inflation or devaluations. As a consequence, grain prices in the Sudan have been the reverse of international relative grain prices, with domestic sorghum more expensive than imported wheat. The inversion of prices has discouraged domestic production of wheat, resulted in a high rate of growth in wheat consumption per capita, and caused an expansion in the number of wheat flour bakeries by 150 in the last three years. Up to 40 more bakeries are expected to open in Khartoum in 1984.

With USAID encouragement, the GOS has recently raised the domestic price of wheat and flour to import parity. The nominal price of bread has risen 90% since 1981 and explicit wheat and flour subsidies were eliminated in July 1983. The 1984 Title I Agreement calls for the elimination of implicit foreign exchange rate subsidies on bread by July 1984.

An important constraint to increased sorghum consumption is technological. Until recently, the hardness of the grain, and the fact that the bran coating cannot be removed as in wheat milling, has resulted in flour which is dark and has poor storage qualities. New milling techniques, however, can decorticate sorghum and produce a white flour which is indistinguishable from wheat flour and can be stored much longer.

Now that domestic wheat prices reflect the international prices, our next step is to reintroduce sorghum into the Sudanese cereal diet by using the new milling techniques to encourage partial substitution of sorghum for wheat in bread production.

A pilot milling plant and bakery operated by the Food Research Centre at the University of Khartoum, funded by the United Nations Industrial Development Organization (UNIDO), began baking trials in 1978, and has demonstrated that bread made with wheat-sorghum flour, with up to 30% sorghum, is feasible and acceptable to Sudanese consumers. Studies have shown that $10 in foreign exchange can be saved for each ton of composite flour produced, depending on blending and wheat flour extraction rates, and relative international prices of sorghum and wheat.

USAID has urged the GOS to begin large-scale commercial trials of this process with decorticating sorghum mills and blending facilities imported under CIP. Although price reform has made blending financially appealing, the availability of CIP foreign exchange and local currency can help overcome the reluctance of commercial millers and bakers to invest in unfamiliar equipment which will be profitable only if pricing reforms are continued. Existing private millers will initiate this new process, because the simplest and cheapest way to produce sorghum flour is to add sorghum milling lines to existing wheat flour mills. Since much of wheat milling and consumption is largely centered in Khartoum, the allocation ($3 million) will be largely for Khartoum, however an additional $2 million will be for the procurement of sorghum for major regional centers, which is consistent with USAID's commitment to regional economic development. This allocation is explained in the section on "Regional Agricultural Inputs."

A report prepared by Gotsch Associates, financed under the Agricultural Planning and Statistics Project, in November 1983 indicates that there are significant economic returns to investments in composite flour technology. A 60-ton per day mill, for example, costs about LS 1.7 million ($1 million) of which about $400,000 is foreign currency. If the mill produces 40 tons per day for 300 days annually with wheat and sorghum prices at current levels, at an extraction rate of 80%, and a 4:1 blending ratio, the mill will produce 12,000 tons of sorghum flour and 60,000 tons of composite flour, at an annual foreign exchange savings of $550,000. Similar calculations show that larger

mills have even better returns. Mills are expected to recover costs in less than three years.

Commercialization of composite breads is a first step to helping Sudan become less reliant on wheat imports, and is only one component of efforts to utilize Sudan's comparative advantage in sorghum production. Since the cost savings from composite flour are too small to be reflected in the price of bread, USAID is urging use of a policy of multiple bread pricing, related to loaf size and wheat flour extraction rates. Such a pricing system should encourage the increased consumption of sorghum. The relatively small savings from composite flour cited above cannot significantly reduce wheat imports, unless large quantities of high quality sorghum flour are made available at competitive prices. This in turn should reduce the price of kisra, and thus encourage a substitution away from wheat bread. This could measurably reduce Sudan's dependence on imported wheat. Larger savings can occur only from more widespread acceptance of products made wholly of sorghum flour. USAID supports research into a broad range of cereal products, using the new technology, and has identified products which may have consumer appeal, such as flat, pita-style bread and the commercial production of kisra with longer shelf-life.

At this stage, the procurement of sorghum milling and composite flour blending equipment for the Khartoum area hinges on the results of composite flour tests presently being conducted. If the decision is made to go ahead, a mini-feasibility study will be conducted since this procurement will involve the construction or expansion of physical facilities. Procurement will be by formal tender, and disbursement through a Direct Letter of Commitment.

J. Regional Agricultural Inputs

Below are examples of the types of commodities we anticipate will be requested by private sector farmers/entrepreneurs in the rainfed agriculture sector. However, one of the major objectives of the allocation of $7 million for regional agricultural inputs is to find out more precisely the imported input requirements needed to expand production and marketing in this sector.

1. Agricultural Tractors. Tractors are used in Sudan mainly for land preparation for sorghum, sesame, wheat, groundnuts, vegetables, broad-beans, and spices. Agriculturalists assert that no realistic alternative technology is available for large scale land preparation. Land preparation is a critical operation which must be done within one month. Large land areas required for sorghum, wheat, and other crops cannot be prepared manually within the time required.

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

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

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

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

Source: Agricultural Bank of Sudan

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

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

Year	Million Feddans
1979/80	3 3
1980/81	3.6
1981/82	4.7
1982/83	4.7
1983/84	4.3

Approximately 85% of sorghum output is consumed within Sudan, however, a large proportion of the sorghum produced in the mechanized rainfed sector is exported. Tractor costs are only 11% of total production costs, assuming a 7-year economic life, because weeding and harvesting are done manually. Nevertheless, in 1982, dura and sesame exports were nearly one-third of all Sudanese exports. Rainfed crops, including groundnuts, using tractors for land preparation and related uses, provide a major part of foreign exchange earnings.

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

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

In order to maintain financial profitability within the mechanized sorghum industry and produce for a declining export price, normal rainfall patterns and increasing yields per unit of output will be required. Until sorghum yield increasing technology is readily available a portion of the sorghum producers are likely, in the short-run, to shift from sorghum to sesame which faces a strong export price. However, in the short-run we anticipate that sorghum producers will also attempt to intensify their production approach and save on mechanization and fuel costs by timely land preparation, increasing seed rates and more intensive weeding practices. Producers who have access to the presently limited quantity of improved sorghum seed will adopt them as they become available thereby increasing their crop yield and incomes.

ABS finances approximately 25% of the seasonal credit requirements of farmers. The remaining 75% must be financed by farmers from personal resources or other private sources. ABS normally finances 70% of the purchase price of tractors for 4 years at 12%.

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

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

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

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

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

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

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

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

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

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

The Industrial Bank of the Sudan (IBS) has requested CIP commodities for cold stores, each with 2,500-3,000 tons capacity in Wau, Nyala, Shendi, Khartoum, and Port Sudan. Private investors have applied for financing of these facilities. These sites are the core of an export-oriented, marketing network for high-value fresh fruits, vegetables, and fish produced in the regions. The stores will have capacity for several types of products and will improve supply responsiveness to market demand.

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

These products, however, are grown in areas far from air distribution points at Khartoum and Port Sudan airports. Wau, for example, is a collection point for fruits grown in the area, but lack of storage and erratic transport

results in large quantities of waste produce, even though several weekly flights connect Wau to Khartoum. Nyala, close to the Jebel Marra irrigation scheme, could serve as a distribution center for the long-term storage crops, such as garlic and potatoes, which are produced in sufficient quantities for the region and export or consumption in other regions. Shendi, at the center of a large fruit and vegetable area, could develop into the collection and distribution center for the whole region. Produce from this area is particularly well suited for air transport to Port Sudan and from there to the Gulf. Cold stores in Khartoum and Port Sudan would hold the fruits and vegetables for international transport.

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

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

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

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

Cold stores and refrigerated trucks would: (1) stimulate exports of perishable agricultural crops; (2) increase producer's incomes by cutting losses and increasing markets; and (3) stabilize the supply of perishable goods for the Sudanese consumer by holding supplies over longer periods. Development of cold storage is an important feature of regional and

agricultural development, especially when developed in conjunction with transport services and utilities.

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

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

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

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

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

5. Other Agricultural Equipment. The demand for essential agricultural implements is well above the capacity of CIP to supply. To fully supply annual tractor replacement and the requirements of new farmers, for example, would require approximately $12 million annually. Besides tractors, other needs exist such as for ridgers used for groundnuts and cotton, poultry sheds

and incubators, dehydration equipment, foundry equipment and machine tools for fabricating spare parts for oil mills and other agroprocessing facilities, and meat processing equipment. Outstanding applications to dealers and development banks are on hand from private farmers and businessmen in the regions, most of which probably cannot be supplied because of the shortages of foreign exchange.

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

MCCS advertises through local news media the availability of 1984 CIP funds to finance the dollar cost of agricultural inputs required at the regional level. The announcement invites private importers (traders, distributors, and end users) to submit written requests for CIP allocations by a certain deadline date. Each request must indicate a specific dollar amount, the precise description of the commodity for which a CIP allocation is sought, and the location of the point of sale and/or enduse. (Per Section XI, a proposed covenant will require a standardized application form to be designed for this purpose).

