PD-BAJ 025

SUDAN

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

FY 1983 Program (Cash) Grant

650-K-605

C #15
D # 3

December 27, 1982.

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA

FROM : AFR/PD, Norman Cohen

SUBJECT : Sudan: Program Grant (650-K-605)

Problem: Your approval is required for a grant to the Government of the Republic of Sudan (GOS) in the amount of $20 million from Economic Support Funds for the FY 1983 Program Grant (650-K-605) (Cash Grant). It is planned that the entire amount will be obligated and disbursed early in FY 1983 upon the signing of the Letter of Intent by the Government of Sudan to enter into the newest IMF Standby Agreement.

Background: Despite recent attempts to reform basic economic policies and structures, Sudan continues to be plagued by a severe economic crisis. This situation has continued to the point where Sudan's total accumulation of debt approximately equals its GNP. Arrears could reach $2.4 billion or three years of exports. Debt service is expected to reach 150 percent of annual export earnings. Official imports for FY 1982/3 are estimated at $1.8 billion with official exports for the year reaching only $900 million leaving a Trade Account deficit of $900 million.

The previous Action Memorandum for the Commodity Import Program dated December 10, 1982, outlined what the Government of Sudan has done recently to address the current economic crisis. Annex A of this memorandum summarizes these policy reforms. The USG has played an active role in encouraging Sudan to adopt an aggressive view to macro-economic policy reform and a positive attitude to the IMF reform process.

Since the current economic situation dictates that even more stringent economic reforms will be necessary, it has become essential that the GOS adopt the package of reforms in the IMF Agreement as a next and probably not final step. Thus the USG has linked its ESF assistance closely with progress on this front.

The constant endeavors by our USAID Mission and Embassy at the working levels and the U.S. Ambassador at the highest levels were culminated by President Reagan's letter to President Nimeiri in October assuring the GOS of deep USG concern at our highest levels. Through President Reagan's letter, and all our efforts, we have committed ourselves to ensuring that Sudan will continue to be supported once it has made its public commitment on a tough reform package. We have also assured the GOS that we would attempt to be as responsive as possible and maximize the flexibility of our A.I.D. programs in order to support the difficult reform program.

Until disbursements from the latest Standby Agreement are made as expected within the next two or three months, Sudan will continue to be faced with severe shortages of foreign exchange which threaten to preclude the timely import of its most essential and politically sensitive commodities. Given the timing of an announcement by Sudan to undertake the reforms included in the IMF Standby, such shortages could well coincide with the politically difficult budget and pricing reforms. The USG has continually tried to allay GOS fears and encourage Sudan to enter into the reforms agreement by assuring them of our political and economic support. We have also let the GOS know that we would be prepared to provide the major portion of our Economic Support Fund as soon as the GOS signed its Letter of Intent with the IMF to enter into the 1982 Standby Agreement.

Discussion: The principal objective of the FY 1983 Program Grant is to bridge the gap between the announcement of difficult and politically sensitive policy reforms and generation of revenues from either Sudan's own resources or disbursements from other multi-lateral or bi-lateral donors. Thus, the proposed Cash Grant will provide Sudan with urgently needed imports of highest economic importance and political sensitivity, thereby permitting the Government of Sudan to undertake the array of difficult policy reforms. We have examined carefully the possibility of financing additional commodities under the FY 1983 CIP, but this mechanism is too slow to satisfy the urgent need to fill the foreign exchange gap that will exist until drawdown can be made under the IMF agreement.

In addition to the standard conditions precedent and covenants for a Program Grant, the PAAD will contain six covenants relating directly to influencing policy changes and procedures. The covenants are intended to address structural foreign exchange deficits, fiscal and budgetary policies and procedures and expansion of the role of the Sudanese private sector.

In other provisions contained in the grant, the GOS will agree to (a) import or cause to be imported into the Sudan, goods and services from the United States in an amount equivalent to the disbursements made under the grant; and (b) to make available local currency in an amount equivalent to this grant for joint programming by the GOS and USAID. Furthermore, and within the amount specified in (b), the GOS covenants to provide local currency in an amount equivalent to ten percent of this grant for use in the general administration and management of the U.S. assistance program in Sudan.

The proposed grant of $20 million is to be entirely obligated and disbursed in Fiscal Year 1983.

Upon satisfaction of the Conditions Precedent contained in the Grant Agreement, the grant funds will be disbursed in one or more tranches, as requested by the GOS. Disbursement(s) will be made into a GOS account with a U.S. bank, probably a Federal Reserve Bank, and will be commingled with the other foreign exchange owned by the GOS.

The Executive Committee for Project Review (ECPR) considered this program and recommended its approval on December 2, 1982.

Government officials, including the Minister of Finance and Economic Planning, have been active in discussions of the grant, and the GOS will be able to sign the Program Assistance Agreement within a very short period of time after the program grant is approved and the Letter of Intent with the IMF is signed.

The ECPR is satisfied that implementation arrangements outlined in the PAAD are fully adequate, and that no special problems are anticipated in disbursing the grant.

The major GOS entities responsible for implementing and administering the grant are the Ministry of Finance and Economic Planning (MINFEP), the Ministry of Cooperation, Commerce and Supply (MCCS), and the Bank of Sudan. The MINFEP has overall responsibility for grant administration. The MCCS established GOS import controls and issues trade regulations required to support the program. It is also responsible for issuing import licenses. The primary role of the Bank of Sudan will be to approve import licenses and allocate foreign exchange.

A Congressional Notification for this Program Grant was sent to Congress on December 8, 1982. The fifteen day waiting period expired on December 23, 1982 with no objection raised.

Recommendation: That you sign the attached PAAD, thereby authorizing the proposed program (cash) grant to Sudan in the amount of $20 million.