The requests are reviewed jointly by MCCS and USAID. ABS could be included in this review. Once agreement is reached, MCCS notifies individual importers of their CIP allocations. Private importers undertake procurement according to GOS/USAID standard procedures for dollar disbursements and local currency payments. In those instances where the enduser is in need of local credit to purchase a commodity from the importer, and where the latter is unable or unwilling to extend credit, the farmer is directed to ABS to obtain a local currency loan. Disbursement of CIP dollars is effected through a Bank Letter of Commitment.

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

24. Exports of Fruits and Vegetables

Product	1978		1979		1980		1981	
	Tons (000)	LS	Tons (000)	LS	Tons (000)	LS	Tons (000)	LS
Lemon & Citrus	0.1	2,243	250.4	2,863	211.6	46,245	307.3	152,543
Mangoes	2,072.2	180,967	1,234.4	128,042	595.3	121,445	2,465.7	761,517
Onion	77.5	22,244	189.6	25,171	85.7	5,596	73.9	20,124
Tomatoes	—	—	—	—	2.7	1,031	—	—
Other fresh Vegetables	44.9	5,893	9.1	1,539	11.6	6,850	5.7	3,140

Source: IBS

25. Fish Production by Region, July 1981-June 1982

Area	Quantity (tons)
Wadi Halfa	577.1
Atbara	275.5
Khartoum	701.1
Deuim	272.1
Kosti	649.9
Rabak	552.9
Medani	362.3
Souki	128.1
Sinar	260.8
Singa	262.5
Damazine	132.4
Gadarif	287.0
Karsala	375.3
Total	10,836.9

Source: IBS

VII. MARKET ANALYSIS AND CIP ALLOCATION

A. U.S. Share of Imports

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

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

Significant market opportunities exist for telecommunications equipment, electric power generation and distribution equipment, and sugar-cane harvestors and refining equipment. The key to capitalizing on these opportunities is concessional financing. Commercial sales are limited by the lack of foreign exchange and inability to obtain supplier credits or loans from commercial sources.

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

The official exchange rate is $1.00 = LS 1.2961. The unofficial free market rate is approximately $1.00 = LS 2.22 as of March 20, 1984.

B. CIP Pipeline

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

26. CIP Pipeline

($ Million)

FY	Amount	Through FY 82 Oblig	Through FY 82 Expend	FY 83 Oblig	FY 83 Expend	Est FY 84 Oblig	Est FY 84 Expend
1980	40.0	-	39.7	-	-	-	-
1981	50.0	-	37.1	-	8.0	-	4.0
1982	100.0	100.0	34.3	-	43.1	-	22.6
1983	60.2	-	-	60.2	37.2	-	23.0
Proposed							
1984	102.0	-	-	-	-	102.0	35.0

Source: USAID/Sudan.

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

Following preliminary discussions with representatives of the Government of Sudan (GOS), and based on past CIP's and GOS requests, USAID has constructed a positive list of commodities with upper limits of value from which $62 million of CIP commodities will be drawn.

Positive List of Commodities	Upper Limit of Value($ Million)
Fertilizer	20
Jute/Baling Hoops	20
Petroleum Products	40
Tallow	20
Spare Parts	8
Agricultural Machinery and Equipment	30
Transportation Equipment and Parts	10
Telecommunication Equipment	6
Industrial Inputs and Equipment	21
Power Generation Equipment	20
Earth Moving Equipment	5
Total	200

Based on analysis of specific import commodities and criteria in Section VI, USAID and GOS have drawn up a tentative allocation of the proposed $62 million CIP which is provided below for illustrative purposes only.

27. ILLUSTRATIVE CIP ALLOCATIONS FOR FY 1984

($ Million)

Importer/ Commodity	Amount	Sector: Agric	Ind	Infrastructure
1. NEC/Power Distribution Equipment	15.0	—	—	15.0
2. Lubricants/Base Oils	6.0			
Lubricants	1.0	—	1.0	—
Base Oils	5.0	—	5.0	—
3. Soap Inputs/Tallow	5.0	—	5.0	—
4. Industrial Inputs	8.0			
Pharmaceutical Inputs	4.0	—	4.0	—
Textile Chemicals/Parts	1.0	—	1.0	—
Tinplate	1.0	—	1.0	—
Union Carbide	2.0	—	2.0	
5. Jute Sacks/Baling Hoops	14.0			
Cotton SGB	9.0	9.0	—	—
Dura, ABS	3.0	3.0	—	—
Baling Hoops	2.0	2.0	—	—
6. Sudan Airways/ Boeing Spare Parts	2.0	—	—	2.0
7. Road Surfacing Equipment	2.0	—	—	2.0
8. Composite Flour Equipment	3.0	3.0		
9. Regional Agricultural Inputs	7.0			
Agricultural Tractors	2.0	2.0	—	—
Edible Oil Refineries	1.0	1.0	—	—
Cold Storage	1.0	1.0	—	—
Sorghum Milling	2.0	2.0	—	—
Agricultural Implement	1.0	1.0	—	—
Total	62.0	24.0	19.0	19.0

1. Equipment for Electric Power Distribution, $15 Million

As outlined in the analysis of Section VI, Sudan's agricultural and industrial sectors suffer from severe power cuts which curtail production. The GOS gives highest priority to upgrading of the distribution system concurrent with rehabilitation of the Blue Nile Grid to which AID is making a major contribution.

2. Tallow, $5 Million

Tallow is used primarily in soap-making, as a low cost substitute for exportable cottonseed oil, and is a particularly vital consumer item in the Sudan. There are about 25 independent soap manufacturers, all but one privately owned. As in the past, the CIP financing of tallow will sustain labor-intensive local manufacturing industries.

3. Base Oils and Lubricants, $6 Million

Peak demand for lubricating oils and greases is in the first two quarters of the calendar year during harvest time for cotton and sugar cane. Demand is sustained by the requirements of processing industries as well as other private manufacturing companies. Thus, the availability of lubes and greases has a profound impact on agricultural and industrial production. It is anticipated that $5 million will finance base oils for blending by private companies and $1 million for finished products. CIP imports will be marketed by the four private oil companies which have adequate processing and distribution facilities.

4. Industrial Inputs, $8.0 Million

Imports of industrial chemicals and other inputs are proposed for the private pharmaceutical, textile, dry cell battery, and can manufacturers. Importation of raw materials permits adding value to domestic production, saves foreign exchange, and increases employment, income and tax revenues.

5. Jute Product and Baling Hoops, $14.0 Million

Jute bags are required for both irrigated cotton ($9.0 million) and rainfed sorghum and sesame ($3.0 million) exports. In addition, $2 million is needed for baling hoops to secure cotton bales. The Sudan Gezira Board will handle imported commodities for cotton producers and the Agricultural Bank of Sudan will handle jute imports for sorghum and sesame producers.

6. Sudan Airways/Boeing Spare Parts, $2.0 Million

Importation of $2.0 million of spare parts is proposed for Sudan Airways. Sudan Airways uses mainly Boeing aircraft. A plan to

introduce private ownership of the company is underway which may include a management contract with another international airline.

7. Road Surfacing Equipment, $2 Million

GOS has undertaken construction of a 100-kilometer, gravel road between El Obeid and Dubeibat in Kordofan Region to be completed by the summer of 1984 which connects with a paved road from Dubeibat to Kadugli, and will provide an all-weather link between major markets and political centers in Kordofan. Traffic volume during the construction stage has been much higher than originally projected. Because of the larger volume of traffic, net benefits are highest if the road is paved. GOS has requested that CIP provide road surfacing and maintenance equipment and spare parts. Paving has a particularly favorable regional development impact because the Kordofan Region produces commercial crops, including livestock, sorghum, groundnuts, sesame, and gum that are principal net foreign exchange earners.

8. Composite Flour Equipment, $3.0 Million

Import of sorghum milling and composite flour blending equipment will save foreign exchange by substituting consumption of domestic sorghum flour for imported wheat flour in bread-making. Due to policy reforms encouraged under our PL 480 Programs, the pricing structure of wheat and sorghum is now appropriate for the commercialization of composite flour in bread making. As agreed to in the FY 1984 PL 480 Title I Agreement, CIP resources will be allocated for this commercialization process, which will be concentrated in the Khartoum area.

9. Regional Agricultural Inputs $7.0 Million

a. Agricultural Tractors, $2.0 Million. Tractors are used for land preparation in production of sorghum, sesame, groundnuts, and other export crops. Net foreign exchange earnings from sorghum exports are about 90% of export value. The soils of the rainfed areas are heavy clay soils which become hard and crack when dry, requiring tractors and discs for land preparation. Sorghum and other rainfed crops have major potential for increasing yields since Sudan has a comparative advantage in production of grain crops. Import of tractors will contribute directly to food security and production of agricultural exports.

b. Edible Oil Refineries, $1.0 Million. Edible oil refineries illustrate that agribusiness in the regions can increase export proceeds by adding value through primary processing. Groundnuts are a large export crop. By extracting and refining groundnut oil domestically, Sudan can export high-value vegetable oil rather than low-value raw groundnuts. Additional refining capacity for both

groundnut and cotton seeds also will help to supply domestic demand for refined cooking oils and to substitute for imported refined edible oils.

c. Cold Storage, $1.0 Million. Cold storage equipment, which extends the economic life of perishable products is an important part of the food chain in Sudan where transportation services are limited and erratic and temperatures are extremely high. A transport and distribution system, which provides cold storage and cold transport options at critical points, not only enhances the growing export trade in fruits, meat, and vegetables and potential export of fish, but also helps to regularize flows of produce from the regions and reduce large losses from wastage which curtails producers' incomes. Sudan's international trade in fruits and vegetables transported by air is modest but has increased sharply in recent years because of high demand in the Gulf states. These products, however, are grown in areas far from air distribution points at Khartoum and Port Sudan airports.

The Industrial Bank of the Sudan (IBS) has requested CIP commodities for cold stores, each with 2,500 - 3,000 tons capacity in Wau, Nyala, Shendi, Khartoum, and Port Sudan. Private investors have applied for financing of these facilities. These sites are the core of an export-oriented, marketing network for high-value fresh fruits, vegetables, and fish produced in the regions. The stores will have capacity for several types of products and will improve supply responsiveness to market demand.

d. Sorghum Milling Equipment $2.0 million. Aside from the requirement for sorghum milling equipment in the commercialization of composite flour bread-making in the Khartoum area, sorghum mills are a high priority for regional centers in the south and west to produce sorghum flour for the production of kisera, a traditional "bread" in the Sudan.

e. Other Agricultural Implements, $1.0 Million. Various other agricultural and agricultural processing equipment is needed by regional producers such as ridgers, poultry sheds and incubators, meat processing equipment and dehydration equipment.

VIII. LOCAL CURRENCY COMPONENT

A. Counterpart Generations.

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

However, there are limitations in the need for local currencies to support USAID's project portfolio. This is especially true because local currencies have been generated from the FY 1980-84 $100 million PL 480 Title III Agreement and the FY 1984 $30 million PL 480 Title I Agreement which are also earmarked to support our agriculture/rural development program. Consequently all excess CIP local currencies (not directly attributed to AID programs) will need to be programmed within the Regional Development Support Fund or within the GOS's development budget in accordance with the Three Year Public and Private Investment Programs.

The Regional Development Support Fund is being established to help the people of the regions increase their standard of living and to assist residents of eight regions increase production, incomes and quality of life. Convenants for the utilization of the fund emphasize activities to increase agriculture production since most citizens of the regions are employed in agriculture.

Programming of local currencies within the GOS's development budget in accordance with the Three Year Public and Private Investment Programs will give priority to supporting other donor financed activities, particularly those of the World Bank. The funded line items will reflect the priorities which USAID holds in high esteem, and also provide for sufficient flexibility in the Government of Sudan's budget to deal with its own internal financing program.

The FY 1984 CIP Program Agreement will require both parties to agree to program CIP generations within sixty (60) days of their deposit in the Special Account, unless, in a special case, a longer period is justified. In no case will USAID allow any of the generations to be attributable to general budget support.

The programming process is a continuing one which moves upward from month to month, within the anticipated available funds. An estimate of anticipated generations and projected disbursements determines the status of the programming at a given point in time. The cumulative balance computed reflects the cushion necessary to absorb the uncertainties of CIP disbursements and counterpart deposits.

The FY 1984 CIP Program will specify in a special covenant that all commodity transactions must generate local currency. In those instances where the implementing public sector corporation or agency or parastatal is unable to secure the necessary local currency at the time the order is placed due to a cash flow problem, the Ministry of Finance and Economic Planning will make a subsidiary loan to the GOS implementing agency to ensure timely deposit of local currency into the Special Account. This will install some budgetary discipline.

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

A proportion of the FY 1984 CIP local currency generations will also support Mission operations in the Sudan. Within this trust fund account, funds will be utilized to meet the costs of arrival accounting being performed by a provate firm under contract with USAID.

B. Trust Account Deposit

The Government will make deposits of local currency to a Trust Account in the name of the U.S. Disbursing Officer upon request of AID and subject to approval by the Government. Deposits in this Trust Account will be in local currency at levels specified by USAID. Disbursements from the Trust Account may be made by the Government of the United States to cover the program and administrative costs of the United States Assistance Program, and administrative costs of other elements of the U.S. Mission in the Sudan.

IX. PROGRAM IMPLEMENTATION

A. Overview. Until early in FY 83, each of USAID's divisions that have implementation responsibilities had not had the depth of staff of adequately monitor the CIP. The Supply Management Office is now staffed with a senior supply officer and an assistant. The Projects Office is now employing a contract technician whose duties include programming local currency generated by the program and monitoring deposits and withdrawals from the Special Account. The Controller Office has employed a TCN Accountant, whose primary duties include monitoring the arrival accounting system, performing end use examinations, and reviewing AID/W accounting reports. The Economic Planning and Program Officer has arrived and will be responsible for assisting in the determination of the appropriate allocation of ESF funds. The full team is now on board and are providing in-depth guidance and adequate monitoring of all phases of the implementation of the program

B. Implementation Procedures.

1. GOS. The major GOS entities responsible for administering and implementing the CIP grant will be the Ministry of Finance and Economic Planning (MFEP), the Ministry of Cooperation, Commerce and Supply (MCCS), and the Bank of Sudan. Within MFEP's Finance Division, the newly established Commodity Aid Committee (CAC) will allocate grant proceeds to the public sector, earmark a portion for use by the private sector, and have overall responsibility for grant administration. The MCCS in turn will suballocate grant funds to private sector entities, establish import controls, and issue trade regulations and/or incentives as required to support the program. It will also be responsible for issuing all import licenses. The primary role of the Bank of Sudan will be to provide payment instructions to the local commercial banks acting as approved applications under the Bank Letter of Commitment method of financing. The Ministry of Finance and Economic Planning has been responsible for the management of the Special Account for counterpart generations. While staff at this Ministry has been able to adequately carry on this function to date, as the overall levels of counterpart generations increase, at $170 million per year - including both PL 480 Title I and III as well as CIP local currencies, and the number of projects also increase substantially, we are beginning to face absorptive capability problems. Consequently, a covenant in the Program Agreement will require that proper staffing to oversee this function be in place within three months of execution of this Agreement.

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

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

C. Procurement Financing Procedures and Financial Analysis

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

D. Eligible Commodities

Commodities eligible under the AID Commodity Eligibility Listing (1983 edition) will be eligible for AID financing and will be included in all Commodity Procurement Instructions. However, commodities actually financed will be determined largely by the allocations made by the Commodity Aid Committee (CAC) and transmitted to AID by the Ministry of Finance and Economic Planning. As noted above, the Ministry has already provided an indicative list of allocations for the FY 1984 Commodity Import Program.

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

E. Procurement Restrictions/Limitations

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

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

F. Commodity Eligibility Date

The Eligibility Date for Commodities and Commodity Related Services procured under this FY 84 CIP will be the date of the signing of the Agreement.

G. Terminal Disbursement Date

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

H. Port Clearance and Inland Transportation

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

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

I. Methods of Implementation and Financing

Method of Implementation	Method of Financing	Approximate Amount ($000)
Commodities, Host Country Procurement		
Transactions under 1 Million	Bank L/COM	19.0
Transactions over 1 Million	Direct L/COM	41.0
Technical Assistance	Direct Reimbursement	2.0

The Government of Sudan does not have the financial resources to make initial payments and seek reimbursements from AID. Up to FY 1982, we elected to use direct letters of commitment for all CIP transactions. The volume of

paper that was generated from the smaller transactions required us after consultation with AID/W to use Bank Letters of Commitment for all transactions less than one million dollars.

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

The Mission has determined that records maintained by the GOS are not adequate for our purposes. Therefore, we have established a system that adequately tracks commodity arrival, movement through the ports, indicating shortages and breakage and distribution to the ultimate end user. Up to this point in time we have records on approximately 21% of all CIP transactions under FY 81 through FY 83 programs. This will be expanded and will include most of the high cost items under these programs. The Mission randomly selects the transactions to be accounted for. Our contractor performs the detailed work and prepares reports that indicate arrivals, compared to shipments, and reflects overages, shortages, and breakage. These reports are transmitted to the Supply Management Office for any necessary action. The contract is funded from local currency generated under the program.

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

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

J. Import Controls

1. Private Sector. The MCCS is responsible for establishing and implementing an annual (July 1 - June 10) import program in coordination with the Ministry of Finance and Economic Planning, the Bank of Sudan and various other government units. The annual program consists essentially of estimates of types and classes of imports, estimates of foreign exchange requirements, and a balancing between anticipated needs and anticipated purchasing power (foreign exchange availability).

Import licensing approval, a control against exceeding specific annual quotas and foreign exchange availabilities, is shared between the MCCS, the

Bank of Sudan and Ministries having national jurisdiction over the specific economic sector. For the public sector, import approval depends mainly upon whether the import is included in an approved foreign exchange budget and foreign exchange is available. For the private sector there is a more elaborate system consisting of annual quotas, usually by commodity, but sometimes by trade protocol or country of origin, and occassionally by importer.

2. Import License Systems. There are three licensing systems currently operating.

a. Revised "Open General Licensing System" (OGL) permits only restricted imports of any commodity or product. Limitations and classes of commodities or products are dependent upon decisions of the Minister of Finance and Economic Planning, and are presently set forth in List "B" of 40 prohibited categories of imports.