Attachments:

1. PAAD
2. ESF Cable Series
3. Nimeiri to Reagan letter dated September 25, 1982
4. Reagan to Nimeiri letter dated October 22, 1982

Clearances

AFR/EA:BChapnick		Date 12/28/82
AFR/PD/EAP:AReed		Date 12-28-82
AFR/DP:RHynes		Date 12/28/82
AAA/AFR/DP:HJohnson		Date 12/28/82
GC/AFR:TBork	by SRT	Date 12/28
M/FM/BFD:RBonnaffon	wm	Date 12/30/82
DAA/AFR/ESA:GPatterson		Date 12/28/82
DAA/AFR:ARLove		Date 12/28/82
AAA/PPC/PDPR:JEricksson		Date 12-28-82
AAA/PPC/PB:JHummon		Date 12-27-82

Drafted: AFR/EA:DMendelson:AFR/PD/EAP:MBaker:dm:12/26/82

ANNEX A: Summary of GOS Economic Policy Reforms

Since 1978, the Government of Sudan (GOS), with the assistance of the World Bank, the IMF and bilateral donors, has been working to reverse the economic deterioration and change the macro-economic policy framework, particularly in key areas such as exchange rates, budget and credit. Since June of 1978, the GOS has engaged in a series of exchange rate moves resulting in considerable devaluation of the Sudanese pound. The recent announcement of a 44 percent devaluation brings the total devaluation since 1978 to almost 70 percent. The GOS has revised many of its taxes including numerous changes in tax rates on imports, exports and domestic sales in an effort to balance its budget, increase needed government revenues and at the same time improve the external trade balance. To address the internal price distortions which have historically promoted consumption at the expense of productive investment, the GOS has embarked on a dramatic upward adjustment of prices, including those of politically sensitive urban consumer items such as wheat, sugar and petroleum. The GOS has been eliminating all budget subsidies and has announced its intention to avoid recurrence of subsidies by passing international price increases on to the consumer.

In addition, Sudan has recently agreed upon a strict Three Year Recovery Program with the World Bank which will give highest priority to completion of ongoing projects with the best promise of quick foreign exchange benefits.

In particular within the last two years, the GOS has shown a strong and growing commitment to undertake the difficult macro-econmic and sectoral policy reforms. With the assistance of other major donors, Sudan has embarked upon its Export Action Program aimed at increasing public and private investment in the agricultural, mainly irrigated sector. The whole system of pricing and supplying inputs to the sector was restructured and a host of new incentives for improved production were introduced. Despite the considerable political risk, Sudan has in recent months initiated a number of measures aimed at rectifying some of the economy's more glaring deficiencies. Most notable, of course, was the latest exchange rate devaluation of 44 percent and the significant increases in the prices of the highly sensitive commodities such as wheat, petroleum and sugar.

AID 1120-1 (8-66)

PAAD

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO.: Grant No. 650-K-605
2. COUNTRY: Democratic Republic of the Sudan
3. CATEGORY: Program Grant (Cash) 650-K-605
4. DATE:

5. TO: F.S. Ruddy
Assistant Administrator for Africa

6. OYB CHANGE NO.: Not applicable

7. FROM: Norman Cohen
Director, AFR/PD

8. OYB INCREASE: None
TO BE TAKEN FROM: Not applicable

9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 20,000,000

10. APPROPRIATION – ALLOTMENT: ESF 72-1131037 337-61-650-00-50-31

11. TYPE FUNDING: ☐ LOAN ☒ GRANT

12. LOCAL CURRENCY ARRANGEMENT: ☒ INFORMAL ☐ FORMAL ☐ NONE

13. ESTIMATED DELIVERY PERIOD: Dec. 1982-Dec. 1983

14. TRANSACTION ELIGIBILITY DATE: June 30, 1982

15. COMMODITIES FINANCED

16. PERMITTED SOURCE
U.S. only:
Limited F.W.:
Free World:
Cash: $20,000,000

17. ESTIMATED SOURCE
U.S.:
Industrialized Countries:
Local:
Other:

18. SUMMARY DESCRIPTION

The purpose of this program grant (cash transfer) is to assist the Government of Sudan (GOS) to bridge the two to three-month gap between the announcement of difficult and politically sensitive policy reforms and generation of revenues from either Sudan's own resources or disbursements from other multilateral or bilateral donors. The program grant will thus provide Sudan with urgently needed foreign exchange of highest economic importance and political sensitivity, thereby permitting the GOS to undertake an array of difficult policy reforms.

The provision of this program grant will signal the GOS that the U.S. supports Sudan's efforts to attain a sustainable balance of payments position within the next several years, provided it continues to vigorously pursue its current economic stabilization and recovery efforts.

19. CLEARANCES

	DATE
AFR/PD.MBaker	12-28/82
AFR/EA:ESpriggs	12/28/82
AAA/AFR/DP:HJohnson	12/28/82
GC/AFR:TBork	12/28/82
DAA/AFR:GPatterson	12/28/82
DAA/AFR:ARLove	12/28/82
M/FM:WMcKeel	12/30/82

20. ACTION
☒ APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE: F.S. Ruddy — DATE: 12-30-
TITLE: Assistant Administrator for Africa

CLASSIFICATION:

6

Initial Environmental Examination
Or Categorical Exclusion

Country: Sudan
Title of Activity: Program Grant - 650-K-605
Funding: FY 1983 (ESF Account) $20 million

IEE Prepared by: Deborah E. Mendelson AFR/EA

Environmental Action Recommended: This activity meets the criteria for Categorical Exclusion in accordance with Section 216.2 (C) and is excluded from further review. The proposed activity will provide foreign exchange assets to Sudan to assist in closing the country's immediate Balance of Payment deficit. The use of grant funds is not tied to the financing of specific commodities nor for the purpose of a discrete identifiable project or set of projects. Section 216.2(c)(2)(vi) of AID Regulation 16 provides a categorical exclusion from environmental procedures for contributions to international, regional or national organizations by the U.S. which are not for the purpose of carrying out a specifically identifiable project(s).

Concurrence: Bernard Chapnick for
Edward Spriggs, Director, AFR/EA

Bureau Environmental Officer's Decision:

Approved : George Priest
Disapproved :
Date : 12/28/82

Clearances:
AFR/PD/EAP:AReed Allen Reed
GC/AFR:DRobertson
0047J

SUDAN
FY-1983 Program Grant
650-K-605

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SUDAN

Program Grant (650-K-605) FY 1983

Summary and Recommendations

The accompanying analysis is presented in support of a request by the Government of Sudan (GOS) for a program grant of $20.0 million of Economic Support Funds (ESF) in FY 1983. This grant would be used to help ease Sudan's immediate foreign exchange crisis by bridging the gap between the announcement of difficult and politically sensitive policy reforms and generation of revenues from either Sudan's own resources or disbursements from other multilateral or bilateral donors. The proposed FY 1983 program grant will provide Sudan with urgently needed imports of highest economic importance and political sensitivity, thereby permitting the GOS to undertake an array of difficult policy reforms.