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

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

K. GOS Allocation and Control of CIP Funds

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

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

L. Tentative Implementation Schedule

April 1984	Agreement Signed
May 1984	Conditions Precendent Met
June 1984	First Letter of Commitment issued
July 1984	First Shipment made
July 1984	First Shipment arrived Sudan
April 1985	Grant Fully Committed (L/COMS)
March 1986	Final Shipment
April 1986	Final Disbursement

Annex F- presents a detailed commodity procurement implementation chart.

M. Evaluation of Economic Impact and Accountability

During FY 1984, USAID and the GOS will undertake a joint evaluation of the economic impact of the Commodity Import Program (CIP). The CIP program evaluation will assess the extent to which the annual programs have reached goals, and ways in which goals may be most effectively pursued in the future.

The primary goal of the annual CIP agreements is improvement of the balance of payments through fast disbursing grants for essential imports while encouraging policy reforms by the Government of Sudan. Secondary goals include: (1) improved export performance; (2) interim financing during economically necessary but politically sensitive reforms; (3) improved infrastructure to support agricultural and industrial production and marketing for export and import substitution purposes; (4) incentives for private sector participation in development; and (5) budgetary support for GOS development efforts through joint programming of generated counterpart Sudanese pounds.

End use monitoring of private sector importers by USAID's Controller has begun. These efforts will be extended to public sector enterprises and expanded with the assistance of USAID/Sudan and AID/Washington staff and a Sudanese team of economic, procurement, and accounting specialists. The team will work closely with the new Commodity Aid Committee (CAC) and staff of the Ministry of Finance and Economic Planning, as well as with officials of the Ministry of Cooperation, Commerce and Supply, Bank of Sudan, port authorities, the representative public and private sector importers.

The purpose of the evaluation is to assess:

1. Balance of payments impacts over the life of the CIP agreements;
2. Policy changes ascribable to the CIP;
3. Economic impact on the productivity of the subsectors and individual firms receiving CIP allocation; and
4. Developmental impact of the use of local currency generations.

In assessing achievement of the broad objectives of the CIP program, the team will examine specific issues such as:

1. BOP relief arrtibutable to the CIP;
2. Impact of the counterpart fund generation and expenditure on USAID, other donor and GOS projects;
3. Public and private sector accountability for CIP imports and counterpart funds;
4. Working definitions of private and public sectors for the importing and use of CIP commodities;
5. The appropriateness of the mix of capital, intermediate, crucial, consumer and infrastructure goods;
6. The negotiating process by which eligible public and private sector enterprises and importers are selected, the share which each receives, and the possibility that through lack of information, eligible importers may be excluded;
7. Availability of domestic substitutes and cheaper foreign sources for the selected goods;
8. Possible over-concentration of imports in relatively well-served sectors and regions to the exclusion of imports for other sectors or regions with higher returns.
9. The division of imports between U.S. and other code 941 source-origin countries;
10. The extent to which CIP funds have not been utilized because of: (a) the relative prices of U.S. goods, and shipping costs; (b) the exchange rate and discount applied; and (c) availability of funds for advance deposit of counterpart funds by eligible importers;
11. The time lapse between submittal of the approved list, receipt of proposals, issuance of Letter of Credit/Commitment, purchase shipping, post clearance and the receipt and end use of commodities.

The evaluation team will present a final report of its findings with recommendations for strategy and procedural changes to enhance the development impact and accountability of CIP programs.

N. Related Technical Services.

Up to $2 million of the FY 1984 ESF funds will be utilized to finance technical assistance and training activities directly related to commodity purchases. Such services will be required both prior to and subsequent to

commodity purchases and are viewed as essential to the effective utilization of comtemplated procurement. Although not restricted to the energy sector, we envision that a significant proportion will be directed towards more effective utilization of the procurement of electric power transmission and distribution equipment and spare parts to substantially increase the reliability of the Blue Nile Grid which supplies 80 percent of the power in the Sudan; essentially continuing an activity which began with the FY 1982 CIP. Our experience with the FY 1982 and FY 1983 Commodity Import Program has demonstrated the utility of such a provision.

Parallel to USAID's programming of commodities, USAID has established an illustrative list of technical services under the electric power transmission and distribution component and for other areas requiring $2 million dollars in support.

PART I: Illustrative List of Services

A. Electric Power transmission and distribution:

1. Distribution Engineer	24 person months	$250,000
2. Sub-section Engineer	24 person months	250,000
3. Relay Instrumentation Engineer	12 person months	125,000
4. Procurement Coordinator	12 person months	125,000
5. Communication Engineer	18 person months	185,000
6. Vehicle Oper./Main. Engineer	18 person months	185,000
7. Machine Shop Manager	12 person months	125,000
8. Resident Manager	24 person months	250,000
9. Program Coordinator	24 person months	250,000
10. Heavy Equipment Engineer	12 person months	125,000
(SUBTOTAL)		($1,870,000)

B. Health, Environmental and Biological Monitoring

1. Pesticide Exposure specialist	2 person months	$33,000
2. Toxilogist/Physician	1 person month	16,000
3. Cotton Pest Manag. Spec.	1 person month	16,000
4. Post Doctoral Fellow	2 person months	33,000
5. Pesticide Epidermiologist	1 person month	16,000
6. Ground Water Specialist	1 person month	16,000
(SUBTOTAL)		($130,000)
TOTAL (Illustrative) Technical Services		$2,000,000

PART II: Calculation of unit costs

A. Electric Power Transmission and Distribution

Salaries and wages	$50,000
Travel and subsistence	11,000
Housing and utilities	15,000
Office equipment and supplies	3,000
Storage of HHE and shipment of vehicles	10,000
Other direct costs	10,000
Overhead	26,000

TOTAL Cost per person/yr of long term technical services ($125,000)

B. Health, Environmental, and Biological monitoring

Salaries and wages	$ 7,000
Travel-International, domestic and local	5,000
Equipment and facilities	2,500
Management costs	1,500

TOTAL Cost per person/mo of short term technical services ($16,000)

O. Regional Institutions.

The Agricultural Bank of Sudan (ABS) was established by Act of Parliament in 1957 to provide credit to small and medium cultivators and cooperatives, increase agricultural output by supplying improved seeds, insectides, fertilizers and extension services, imported farm machinery, and assist producers in handling, storing and marketing crops. ABS began operations in 1959 and has considerable experience in procurement, credit, marketing, storage and harvesting services. It is virtually the only specialized institution providing credit to private farmers. Recently a Bank of Cooperatives was formed which does not have the resources for significant lending. GOS has agreed that ABS should continue to lend to cooperatives in accordance with its constitution. Commercial banks also finance storage and export of crops, but not on-farm activities.

Operations are concentrated mainly in the mechanized farming subsector with private irrigation and traditional rainfed areas being somewhat neglected. ABS lends to about 5,000 clients a year, which is approximately one percent of the potential clients. Most farmers still avail themselves of expensive credit from traders under the shiel system.

Two-thirds of ABS lending has been seasonal credit with fifteen month maturity, the balance lent on medium term with five year maturity, primarily for machinery or irrigation equipment. ABS interest rates are about 14% per annum depending of type of credit and applicant. ABS normally requires a land mortgage or other security equal to 130% of the loan. Credit regulations enacted in 1974 set out the loan types, purposes, interest, security, application, contract, repayment and supervision procedures, together with special rules relating to cooperatives.

Collection rates have been low but losses have been moderate. The 1957 Act empowers the Board to make an order for debt collection equivalent to a degree of the civil court. A modest start at resource mobilization has been made by starting commercial banking activities at two branches, Dongola and Zalingei. Extention of commercial banking operations was impeded by a ruling prohibiting public sector agencies from earning interest on bank deposits.

Non-banking activities include importation, distribution and sale of agricultural machinery, fertilizer, sacks and seeds; importing wheat and exporting sorghum on behalf of the Government; operation of government silos;

operation of ABS warehouses for storage of farmers' crops and inputs; and contract harvesting in mechanized farming areas. ABS has played a dominant role in importation and distribution of agricultural machinery, mainly tractors. Earnings from this activity have been a major part of total income.

ABS is phasing out all contract harvesting activities as private contractors are providing this service. ABS will continue to assist farmers with marketing of crops, in particular by providing crop storage facilities. Warehouses are also useful in the distribution of inputs not handled by private merchants, e.g., fertilizer. These functions enable ABS to provide credit in kind and to strengthen loan collection by participating in crop marketing.

ABS has about 1,000 employees, half of whom are technical and professional staff. The other half are unskilled and skilled laborers. The staff include nearly 140 university graduates, many of whom have studied overseas. ABS has highly motivated staff who appreciate the importance of their development role. A pressing need exists for high-level, on-the-job training and consultation on management and technical matters. ABS has 24 branches including two commercial banking branches, two silo branches, a trading branch at Port Sudan, and a headquarters providing controls over credit operations, centralized planning and accounting, legal, personnel and procurement support services to the branches.

Legislation authorizing the Industrial Bank of Sudan (IBS) was enacted in October 1961 to provide financial and technical assistance to private industrial enteprises. AID provided technical assistance. The objectives of IBS are "to assist in the establishment, expansion and modernization of private industrial enterprises in the Sudan and to encourage and promote the participation of private capital, both internal and external, in such enterprises."

The ownership and financing of IBS are by the GOS. The Minister of Finance and Economic Planning appoints the board of directors and the managing director. However, shares of IBS may be purchased by private individuals, public coporations, and government. The initial financing was LS 500,000 of paid in capital, out of LS 3 million of authorized capital and a LS 500,000 interest free loan. In July 1963, a loan agreement for $2 million was signed with USAID to be repaid in 15 years at 4%. IBS had utilized only LS 70,303 when the loan was terminated because diplomatic relations were broken after the Middle East war in June 1967. At the end of 1968, paid in capital of IBS was LS 1.8 million.

Paid in capital now is LS 8 million but this is far less than necessary for IBS to have a major role in the development of private industrial and agro-industrial production. In 1982, IBS made 29 loans averaging LS 52,554, a total of LS 1.5 million ($833,333). In 21 years IBS made LS 15.7 million ($8.7 million) in loans, equity and guarantees in projects with total investment of LS 30.0 million ($16.7 million) providing employment of 6,000 employees. IBS has financed private investment in flour mills, building

materials, food processing and ice making, edible oil mills, engine repair shops, printing and packaging, iron and steel works, carpentry workshops, and numerous other small fabrication and manufacturing activities. IBS has an experienced senior staff, 17 of whom were trained in the U.S., and has had foreign loans from the Kuwait Fund, Germany, and IDA. Thus far, IBS has been unable to finance new branches but has plans to open four branches. About half of IBS loans have been in regions outside of Khartoum. Since all of its foreign loans have been fully disbursed, IBS requires new sources of imported equipment and spare parts for private sector borrower enterprises.

X. OTHER CONSIDERATIONS

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

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

B. Internal Financial Effects

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

C. Use of U.S. Government Excess Property

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

D. Relation to Export-Import (EX-IM) Bank Credits

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

Two small Foreign Credit Insurance Association (FCIA) loans were completed in 1980, based upon long standing past acceptances. However, nothing new has been considered. The CIP grant for FY 1984 will complement, not conflict, with the Ex-Im Bank activities.

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

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

As of September 30, 1982, OPIC had 12 active contracts with five companies with insurance coverage ranging from $11.1 to $15.5 million. Applications to cover $526 million of investment were pending, including a $500 million application by Chevron Overseas Petroleum Inc.

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

XI. RECOMMENDATION

It is recommended that a grant to the Government of the Democratic Republic of the Sudan of sixty-two million dollars ($62,000,000) be authorized for financing the importation of selected commodities, and commodity related services.

A. Terms and Conditions

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

a. an opinion of the Attorney General of the Democratic Republic of the Sudan that this Agreement has been duly authorized and/or ratified by, and executed on behalf of the Grantee, and that it constitutes a valid and legally binding obligations of the Grantee in accordance with all of its terms;

b. A statement representing and warranting that the named person or persons have the authority to act as the representative or representatives of the Grantee pursuant to Section 8.2, together with a specimen signature of each person certified as to its authenticity.

2. Terms and Covenants of the Grant. Such other terms and conditions as A.I.D. may deem advisable.

a. The Commodity Aid Committee (CAC) of the Ministry of Finance and Economic Planning shall, in the course of its deliberations on USAID's Commodity Import Program, include three members from the private sector to be selected by three Sudanese institutions which represent private sector interests. The institutions shall be mutually acceptable to MFEP and USAID.

b. The GOS agrees to undertake a joint GOS-USAID study to be completed by November 30, 1984 of the current 75/25 Foreign Exchange Rate Formula governing the conversion of agricultural export earnings. The purpose of this study shall be to determine how production and export incentives would be improved by increasing the proportion of foreign exchange earnings converted at a higher FX rate. The purpose of this study shall be to determine how production and export incentives would be improved by increasing the proportion of foreign

exchange earnings converted at a higher FX rate. In conjunction with this study, the GOS agrees to change foreign exchange regulations governing foreign exchange earnings from groundnut exports so as to allow groundnut exporters to convert 50 percent of their 1984/85 export proceeds at the legal commercial bank rate. The GOS agrees to announce this change during May 1984.

c. All commercial entities associated in any way with the Military Economic Board shall be ineligible to purchase commodities with CIP funds and to import, clear through customs, and transport CIP commodities. Entities banned from procurement and transport of CIP commodities include all MEB corporations, MEB subsidiary companies, and MEB joint ventures, either public or private.

d. Grantee will establish a Special Account in the Bank of Sudan and deposit therein currency of the Government of the Democratic Republic of the Sudan. All commodities procured under the Grant will generate local currency at the commercial bank rate which will be deposited in this Special Account, unless the parties agree otherwise in writing. Proceeds of the Special Account will go towards economic activities to be mutually agreed upon by the two Parties and to meet requirements of the USG as may be designated by AID. The parties agree to assure that all funds deposited in the Special Account will be programmed within sixty (60) days of their deposit unless in a special case, a longer period is considered appropriate by both parties. Furthermore, the Government of Sudan covenants that it will establish adequate staffing for the programming and management of local currency counterpart generations within three months of the date of execution of this Agreement. Local currency requirements can be met by counterpart generations.

e. The Ministry of Finance and Economic Planning will undertake a study regarding the feasibility of eliminating the 15% discount currently applied to all commodities that are imported under protocols, aids and commodity-finance agreements, currently based upon the commercial bank rate. Such a study will be completed no later than September, 1984. If the GOS so desires, funding under the Policy Analysis and Implementation program can support this effort.

f. The Ministry of Finance and Economic Planning will cooperate in an AID evaluation of the CIP program to

identify ways to increase the development impact of the program's commodities and to reinforce public sector accountability. The mechanism of funding shall be through the previously signed USAID Policy Analysis and Implementation Project.

g. USAID and the GOS shall jointly program counterpart funds of LS 40,000,000 in fiscal year 1984/85 for a Regional Development Support Fund. Details of this Fund shall be specified in a separate Project Implementation Letter between USAID and the Ministry of Finance and Economic Planning.

h. At least $7,000,000 of imports funded under this CIP shall be allocated to private production-oriented enterprises which increase exports or substitute for imports and which are located outside Khartoum Province, the Central Region and Port Sudan urban areas. At least $2,000,000 of this sum shall be allocated to the three southern regions. A local currency grant, sufficient to cover counterpart costs of this sum, shall be jointly programmed by USAID and GOS for the Agricultural Bank of the Sudan and the Industrial Bank of the Sudan. This grant shall be in addition to other currently proposed capital grants or loans. These funds shall be re-lent to private sector agricultural enterprises according to standard ABS and IBS practices. The GOS covenants that these lending institutions supply a report to MFEP and USAID of the disposition and recovery of these funds by region and class of borrower. The GOS further covenants that these lending institutions take positive steps to increase operations and loans in the three southern regions, and reports indicating progress will be submitted to USAID.

i. The GOS agrees to advertise through available media in Khartoum and in each of the regions the availability of USAID CIP foreign exchange for investment in export-promoting and import-substituting activities. These advertisements will detail purposes of the CIP program, restrictions on the use of CIP funds, the method and place of application for CIP funds, and the fact that the funds are from USAID. In addition, the Ministry of Commerce, Cooperation and Supply agrees to prepare a standardized application form acceptable to AID for requests for CIP funds and to assign responsibility for distribution and collection of these forms to a specific office. USAID shall receive copies of all applications filed with MCCS.

j. The National Electricity Corporation (NEC) will reduce losses in the system incurred between generation and sales (revenues collected) to 25% or less no later than August 1985. In confirmation of the effort, both generation figures and an independent sales audit will be presented to USAID in October 1985.

In support of the above the NEC will prepare and submit to USAID a study and a plan no later than December 1984 which addresses staffing needs and staff reduction targets and personnel compensation packages (including performance evaluations and merit increases) required to recruit and retain qualified personnel. The plan shall also deal with the training and certification, through practical and theoretical examinations based on industry standards, of personnel for operating and maintaining NEC equipment, particularly the goods procured under the Commodity Import Program. Upon USAID determination that the plan is adequate and is being implemented, further disbursement of CIP commodities for the Blue Nile Grid Rehabilitation Grid will proceed.

k. The GOS agrees that, whenever it proposes to change or transfer the responsibility for programming, administering or implementing of USAID-financed programs, projects or other activities from, among or within GOS ministries, agencies or instrumentalities, it will obtain the prior agreement of USAID to such change or transfer.

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

Annex A

Initial Environment Examination
or Categorical Exclusion

Country:	Sudan
Title:	Sudan Commodity Import Program Grant
Funding:	FY 1984 (ESF account) $62,000,000
Period of Assistance:	The terminal date of requesting disbursement authorization is 12 months from the date of the Grant Agreement. The terminal disbursement date is 24 months from the date Conditions Precedent were met.
IEE prepared by:	USAID/Sudan
Environmental Action Recommended:	Categorical Exclusion under AID Regulation 16, Paragraph 216.2(c)(ix).

Bureau's Environmental Officer's Decision:

Approved: _____

Disapproved: _____

Date: _____

Examination of Nature, Scope and Magnitude of Environment Impacts:

I. Description of the Project.

The project proposes to provide a commodity import grant of $62 million to the Government of Sudan (GOS) from the Economic Support Fund on standard A.I.D. terms. The principle objective of this grant is to provide Sudan with urgently needed imports of the highest economic importance and political sensitivity, thereby permitting the GOS to undertake an array of difficult policy reforms. A second objective is to increase support to the private sector where feasible.