Since independence, Sudan has been making the difficult transition, originally from under an Anglo-Egyptian Condominium and more recently from a Soviet-styled and supported economy. With the rise of oil and manufactured goods prices after 1973 and the exodus of more than 500,000 skilled Sudanese workers to the Gulf states--coupled with some ill-advised policy and program decisions and poor project implementation--Sudan began to move from a Balance of Payments surplus to a deficit. By 1977, Sudan's irrigated sector, which is the basis of its foreign exchange earnings and monetized sector, began to collapse. This situation has continued until the point where Sudan's total accumulation of debt currently approximates its GNP. Arrears could reach $ 2.4 billion, or three years of exports. Debt service each year is expected to reach 150 percent of exports. Imports for 1982/83 are estimated at $1.8 billion while exports for the year are estimated to rise to only $900 million leaving a Balance of Payments deficit of $900 million.

Since 1978, the GOS, with the assistance of the World Bank, IMF and bilateral donors, has been working to reverse the economic deterioration and change the macro-economic policy framework particularly in key areas such as exchange rates and credit.

Since June 1978, the GOS has engaged in a series of exchange rate moves resulting in considerable devaluation of the Sudanese pound (LS). By the time of the resumption of the IMF negotiations on a new Standby Agreement in 1982, Sudan had devalued its pound by 55 percent from (LS 1.00 = $2.50) to (LS 1.00 = $1.12) . Recently, as part of the GOS effort to reach a new agreement with the IMF on exchange rate reform, GOS announced on November 15, 1982 a further devaluation of the LS by 44 percent from (LS 1.00 = $1.12) to (LS 1.00 = $0.76). Thus, the total devaluation of the Sudanese pound since 1978 has amounted to almost a 70 percent devaluation.

In an effort to balance its budget, increase revenues and at the same time improve the external trade balance by providing better export incentives and discouraging imports, the GOS has revised many of its taxes including numerous changes in tax rates on imports, exports and domestic sales.

Addressing internal price distortions which have historically promoted consumption at the expense of productive investment, the GOS has embarked on a dramatic upward adjustment of prices, including those of politically sensitive urban consumer items such as wheat, sugar and petroleum. At the new exchange rate and current world prices, direct budget subsidies on all consumer items are eliminated. The GOS has announced its intention to avoid the recurrence of subsidies by passing international price increases onto the consumer.

Sudan has also agreed upon a Three Year Recovery Program (Public Investment Program) with the World Bank which will give highest priority to completion of ongoing projects with the best promise of quick foreign exchange benefits; rehabilitation of projects, particularly those in the irrigated subsector, that have high potential for economic viability; and infrastructure facilities to support export-oriented production. This represents a substantial change from the Six Year Plan for 1977 to 1982 where emphasis was on the creation of new rather than better utilization of existing capacity.

In the area of agricultural rehabilitation, major efforts have been made by the GOS to restructure the agricultural sector, to improve export performance and to reduce imports of important food products. Particularly notable have been measures that have increased the financial incentives to farmers, both within and outside the public irrigated schemes, by removing or reducing export taxes, by offering a more favorable exchange rate and by liberalizing the marketing of export products. Further steps to improve the incentives to export production include measures such as replacement of the joint account system by a system of land and water charges specific to individual crops and farmers.

Steps have also been taken to improve the efficiency of the industrial sector by upgrading management of industrial entities, rehabilitate key industrial enterprises such as sugar, to actively pursue domestic oil production and to reschedule the nation's foreign debt.

Within the last two years, the Government of Sudan has shown a strong and growing commitment to undertaking the difficult macro-economic and sectoral policy reforms. With assistance of other major donors, Sudan has embarked upon its Export Action Program aimed at increasing public and private investment in the agricultural, mainly irrigated, sector. The whole system of pricing and supplying inputs to the sector was restructured and a host of new incentives for improved production were

introduced. Despite considerable political risk, in recent months Sudan has initiated a number of measures aimed at rectifying some of the economy's more glaring deficiencies.

Most notable, of course, was the second exchange rate devaluation of 44 percent, and significant increases in prices of the highly sensitive commodities such as wheat, petroleum and sugar.

Since the current economic situation dictates even more stringent economic reforms will be necessary, it has become essential that the GOS adopt the package of reforms in the IMF Agreement as a next but by no means final step. Thus, the USG has linked this ESF assistance to Sudan with progress on this reform front. The basic overall strategy for Sudan's economic recovery, remains to concentrate on establishing production in the irrigated sector to levels achieved in the early 1970's. To address the shorter term implications engendered by this economic crisis, Sudan has been negotiating the new 1982 Standby Agreement with the IMF and will have signed its Letter of Intent by the time of obligation of the Program Grant. The IMF Agreement will engender a series of reforms including exchange rate devaluation with periodic review, budget austerity measures and a series of fiscal and monetary adjustments. To address the longer-term aspects of the economic crisis, Sudan has been preparing, in collaboration with the World Bank, an intensive three year Recovery Program, encompassing a strict investment portfolio and a series of sectoral and macro-economic policy reforms. The Recovery Program document has been submitted to the donors' Consultative Group and is being reviewed prior to the CG meeting currently planned for early January, 1983.

The USG has played an active role in encouraging Sudan to adopt an aggressive approach to macro-economic policy reform and a positive attitude to the IMF reform process. The constant endeavors by our USAID Mission and Embassy at the working levels and by the U.S. Ambassador at the highest levels were culminated by President Reagan's letter to President Nimeiri in October assuring the GOS of deep USG concern at the highest levels. Through President Reagan's letter, and all our efforts, we have committed ourselves to ensuring that Sudan will not be abandoned after it has made its commitment on a tough reform package.

Now, for the third successive year, Sudan is faced with a trade deficit of over $ 1.1 billion and a current account deficit of some $ 800 million. Evan after allowing for a continued high level of capital inflows from past loans and the successful renegotiation of current debt payments, a large financing gap will remain. Sudan has virtually no foreign exchange. Some $2.4 billion of Sudan's current $8 billion foreign debt is in arrears, and the country's access to commercial sources of import credit is nil.

Until the disbursements from the new Standby Agreement are made as expected within the next two or three months, Sudan will continue to be faced with severe shortages of foreign exchange which threaten to preclude the timely import of its most essential and politically sensitive commodities. Given the timing of an announcement by Sudan to undertake the reforms included in the IMF Standby, such shortages could well coincide with the politically difficult budget and pricing reforms.

The USG has been providing balance of payments support to the Sudan through PL 480 Title I/III and ESF-financed commodity import programs since resumption of the AID program in FY 1978. The justification for such substantial and continued U.S. support, including the ESF program grant proposed herein for FY 1983, is the belief that Sudan can attain a sustainable balance of payments position within the next several years provided that it continues to pursue vigorously its current economic stabilization and reform efforts. For this year, reform efforts will include adherence to the provisions of the latest IMF Standby Arrangement and the formulation of a rational medium-term public investment and reform program. It also will require that Sudan strengthen and broaden its capacity to manage productive enterprises efficiently and in a manner that will result in greater financial returns and marketable surpluses.