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

II. Recommended Environmental Action.

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

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

3A(2) - NONPROJECT ASSISTANCE CHECKLIST

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

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

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

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

(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the nonproject assistance;	In FY 1984 Congressional Presentation.
(b) is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than $1 million over that figure plus 10%)?	Yes.

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance? — None required.

3. FAA Sec. 209, 619. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or in accordance with multilateral plans to the maximum extent appropriate?

4.	FAA Sec. 601(a); (and Sec. 201(f) for development loans). Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives; credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.	a) Assistance provides essential imports used for export production. b) Assistance will support private sector production. c) N/A. d) Program utilizes rational resource allocation among productive sectors thru Ministry of Commerce and Supply. e) Imports provided would allow fuller utilization of industrial and agric.capacity. f) N/A.
5.	FAA Sec. 601(b). Information and conclusion on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation of foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	To the maximum extent possible commodities will be for private sector, which includes some US companies. Where available many commodities will be purchased from US sources.
6.	FAA Sec. 612(b); Sec. 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.	Local currencies generated by previous CIPs are being used to support program operational costs.
7.	FAA Sec. 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?	No.

B. FUNDING CRITERIA FOR NON PROJECT ASSISTANCE

1. Nonproject Criteria for Security Supporting Assistance

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

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

2. Nonproject Criteria for Development Assistance

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

N/A

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

N/A

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

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

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

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

(a) to help alleviate energy problem;

(b) reconstruction after natural or manmade disaster;

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

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

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

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

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

e. FAA Sec. 201(b)(2)-(4) and -(9); Sec. 201(e); Sec. 211(a)(1)-(3) and -(8). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth; or of educational or other institutions directed toward social progress? Is it related to and consistent with other development activities, and will it contribute to realizable long-range objectives? N/A

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

3. Nonproject Criteria for Development Assistance (Loans only)

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

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

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

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

4. Additional Criteria for Alliance for Progress — N/A

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

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

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

3A(3) - STANDARD ITEM CHECKLIST

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

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

A. PROCUREMENT

1.	FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed?	Yes
2.	FAA Sec. 604(a). Will all commodity procurement financed be from the United States except as otherwise determined by the President or under delegation from him?	Yes
3.	FAA Sec. 604(b). Will all commodities in bulk be purchased at prices no higher than the market price prevailing in the United States at time of purchase?	Yes
4.	FAA Sec. 604(c). Will all agricultural commodities available for disposition under the Agricultural Trade Development & Assistance Act of 1954, as amended, be procured in the United States unless they are not available in the United States in sufficient quantities to supply emergency requirements of recipients?	N/A
5.	FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will agreement require the marine insurance be placed in the United States on commodities financed?	N/A
6.	FAA Sec. 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?	Yes
7.	FAA Sec. 604(f). Are there arrangements whereby a supplier will not receive payment under the commodity import program unless he/she has certified to such information as the Agency by regulation has prescribed?	Yes

8. FAA Sec. 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items? — Yes

9. MMA Sec. 901(b). (a) Compliance with requirements that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates. — Yes

10. International Air Transport. Fair Competitive Practices Act, 1974 — Yes

If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available?

B. OTHER RESTRICTIONS

1. FAA Sec. 620(h). Do arrangments preclude promoting or assisting the foreign aid projects or activities of Communist-Bloc countries, contrary to the best interests of the United States? — Yes.

2. FAA Sec. 636(i). Is financing prohibited from use, without waiver, for purchase, long-term lease, exchange, or guaranty of sale or motor vehicle manufactured outside the United States? — Yes

3. Will arrangement preclude use of financing:

a. FAA Sec. 114 to pay for performance of abortions or involuntary sterilizations or to motivate or coerce persons to practice abortions? to pay for performance of involuntary sterilizations as method of family planning or to coerce or provide any financial incentive to any person to practice sterilizations? — Yes.

b. FAA Sec. 620(g). to compensate owners for expropriated nationalized property? Yes.

c. FAA Sec. 660. to finance police training or other law enforcement assistance, except for narcotics programs? Yes.

d. FAA Sec. 662. for CIA activities? Yes.

e. App. Sec. 103. to pay pensions, etc, for military personnel? Yes.

f. App. Sec. 106. to pay U.N. assessment? Yes.

g. App. Sec. 107. to carry out provisions of FAA Sections 209(d) and 251(h)? (transfer to multilateral organization for lending). Yes.

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

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

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

5c(1) - COUNTRY CHECKLIST

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

A. Country Checklist, Part A-General Criteria for Country Eligibility

1. FAA Sec. 481, FY 1984 Continuing Resolution. Has it been determined or certified to the Congress by the President that the government of the recipient country has failed to take adequate measures or steps to prevent narcotic and psychotropic drugs or other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse and Prevention Control Act of 1971) which are cultivated, produced or processed illicitly, in whole or in part, in such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully? — No.

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

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

4. FAA Sec. 532(c), 620(a), 620(f), 620D; FY 1982 Appropriation Act Secs. 512 and 513. Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Vietnam, Syria, Libya, Iraq, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver?	No.
5. ISDCA of 1981 Secs. 724, 727 and 730. For specific restrictions on assitance to Nicaragua, see Sec. 724 of the ISDCA of 1981. For specific restrictions on assistance to El Salvador, see Secs. 727 and 730 of the ISDCA of 1981.	N/A
6. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property?	No.
7. FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC?	No.
8. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5.	
(a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters?	No.
(b) If so, has any deduction required by the Fishermen's Protective Act been made?	No.
9. FAA Sec. 620(q); FY 1982 Appropriation Act Sec. 517.	
(a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country?	At present Sudan is not in arrears on loan repayments to A.I.D.
(b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill appropriates funds?	No.

10.	FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country country has spent on military equipment? (Reference may be made to the annual "Taking into Consideration" memo "Yes, taken into account by the Administrator at time of approval of OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)	Yes, taken into account by the Administrator at time of approval of Agency OYB.
11.	FAA Sec. 620(t). Has the country servered diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?	The Sudan Government severed diplomatic relations with the U.S. in 1967, but such relations were resumed in 1972. The 1958 Bilateral Assistance Agreement was reconfirmed in 1971 and remains in effect.
12.	FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)	Sudan was not considered to have been in arrears on payments of its U.N. obligations at the time that the A.I.D. administration approved the FY 84 OYB.
13.	FAA Sec. 620A; FY 1982 Appropriation Act Sec. 520.	
	Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism?	No.
	Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime?	No.

14.	FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?	No.
15.	FAA Sec. 669, 670. Has the country after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977? (FAA Sec. 602E permits a special waiver of Sec. 669 for Pakistan.)	No.
16.	ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Session of the General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)	Sudan was represented at this meeting and to date has not disassociated itself with the communique in question. This action on the part of Sudan has been considered by the U.S. Government (see Taking into account memo dated January 15, 1982) in approving the Agency's FY 84 OYB.
17.	ISDCA of 1981 Sec. 721. See special requirements for assistance to Haiti.	N/A
18.	FY 1984 Continuing Resolution. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States?	No.

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY.

1. Development Assistance Country Criteria

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?	N/A
2. Economic Support Fund Country Criteria	
a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest?	No.
b. ISDCA of 1981, Sec. 725 (b). If ESF is to be furnished to Argentina has the President certified that (1) the Government of Argentina has made significant progress in human rights; and (2) that the provision of such assistance is in the national interests of the U.S.?	N/A This activity will provide assistance using FY 84 ESF to Sudan.
c. ISDCA of 1981, Sec. 726(b). If ESF assistance is to be furnished to Chile, has the President certified that (1) the Government of Chile has made significant progress in human rights; (2) it is in the national interest of the U.S.; and (3) the Government of Chile is not aiding international terrorism and has taken steps to bring to justice those indicted in connection with the murder of Orlando Letelier?	N/A This activity provides assistance using FY 84 ESF to Sudan.

Annex C

BIBLIOGRAPHY

1. International Bank for Reconstruction and Development. Consultative Group for the Sudan Chairman's Report on Proceedings. Paris: April, 18, 1983

2. International Bank for Reconstruction and Development. Report and Recommendation of the President of the International Development Association to the Executive Directors on a Proposed Credit of SDR 46.4 million to the Democratic Republic of the Sudan for the Agricultural Rehabilitation Program, II. Washington: May 23, 1983

3. International Bank for Reconstruction and Development. Sudan Investing for Economic Stabilization and Structural Change. Washington: IBRD, February 1982

4. International Bank for Reconstruction and Development. Sudan: Pricing Policies and Structural Balances Statistical Annexes Washington: IBRD, 1983 (Draft)

5. International Monetary Fund. Sudan: Recent Economic Developments Washington, September 1, 1983

6. International Monetary Fund. Sudan: Report on External Assistance and Debt Relief. Washington, July 14, 1983

7. International Monetary Fund. Sudan: Request fo Stand-By Arrangement Washington, January 1983

8. International Monetary Fund. Sudan: Staff Report for the 1983 Article IV Consultation and Review Under the Stand-By Arrangement. Washington, August 16, 1983

9. Ministry of Finance and Economic Planning, Joint Monitoring Committee. Consolidated Report to the Consultative Group Meeting, December 1983, on Implementation of the Economic Recovery Programme in Sudan. Khartoum: November 1983

10. Ministry of Finance and Economic Planning. Prospect, Programmes and Policies for Economic Development 1982/83 - 1984/85. Khartoum: October 1982

11. USAID/Sudan. Country Development Strategy Statement FY 1984. Khartoum: January 1982

12. USAID/Sudan. Program Assistance Approval Document (PAAD) Commodity Import Program FY 1983, (650-K-604) Khartoum: November 30, 1982

Prepared: GDO/PD, USAID
02/28/84

Attachment A

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

Name of Project	Actual 81/82	Actual 82/83	83/84	84/85	85/86	86/87	Projected Allocation
Ag. Planning & Statistics		255000	——— Title III Funded ———				255000
Sudan Seed Propagation			900000	700000	500000		2100000
Yambic Training Institute		180000			—— Completed ——		180000
Energy Planning & Management			295000	152000	116000	69000	632000
Health Constraints to Rural Prod.		135000	340000	215000	250000	155000	1095000
Port Sudan Water Supply		1000000	No Further Funding				1000000
Gedaref Water Supply			245200	535000	400000	90200	1290400
SORMAR I			1033500	1267500	1245400	2953600	6500000
Juba Water & Sanitation			140350	306450	130100		576900
Literacy Training			116303	190948	No Further Funding		307251
Policy Analysis & Implementation			711000	1000000			1711000
Remit of Sud Nat Abroad			52978				52978
Sudan Rural Develop. Corporation			1250000	1250000			2500000
Roseires Dam S. & D. Control			3345600				3345600
Jonglei Canal			250000				250000
Admin. Support Fund for Planning			150000	100000	No Further Funding		250000
Malakal/Nasir Infrastructure			2088890	1855040	1059930	422500	5426360
Upper Talanga Tea Project			57250	62550			119800
Upper Talanga Afforestation			20000	80000	100000	135000	335000
Regional Government Development			20000000	40000000	40000000	40000000	140000000
Total Programmed		1570000	30996071	47734488	43801430	43825300	167927289

Attachment B

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

Project Code	Name of Project	Jan-June 1984	84/85	85/86	86/87	87/88	Projected Allocation
1.8.2	Northern Region Ag. Scheme	700000	1000000	1200000			2900000
1.4.2	Jebel Marra Rural Develop Project	430760	505760	170700	170700	17700	1295620
1.13.4	Develop of Gum Arabic Production	500000	500000	500000			1500000
5.11.1	Livestock and Meat Marketing	300000	400000	1000000			1700000
7.1.10	Sennar/Singa/El Damazin Road	6000000	8000000	8700000	9200000	22000	31922000
7.2.19	Extra Ordinary Maintenance	2000000	4500000	5000000	4000000	4000000	19500000
Total Programmed		9930760	14905760	16570700	13370700	4039700	58817620

ANNEX D

Prepared: GDO/FO, USAID
02/28/84

U.S. COMMODITY IMPORT PROGRAM
BUDGETED FLOW AND UTILIZATION (LS)

Item	Actual 81/82	Actual 82/83	83/94	84/85	85/86	86/87	Total
Local Resource Generation							
650-K-602	7255786	16047803	6101878				29405467
650-K-603		35878490	10367893				46246383
650-K-604			38609133	39000000			77609133
650-K-608 FY 84				78000000			78000000
650-K-609 FY 85					156000000		156000000
Total Generated	7255786	51926293	55078904	117000000	156000000	0	387260983
Projected Disbursement							
Trust Fund	1320000	6373900	17385000	12675000	10610000	10162000	58525900
Attachment A	0	1570000	30996071	47734488	43801430	43825300	167927289
Attachment B			9930760	14905760	16570700	17410400	58817620
Total Programmed	1320000	7943900	58311831	75315248	70982130	71397700	285270809
Cumulative Balance	5935786	49918179	46685252	88370004	173387874	101990174	101990174

Estimated

U.S. COMMODITY IMPORT PROGRAM
COUNTERPART TRUST ACCOUNT

	Actual 81/82	Actual 82/83	83/84	84/85	85/86	86/87	Projected Requirement
USAID Administrative Costs	685000	3750000	12473100	10000000	9000000	9000000	44908100
Program Costs:							
Program Support	150000	200000	400000	300000	250000	250000	1550000
Ag. Planning & Statistics	200000	440000	---- Title III Funded ----				640000
Rural Renewable Energy		90000	---- Title III Funded ----				90000
S. Manpower Development	100000	198200	---- Completed ----				298200
Yambio Agricultural Research	40000		-40000	---- Completed ----			0
Energy Planning & Management		1410000	770000				2180000
Blue Nile Grid Rehabilitation		200000	200000	200000			600000
Health Const. to Rural Prod.	40000	85700	131300	127000	100000		484000
Energy Policy & Planning	105000			---- Completed ----			105000
Gedaref Water Supply			400600				400600
SORMAR I			2000000	1808000	1000000	912000	5720000
Roseires Dam S & D Control			900000				900000
Maternal Health Feed/Nut Ed - SAWS			150000	240000	260000		650000
Total	1320000	6373900	17385000	12675000	10610000	10162000	58525900

Annex E

USAID KHARTOUM, SUDAN
MISSION ORDER

USAID Order Number: ADM - 9 Amendment No.: 1	Original Issuance: February 23, 1983 Amendment Date:

Subject: Commodity Import Program - Mission Responsibilities.

This Mission Order, as amended, designates the Office of the Controller as the overall coordinator for the Commodity Import Program, responsible for monitoring the performance of the four offices which share CIP responsibilities within the Mission. Each office will establish a listing of specific procedures for fulfilling these responsibilities.

Economic Policy and Program Office (EEP)

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

Project Operations Office (PO)

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

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

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

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

136

Office of the Controller

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

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

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

Supply Management Office (SMO)

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

— Initiate, control, and distribute Implementation Letters and Commodity Procurement Instructions.

-- Process Financing Requests for the issuance of committing documents.

— Negotiate with the GOS specific allocations of CIP funds, including reallocation of unutilized funds and/or residual balances, prior to expiration of the PAGA.

— Approve individual transactions as a prior condition to issuing committing documents.

-- Provide guidance to importers in developing formal invitations for bids, informal requests for quotations, and, as necessary, prepare waivers.

— Assist the GOS in developing or amending import procedures and banking requirements, as necessary, to ensure effective procurement of CIP-financed commodities..

-- Maintain files for all CIP-financed transactions, including files for importers, suppliers, and specific commodities.

— Assist PO in meeting STATE 42612 guidelines.

— Investigate complaints by suppliers or importers regarding procurement irregularities (e.g., restrictive specifications, improper solictations, unjustified awards, etc.) and recommend corrective action to be taken.

— Monitor the availability of USG excess property in regard to possible financing under CIP.

-- Review Office of Controller reports on arrival accounting and end-use monitoring and take necessary action.

Distribution of CIP Documents

The distribution of CIP-related documents is described below.

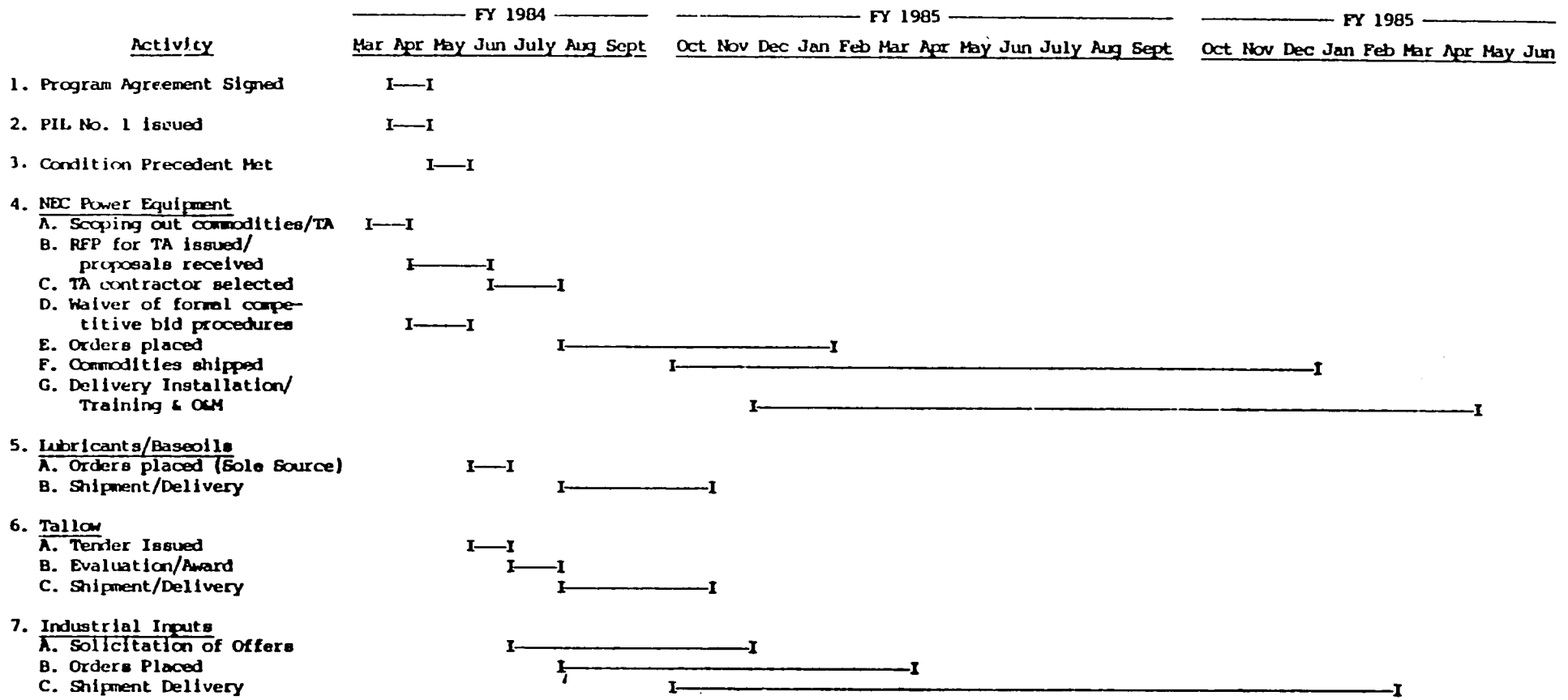
Document	Responsible Office	Distribution
PAAD	EPP	Forward draft to AID/W for issuance and distribution 1/
PAGA	PO	Original -- PO 1 - EPP 1 - SMO 3 - Controller 2 - AID/W GC 5 - AID/W AFR/PD/EA 2 - AID/W AFR/EA (Desk) 2 - REDSO/EA Director 1 - RIG/IG/EA 2 - GOS
Implementation Letters	SMO	Original - SMO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