It is very much in the interest of the USG to continue to provide balance of payments support to Sudan. Because of its location astride the Nile Valley and along the Red Sea, developments in the Sudan are of prime importance to the security of Egypt and the Arab states. Also, the GOS has been supportive of the Middle East peace process in recent years and has played a constructive role in a number of African problem areas.

The FY 1983 Program Grant will provide Sudan with urgently needed imports of highest economic importance and political sensitivity. No standard A.I.D. documentation nor other standard A.I.D. procurement requirements such as those generally included in a C.I.P. will be required.

The U.S. Mission strongly recommends authorization of the proposed grant.

General Considerations

A. Sudan's Current Foreign Exchange Crisis and Need for Balance of Payments Support

Sudan is presently experiencing a severe and chronic foreign exchange crisis, having registered sizeable current account deficits in its balance of payments since the mid-1970's. A deficit of $853 million occurred in 1982. These perennial deficits have wiped out the country's foreign exchange reserves and have led to a heavy foreign debt burden, much of which is in arrears, has had to be rescheduled twice before and will have to be rescheduled once again. Outstanding external debt was estimated at U.S. $3.7 billion by the end of 1981. Between 1976 and 1981, external debt grew at a compounded rate of 16 percent per annum. Despite rescheduling, the debt service ratio for 1980 (actual principal and interest payments as a percentage of exports) was approximately 30 percent. For 1982, this debt service ratio has grown to a phenomenal 150 percent. Gross foreign exchange reserves currently average less than one week of imports.

The shortage of foreign exchange has seriously affected the economy. Imports have been cut back severely, including agricultural inputs, industrial machinery and equipment, raw materials, fuel and spare parts. This has contributed to the deterioration of power, transport and communications facilities, the curtailment of industrial production, and stagnation in the agricultural sector. The decline of agriculture has been especially serious, since this sector accounts for nearly all of the Sudan's exports.

In its most recent published report on the economy, the IBRD projects a continuation of the Sudan's balance of payments difficulties through 1990. The report cites as principal contributing factors the presently severe trade imbalance, comparatively slow growth of exports, and continued heavy debt service payments. The report indicates that the government will have to continue its strenuous economic recovery program for about a decade to approach a more manageable balance of payments position. An essential component of the recovery program will continue to be the provision of substantial amounts of quick-disbursing balance of payments assistance by the Sudan's principal donors.

A recent update of the IBRD analysis includes an "optimistic case" balance of payments projection which shows a closing of the current account gap by 1990. To achieve this objective would require that commitments of donor assistance to the Sudan be more than doubled, from the present level of $850-$900 million to $1.8-$1.9 billion annually from 1985 through to the end of the decade. While the IBRD analysis does not

differentiate between balance of payments support and other forms of assistance, it clearly implies that a substantial proportion of donor assistance through 1990 will need to be commodity import grants.

Most importantly, although it is estimated that Sudan has immediate requirements for approximately $135 million worth of essential import commodities to cover the months of December and January, the country currently has no foreign exchange reserves with which to pay for the commodities. Anticipated foreign exchange receipts for the period of December and January are estimated at only $ 50 million. Until a new Standby Agreement is signed with the IMF and disbursements made as expected within the next few months, Sudan will continue to be faced with severe shortages of foreign exchange which threaten to preclude the timely import of its most essential and politically sensitive commodities.

B. The Causes of the Crisis and the Government's Response

The initial causes of the current crisis date back to the early 1970's, when the government undertook an overly-ambitious public sector development program and borrowed heavily from abroad to finance the program. This, coupled with unprecedented increases in petroleum import prices starting in 1973, drove the economy into a tailspin from which it has still not recovered. Lagging exports, a steadily widening trade gap, and growing budgetary deficiencies have compounded the country's 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 and 32 percent of total exports in 1981. Non-cotton exports have taken up the slack to some degree; however, there has been virtually no increase in total exports since the mid-1970's. Conversely, imports, led by petroleum and sugar, rose from $1.0 billion in 1976 to $1.7 billion in 1981, an increase of 70 percent.

1. The GOS/IMF Three Year Stabilization Program

In response to the worsening economic situation, the government, with IMF assistance, embarked upon a three-year economic stabilization program beginning in July 1979. The program was aimed primarily at reducing the recurring balance of payments deficits and restoring an element of growth to the economy. The principal targets were to raise the growth rate of real GDP from a negative rate in 1978/79(a) to 4 percent per annum; (b) to lower the rate of inflation from the 26.7 percent registered in 1978/79 to 10 percent by 1981/82; (c) to hold the current account deficit to US $400 million by 1981/82 (vs. $458 million in 1978/79); and (d) to 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.

On the basis of its assessment of GOS performance during the first year of the three-year program, the IMF forecast gradual improvement in the Sudan's balance of payments, beginning around 1983. Mixed results during the second year, however, specifically the poor performance of cotton, led the IMF to alter its assessment and to shift the basis of its support for further GOS stabilization efforts to a more flexible, annual stand-by arrangement.

2. The 1982 Stand-By Program

The failure of the Sudan's economy to respond more positively and immediately to the reform measures initiated under the three-year stabilization program was due in part to unfavorable external developments, such as higher world prices for petroleum and sugar imports, and political tensions in neighboring countries, giving rise to additional security measures and inflows of refugees which necessitated increased government expenditures. But there were also prolonged delays in the implementation of the reforms. At the core of the three-year program was an anticipated large expansion of cotton production. This was to have resulted in a substantial increase in export volume, which would have improved the balance of payments, strengthened the budget, and helped in restraining credit expansion. However, delay in removing distortions in the cost structure of cotton production relative to other crops, along with labor shortages and management deficiencies, contributed to reduced acreage and declining yields. As a result, cotton production and exports in 1981 fell to their lowest levels in 25 years and were barely one-half of the levels reached four years ago. In the case of sugar, the three-year program had assumed a virtual cessation of sugar imports with the projected coming on stream of three new sugar mills in 1979/80. Problems with the completion of the mills prevented the expected increases in domestic output and necessitated a continued high volume of sugar imports. This was compounded by delays in the adjustment of the exchange rate and by domestic price policies which sought to insulate the prices of basic consumer commodities such as sugar from international price changes. Increases in import prices were not always passed on to the consumer, and this resulted in either an outright subsidy or a deficit in the account of the importing public agency which was financed by credit extension from the central bank.