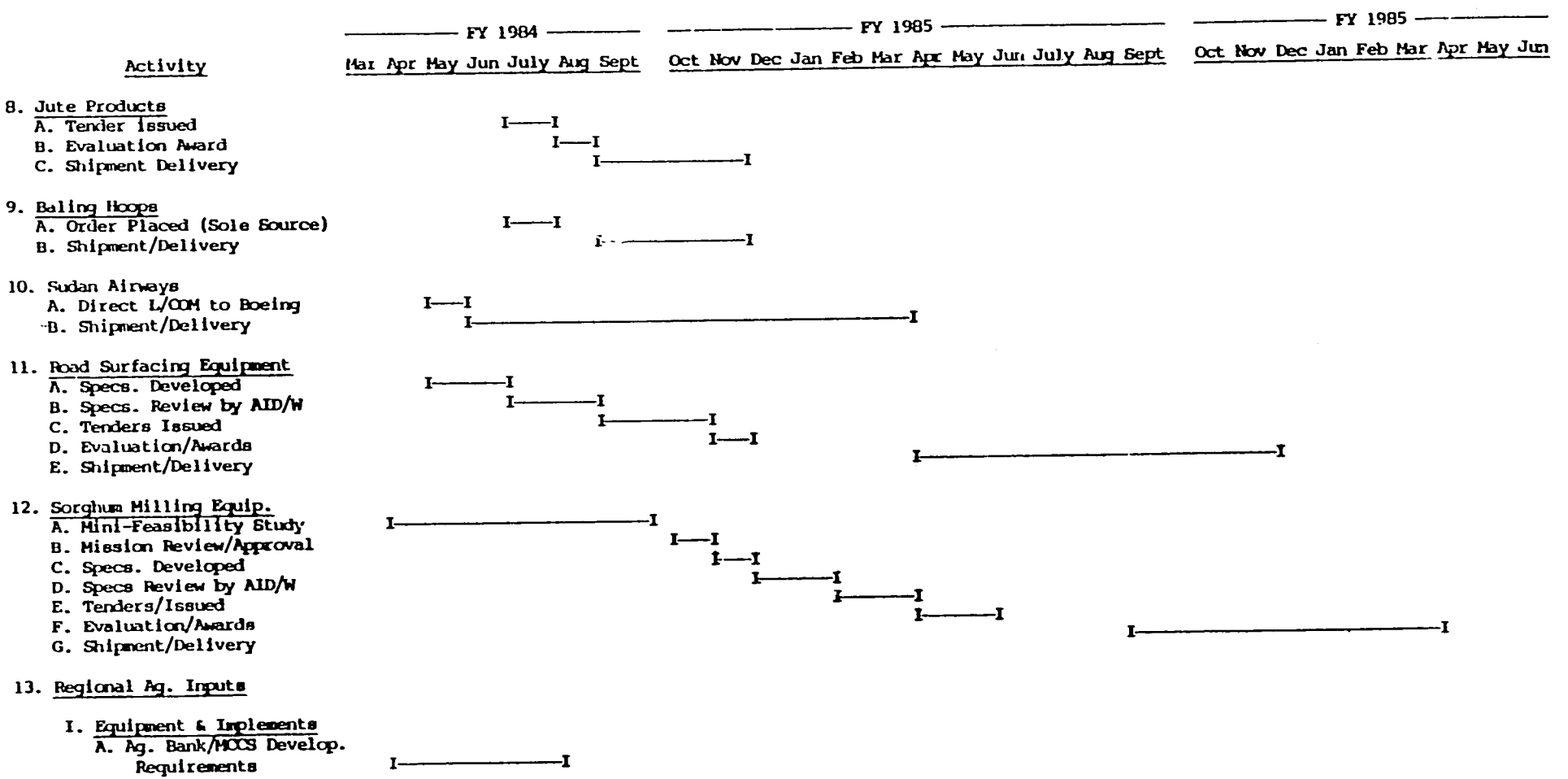
1/ EPP ensures that copies within the Mission are distributed: 1 - SMO; 1 - Controller, 1 - PO.

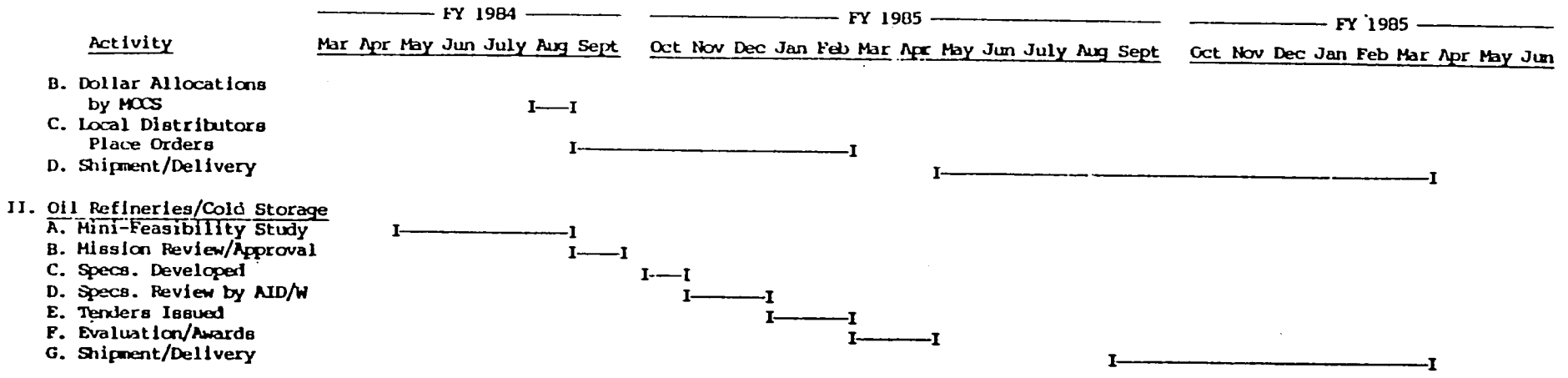
2/ Committing documents are generally issued by AID/W. Copies forwarded to the Mission should be routed to the Controller and SMO. Committing documents issued by the Mission are issued and distributed by the Controller.

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

Program Implementation Plan




FY 1984
FY 1985
FY 1985
Activity
Mar Apr May Jun July Aug Sept
Oct Nov Dec Jan Feb Mar Apr May Jun July Aug Sept
Oct Nov Dec Jan Feb Mar Apr May Jun
8. Jute Products
A. Tender Issued
B. Evaluation Award
C. Shipment Delivery
9. Baling Hoops
A. Order Placed (Sole Source)
B. Shipment/Delivery
10. Sudan Airways
A. Direct L/COM to Boeing
B. Shipment/Delivery
11. Road Surfacing Equipment
A. Specs. Developed
B. Specs. Review by AID/W
C. Tenders Issued
D. Evaluation/Awards
E. Shipment/Delivery
12. Sorghum Milling Equip.
A. Mini-Feasibility Study
B. Mission Review/Approval
C. Specs. Developed
D. Specs Review by AID/W
E. Tenders/Issued
F. Evaluation/Awards
G. Shipment/Delivery
13. Regional Ag. Inputs
I. Equipment & Implements
A. Ag. Bank/MOCS Develop. Requirements


FY 1984
FY 1985
FY 1985
Activity
Mar Apr May Jun July Aug Sept
Oct Nov Dec Jan Feb Mar Apr May Jun July Aug Sept
Oct Nov Dec Jan Feb Mar Apr May Jun
B. Dollar Allocations by MOCS
C. Local Distributors Place Orders
D. Shipment/Delivery
II. Oil Refineries/Cold Storage
A. Mini-Feasibility Study
B. Mission Review/Approval
C. Specs. Developed
D. Specs. Review by AID/W
E. Tenders Issued
F. Evaluation/Awards
G. Shipment/Delivery