In recent months, the Sudan has taken a number of measures to overcome these deficiencies. In the irrigated agricultural sector, the joint account and profit-sharing system which distorted agricultural incentive against cotton cultivation has been replaced by an individual account system and by the imposition of land and water charges on all crops in irrigated schemes. The GOS has undertaken to collect such charges in the course of the current season. Progress on the rehabilitation of the capital stock in the largest schemes has been

accelerated with technical and financial assistance from the World Bank. Management of the agricultural schemes has been strengthened through decentralization and financial autonomy at the level of each scheme. In the manufacturing sector, steps have been taken to improve capacity utilization in the sugar refining mills. These steps have included management reorganization, reliance on foreign expertise, and special allocations to build up inventories of fuel and spare parts in order to reduce disruptions. The budget has been significantly strengthened by new revenue measures and by price adjustments; for the first time in years, current revenues are expected to exceed current expenditures. In particular, petroleum prices have been increased sharply to bring them into line with internal and external prices. The GOS has moved to increase

the prices of the two most basic consumption commodities, sugar and wheat; the price of sugar was increased sharply in January 1982 and action on the price of wheat is planned for the near future. Budgetary control has been strengthened in order to prevent the recurrence of expenditure overruns outside the jurisdiction of the Ministry of Finance. In the area of credit policy, interest rates on deposits and borrowing have been increased and penalty rates imposed on commercial banks that do not observe ceilings on credit extension. In the external sector, the unification of the official and parallel exchange markets has resulted in a depreciation of 80 percent for nearly half of imports and of 12.5 percent for other imports and all exports.

The Stand-By Program for 1982 attempted to built on the reform momentum generated in recent months. The main policy changes focussed on the further restructuring of financial incentives in agriculture, along with proper maintenance of physical capital and timely provision of management services, and attempted to bring about substantial reductions in both the overall and bank-financed deficits (as ratios to GDP) of the government budget; more effective control over the expansion of domestic credit in order to bring down the underlying rate of inflation from 35-40 percent at present to about 25 percent; and maintenance of an exchange system that would encourage remittances and exports. While it was expected that the deficit in the current account of the balance of payments would continue to be large, the Stand-By Program aimed to contain the size of the deficit through demand restraint and the expansion of non-cotton exports.

In May 1982, Sudan was not able to make its second purchase under the 1982 Stand-By Arrangement, because certain performance criteria had not been observed by the GOS. As a result, the arrangement broke down. Presently IMF and GOS are negotiating a 1983 standby.

To gain greater control over the allocation of scarce capital resources, the GOS with IBRD assistance has promulgated a current version of its rolling three-year public investment

program. The program, which is updated annually, is designed to ensure that proposed projects are consistent with overall GOS development priorities and kept within the limits of available resources. The priorities of the three-year program are: (1) completion of ongoing projects; (2) implementation of structural reforms to improve capacity utilization in agriculture and industry; (3) reduction of bottlenecks in transport and power generation; (4) development of traditional agriculture and other productive activities with relatively small reliance on imported inputs;(5) development of petroleum extraction; and (6) improvement of social services and water availability in rural areas.

C. Other Donor Assistance

Data compiled by the IMF and the Bank of Sudan indicate that total official receipts of the GOS in 1980/81 from foreign sources (capital inflows), excluding IMF drawings, amounted to $636 million. Of this amount, approximately $364 million represented balance of payments assistance, including cash loans and grants and donor-financed commodity imports. Saudi Arabia was the main contributor, accounting for approximately 40 percent of the total, followed by the U.S., 20 percent; Abu Dhabi, 15 percent; the Islamic Bank, 10 percent; France, the EEC, and others, 15 percent. Most of the funds contributed by the Arab donors were provided through loans and were used to finance oil imports.

The nature and distribution of official receipts by the GOS have remained relatively constant although absolute levels of assistance by other donors has increased in FY 1982 to approximately $957 million.

Despite an expected slight narrowing in the trade gap from $1,127 million in 1981 to $1,114 million in 1982, the Sudan's current account deficit is projected to increase from $742 million in 1981 to $853 million in 1982 mainly as a result of higher requirements for interest payments on rescheduled debts. As net capital inflows are expected to decline to $287 million, also reflecting higher debt servicing obligations, the overall financing requirement is projected at $566 million. Inasmuch as the maximum net support from the IMF will total about $193 million, the Sudan will need to cover the remaining $373 million gap through increased balance of payments support from donor countries.

At a meeting convened in Paris in late January 1982, the Sudan received pledges of additional balance of payments support amounting to an estimated $250 million. If fulfilled, this would still leave an unfinanced gap of $123 million. The GOS is now recanvassing the donor group to identify potential sources for these residual requirements.

D. U.S. Contributions to Date

The U.S. has been providing balance of payments support to the Sudan since resumption of the AID program in FY 1978. Concessional sales of PL 480 Title I wheat have averaged $10 million annually since FY 1978, and were augmented in FY 1980 with the signing of a five-year, $100 million Title III program. Combined Title I/III wheat imports for FY 1982 are programmed at $25.0 million.

U.S. balance of payments assistance has also been provided since FY 1980 through annual ESF-financed commodity import programs (CIPs). ESF grants for CIP imports amounted to $40.0 million in FY 1980, $50.0 million in FY 1981, and $100.0 million in FY 1982. A program grant of $20.0 million is hereby being proposed for FY 1983.

III. Rationale for Continued U.S. Assistance

The justification for continued U.S. balance of payments support for the Sudan, including the proposed $20.0 million program grant for FY 1983, is predicated on the belief that the country can attain a sustainable balance of payments position within the next several years provided that it continues to pursue vigorously its current economic stabilization and recovery efforts. For 1983, this includes adherence to the provisions of the IMF Standby Arrangement, specifically the reduction of government expenditures and borrowing, the establishment and maintenance of a more realistic exchange rate, and the alignment of administered prices and interest rates at realistic, market levels. It also includes the formulation and implementation of a rational medium-term public investment program that will lay a basis for longer-term growth, such as the three-year program being developed by the GOS in conjunction with the IBRD.

The experience of the past four years has made it abundantly clear, however, that in the case of the Sudan, earnest commitments to reform and rational planning are not enough. There also needs to be a strengthening and broadening of the country's capacity to manage its productive enterprises efficiently and in a manner that will result in greater financial returns and marketable surpluses. Thus, if the Sudan is to achieve a viable balance of payments position over the next several years, the GOS will need to take a number of specific steps to improve overall management performance. In addition to the standard conditions precedent and covenants for a Program Grant, the PAAD contains six covenants directly related to influencing policy changes and procedures. The covenants are intended to address structural foreign exchange deficits, fiscal and budgetary policies and procedures, and expansion of the role of the Sudanese private sector.

In other provisions contained in the grant, the GOS will agree to (a) import or cause to be imported into the Sudan goods and services from the United States in an amount equivalent to the disbursements made under the grant; and (b) to make available local currency in an amount equivalent to this grant for joint programming by the GOS and USAID. Furthermore, the GOS covenants to provide local currency in an amount equivalent to ten percent of this grant for use in the general administration and management of the U.S. assistance program in Sudan.

While the primary justification for continued U.S. balance of payments assistance to the Sudan is the likelihood that such assistance will contribute significantly to the eventual resolution of the Sudan's balance of payments problem, there are several other equally important purposes to be served.

1. U.S. Interests and Overall Assistance Strategy

The Sudan has major significance for U.S. interests in Africa and the Middle East. Because of its location astride the Nile Valley and along the Red Sea, developments in the Sudan are of prime importance to the security of Egypt and the Arab States. Under President Nimieri, the GOS has been supportive of the Middle East peace process and has played a constructive role in a number of African problem areas. Sudan's support for Egypt has reduced the reliability and perhaps the level of assistance from other Arab States. A clear threat from Libya has obliged the Sudan to strengthen its defense forces. This has imposed additional import requirements on the country, adding to the balance of payments problem. The proposed U.S. assistance will help to offset the costs of these additional requirements and encourage the GOS to continue its constructive moderating role in Middle-Eastern and African affairs.

In view of the Sudan's importance to U.S. interests in Africa and the Middle East, and its critical need for foreign exchange, the AID country strategy gives highest priority to balance of payments and budget support programs that finance essential imports and help to cover the local costs of development programs.

2. Providing an incentive for improved economic management and reform

As noted earlier, delays in the implementation of the economic reforms espoused under the three-year stabilization program was an important contributing factor to the joint GOS/IMF decision to terminate the program after the second year. By incorporating in the ESF Program Grant Agreement appropriate linkages between the allocation and disbursement of ESF funds

and GOS progress toward improved policy-related management performance, the ESF program grant will serve as a spur to the GOS to carry out more expeditiously much needed policy and structural reforms.

3. Contributing to private sector participation in development

The current shortage of foreign exchange in the Sudan is acutely felt by private sector firms who either obtain needed foreign exchange from unofficial sources at high cost or cut back on their operations. In either case, there is a net cost to the economy. It is estimated that privately-owned industrial firms in the Sudan are presently operating at 25-30 percent of capacity, primarily because of the lack of raw materials and spare parts. The priority given to private sector uses reflects AID's appreciation of the sector's potential importance to the economy. To a large extent the government's efforts to reduce its balance of payments deficits through expanded exports have been frustrated by the inefficient use of scarce foreign exchange and excessive public control of productive enterprise. The allocation of a substantial proportion of CIP funds to private firms overcomes these obstacles and will enable these firms to contribute significantly to the Sudan's development through increased production and export.

4. GOS budget support

A provision of the Grant Agreement will require the GOS to jointly program the equivalent amount of each disbursement made under the grant. Planned disbursements of this amount will be jointly approved by representatives of the GOS and USAID/Sudan. These disbursements will be used to finance development and related activities which are included in the GOS Recovery Program budget. Such activities may include new, as well as ongoing, development projects.

The GOS' need for budget support is clearly evident from a review of the government's FY 1981 and FY 1982 budgets. Against total expenditures of LS 1.3 billion in FY 1981, for example, the budget shows a deficit of LS 545 million, or over 40 percent. More recent data indicate that the actual ratio may be closer to 50 percent. By comparison development expenditures in FY 1982 were estimated at LS 371 million. Foreign borrowings to finance budgetary expenditures were around LS 400 million. In effect, total GOS expenditures for development are now being financed by foreign borrowing.

IV. Economic Analysis

A. Balance of Payments and Trade

Since the mid-1970's, the Sudan's balance of payments has been characterized by steadily widening trade gaps and perennial current account deficits. Increased import costs, particularly for petroleum products and sugar, together with rapidly rising debt service payments, have severely strained the Sudan's inadequate foreign exchange resources. Lagging export sales and the government's inability to attract private remittances through official channels forced the government to rely heavily on borrowings and donor grants to finance essential import commodities and related services. A summary of the Sudan's balance of payments from 1977/78 to 1982 is set forth in Table 1 below.

As indicated in Table 1, the total value of the Sudan's exports has hardly changed in recent years, rising from $551 million in 1977/78 to a projected $592 million in 1982. The primary reason for the lagging export trade is the decline of cotton imports. In 1977/78, cotton exports were valued at $296 million and accounted for 54 percent of total exports. By 1981, cotton exports had dropped to $158 million, representing only 32 percent of total exports.

The poor performance of cotton in recent years has been attributed primarily to the lack of adequate price incentives for production and export, and a burdensome system for allocating production costs on the larger irrigated schemes, whereby cotton bore a disproportionate share of land preparation charges and fees. These distortions have now been corrected and a modest increase in cotton exports is projected for 1982. In fact the overall trade gap is expected to narrow slightly in the years ahead, decreasing from $1,127 million in 1981 to $1,114 million in 1982. In addition to a projected 14 percent increase in cotton exports, key factors include a 23 percent increase in non-cotton exports coupled with a comparatively modest 15 percent increase in the value of petroleum imports and a 20 percent drop in sugar imports.

Table 2 below contains a projection of the Sudan's balance of payments through 1990, taken from the IBRD's memorandum report on the Sudan's economy, published in October 1979. As indicated in the table, the Sudan is expected to continue to experience a widening trade gap and sizeable recurrent account deficits through 1990. Further, despite projected increases in private remittances and official grants and loans, the country will continue to face recurring financial gaps and arrearages on past loans throughout the decade.

Table 1

Sudan: Balance of Payments, 1977/78-1982
(In millions of U.S. dollars)

ear Ending June 30	1977/78	1978/79	1979/80	Proj. 1981/82	Proj. Jan-Dec 1981	Proj. Jan-Dec 1982	Proj.* 1982/83
xports	551	527	581	560	493	592	675
Cotton	296	321	333	160	158	180	240
Other	255	206	248	400	335	412	435
mports	-1,188	-1,138	-1,340	-1,670	-1,620	-1,706	-1,800
Petroleum	-118	-178	-254	-405	-362	-415	-490
Sugar	-44	-28	-123	-65	-64	-51	-60
Other	-1,026	-932	-963	-1,200	-1,194	-1,240	-1,250
Trade Balance	-637	-611	-759	-1,110	-1,127	-1,114	-1,125
ervices	-73	-104	-63	-206	-40	-249	75
Receipts	159	181	229	355	342	379	N/A
Payments	-172	-207	-221	-300	-280	-329	N/A
Interest	-60	-78	-71	-261	-102	-299	N/A
ransfers	244	257	293	505	425	510	580
Private	221	240	209	355	325	380	430
Official	23	17	84	150	100	130	150
Current Account	-466	-458	-529	-811	-742	-853	-470
apital	65	348	442	375	382	287	525
Receipts	132	405	532	535	480	472	N/A
Payments	-67	-57	-90	-160	-98	-185	N/A
llocation of SDRs	—	13	13	—	11	—	50
rrors and omissions	325	103	26	...	159	...	
onetary movements (increase -)	76	-6	48	...	190	...	
Financing gap				436		566	
				Overall Balance			55
				IMF Financing (Net)			50
		(In per cent)		Special B/P Assistance			50
				Available for debt servicing			155
emorandum items:							
Growth rates							
Exports	-7	-4	10	16	-1	20	
Imports	20	-4	18	2	3	5	
Current account deficit as per cent of GDP	6	5	10	11	11	11	

Sources: Bank of Sudan, Ministry of Finance and Economic Planning, and IMF staff estimates.
* Assumes increased levels of donor assistance and no debt-servicing.

Table 2: Balance of Payments Projections, 1982-1990

($ Million)

	1982	1983	1984	1985	1986	1987	1988	1989	1990
Exports (including NFS)	1369	1557	1768	2012	2270	2573	2889	3243	3641
Imports (including NFS)	-2199	-2448	-2727	-3037	-3365	-3730	-4138	-4584	-5080
Resource Balance	-830	-891	-959	-1025	-1095	-1157	-1249	-1341	-1439
Investment Income, net of	-267	-279	-287	-301	-316	-334	-350	-366	-388
which Interest Public MLT loans	(-151)	(-161)	(-179)	(-202)	(-226)	(-254)	(-281)	(-309)	(-338)
Interest Arrears	(-84)	(-84)	(-72)	(-61)	(-50)	(-37)	(-24)	(-10)	-
Private Transfers	459	498	539	585	635	698	748	811	880
Balance on Current Account	-638	-672	-707	-741	-776	-802	-851	-896	-947
Private Direct Investment	55	61	67	73	81	89	97	107	118
Short-term, net	36	40	44	48	53	58	64	71	78
Public Grants and MLT Loans									
Grants, disbursements	91	100	110	121	133	146	161	177	195
MLT Loans, disbursements	608	626	649	704	772	847	930	1023	1120
MLT Loans, Repayments	-305	-341	-423	-433	-423	-398	-406	-448	-509
Disbursements, net	394	385	336	392	482	595	685	752	806
Increase/Decrease Arrears	-	-136	-148	-159	-170	-182	-196	-209	-
Use of IMF Resources	34	-18	-34	-41	-50	-50	-43	-26	-9
Change in Reserves (- = increase)	-	-	-37	-41	-46	-48	-54	-60	-66
Errors and Omissions									
Gap Financing Needed	119	340	479	469	426	340	298	261	20

Source: IBRD Memorandum on the economy of the Sudan, October 1979

A more recently completed IBRD analysis, published in February 1982 includes an "optimistic case" projection which shows a closing of the current account gap by 1990. However, this would require more rapid export expansion and slower import growth than is generally expected, and greatly increased private remittances. The "optimistic case" projection also incorporates substantial debt relief through 1985/86 and would require that commitments of donor assistance to the Sudan be more than doubled, from $850-$900 million annually in the early 1980's to $1.8 to $1.9 billion annually from 1985/86 through to the end of the decade.

The Sudan's other major export crops include sorghum, sesame, gum arabic, groundnuts, vegetable oil and livestock. As noted below in Table 3, except for livestock products which have recorded steady increases, all of the non-cotton export crops have shown erratic growth patterns since the mid-1970's. Sorghum exports to Saudi Arabia have increased appreciably in recent years and have helped to offset the decline in cotton earnings.

Because of run-down irrigation facilities, the lack of foreign exchange for agricultural inputs, inadequate transport, storage and other infrastructural facilities, and price distortions, prospects for rapid increases in exports over the next several years are dim. The government is currently giving priority in the allocation of developmental resources to revitalization of the agricultural sector, which currently accounts for some 95 percent of the Sudan's exports. It could be several years, however, before this emphasis pays off in significantly increased exports.

While exports have been stagnating, the Sudan's imports have been increasing steadily over the past six years. From a level of $1.0 billion in 1976/77, total imports are expected to increase to $1.7 billion in 1981/82. Tables 4 and 5 below show breakdowns of recent imports by type of commodity and country of origin.

The Sudan's principal imports are wheat, sugar, petroleum products, chemicals, pharmaceuticals, machinery and transport equipment, manufactured goods and textiles. Of these, petroleum products have shown the most dramatic increase during the past six years, from $117.8 million or only 10 percent of total imports in 1977/78 to a projected $420.0 million or 25 percent in 1981/82.

Since the mid-1970's, the value of wheat and wheat flour imports has more than doubled, as has that of sugar imports. Manufactured goods have shown a sizeable increase; however, machinery and transport equipment imports have declined while chemicals, pharmaceuticals and textiles have remained relatively unchanged.

Table 3. Sudan: Composition of Exports, 1977/78-1981

(In millions of U.S. dollars) 1/

	1977/78	1978/79	1979/80	1980/81	1980	Prov. 1981
Cotton	295.8	320.7	333.4	182.0	230.6	114.0
Groundnuts	80.1	25.5	13.2	65.6	10.7	82.6
Sesame	55.4	27.8	40.6	32.2	47.3	43.1
Gum arabic	35.3	40.0	43.9	32.6	32.3	43.9
Dura (sorghum)	8.6	8.7	68.7	71.4	80.4	52.8
Vegetable oil and cakes	17.5	46.5	26.3	33.6	34.9	33.6
Castor seeds	3.2	3.5	--	--	--	0.4
Livestock products	26.7	30.0	35.6	43.7	42.0	54.5
Other	9.2	6.8	19.8	17.8	18.7	29.6
Subtotal	531.8	509.5	581.5	478.9	496.9	454.5
Re-exports 2/	19.2	17.5	--	--	--	--
Total	551.0	527.0	581.5	478.9	496.9	454.5

Sources: IMF, Sudan - Recent Economic Developments, August 30, 1982.

1/ Converted from data in Sudanese pounds at the following exchange rates: for 1977/78, LSd 1.00 = US$2.87; for 1978/79, LSd 1.00 = US$2.50; for 1979/80, LSd 1.00 = US$2.50, July-September 1979; and for October 1979-September 1980, LSd 1.00 = US$2.00; October 1980-June 1981, LSd 1 - US$1.25 or US$2.00 depending on the commodity; from June 1981 to September 1981, LSd 1 = US$1.25; and from October 1981 to December 1981, LSd = US$1.18.

2/ Exclusive of petroleum re-exports.

Table 4: Sudan: Composition of Imports, 1977/78-1981/82

(In millions of U.S. dollars) 1/

	1977/78	1978/79	1979/80	Prelim. 1980/81	Proj. 1981/82
Foodstuffs	121.8	98.8	266.2	314.6	270.0
Beverages and tobacco	17.8	12.0	9.8	23.2	30.0
Crude material and petroleum products	124.1	183.9	259.0	404.0	420.0
Of which: petroleum products 2/	(117.8)	(177.6)	(254.0)	(393.0)	(405.0)
Chemicals and medicine	106.8	109.5	122.5	139.6	150.0
Manufactured goods	218.8	218.0	240.5	323.0	350.0
Machinery and equipment	369.3	284.7	234.2	231.0	250.0
Transport equipment	124.9	170.5	137.7	140.2	150.0
Textiles	104.5	60.5	70.0	55.8	50.0
Total	1,188.0	1,137.9	1,339.9	1,631.4	1,670.0

Sources: Bank of Sudan and staff estimates.

1/ See Table 3, footnote 1, for conversion rates.
2/ Net of petroleum re-exports.

Table 5. Sudan: Origin of Imports, 1976/77-1980/81

(In millions of U.S. dollars)

	1976/77	1977/78	1978/79	1979/80	1980/81
Western Europe	472.9	622.0	567.5	624.9	687.6
United Kingdom	162.8	173.2	173.5	162.4	219.4
Germany, Federal Republic of	85.9	149.9	114.0	123.8	103.0
France	54.0	97.6	84.8	106.4	112.8
Italy	63.2	60.9	54.3	33.4	43.6
Belgium	30.8	41.3	21.3	44.8	29.4
Others	76.2	99.1	119.6	154.1	179.4
China and Eastern Europe	65.2	94.8	105.8	99.2	130.6
China, People's Republic of	31.6	45.9	50.8	41.6	57.2
Czechoslovakia	4.9	10.3	13.0	15.2	9.0
Yugoslavia	8.0	10.1	16.5	13.2	15.8
Others	20.7	28.5	25.5	29.2	48.6
Western Hemisphere	110.8	110.6	73.3	143.8	198.4
United States	74.4	57.7	62.3	125.2	120.6
Others	36.4	52.9	11.0	18.6	77.8
Africa and Asia	213.4	217.3	181.6	196.8	259.4
Japan	97.1	99.4	77.8	51.8	74.6
India	62.9	36.8	41.8	33.4	34.6
Pakistan	15.5	26.7	3.8	22.6	10.4
Others	37.9	54.4	58.2	89.0	139.8
Arab countries	123.5	143.3	209.7	275.2	355.4
Total	985.8	1,188.0	1,137.9	1,339.9	1,631.4

Source: IMF, Sudan - Recent Economic Developments August 30, 1982.

Petroleum imports are expected to continue to increase over the next several years although at a slower rate than in the past until the Sudan's own recently-discovered reserves are brought into production. Current estimates indicate that the Sudan will be able to meet some 60 percent of its own requirements by the late 1980's. GOS officials also expect to be able to substitute domestically-produced sugar for imports within the next two or three years, as the newly-constructed Kenana sugar mill reaches full production. These reduced requirements are not expected to bring down the level of total imports, however, as there is considerable pent-up demand for other imported commodities such as construction materials, agricultural inputs, machinery, transport and power system equipment, and spare parts, that will need to be met before the overall level can be expected to taper off.

In view of the steady and rising demand for imports and the poor performance to date and modest prospects for increased exports, the Sudan can be expected to continue to record trade deficits over the next several years comparable to the $1.1 billion deficit projected for 1982.

B. Services and Capital Accounts

In addition to its sizeable and growing trade deficits, the Sudan has also regularly been registering annual deficits in its services account. Though modest to date, these deficits could increase appreciably within the next several years because of higher interest payments, unless the government is able to continue negotiating substantial debt relief. As indicated in Table 1 above, interest payments projected for 1982 would represent a three-fold increase over the level paid just four years ago.

There is some scope for mitigating the adverse economic impact of the higher interest payments through increased remittances from abroad, although the Sudan's performance so far in this area has not been very satisfactory. Despite the growing numbers of Sudanese known to be working abroad, of which current estimates range between 400,000 and 500,000, private remittances have shown almost no change over the past four years and are projected to reach only some $380 million in 1982, or $760 to $950 per worker. This is well below the average for other labor-exporting countries.

Primarily because of the high interest payments and low remittances, coupled with the large annual trade deficits, the Sudan continues to register sizeable deficits in its current account and must look to foreign donors for the financial resources to offset these deficits, which have nearly tripled in the past six years.

The Sudan's principal donors at present are Saudi Arabia, the US, the IBRD, the Arab Monetary Fund, West Germany, France, the EEC, Italy, Great Britain and Holland. Excluding IMF drawings, gross inflows from foreign donors in 1980/81 were estimated to be $636 million. See Table 6 below. Of these, approximately $364.0 million represent cash transfers or commodity loans, while the balance of $272 million represents loan and grant-financed project assistance activities.

C. Financing Gaps

Even with considerable help from the donors, it should be noted per Tables 1 and 2 above that the Sudan continues to be faced annually with financing gaps. Halfway through FY 1981 (which ran from July 1980 to June 1981), a gap of $450 million was still being projected for the year. With one half of (Sudanese) FY 1982 gone, the GOS was still projecting a gap of some $340 million for the year. Recent calculations by the IMF and the Bank of Sudan indicate a $566 million financing gap in CY 1982. The upcoming Consultative Group meetings will discuss, among other things, debt rescheduling and balance of payments assistance for 1983.

D. Reserves Position and Net Foreign Assets

The Sudan drew down virtually all of its foreign exchange reserves during the mid-1970's to pay off mounting debts. By June 1978, gross reserves of the Bank of Sudan were equivalent to only one week's imports. Despite a slight improvement in 1979/80, the country's reserve position has remained practically unchanged since 1978, as Table 7 below illustrates.

Table 7. Gross Reserves of the Bank of Sudan
(Millions of US dollars)

	1977/78	1978/79	1979/80	1980/81
Reserves level	21.9	27.4	40.5	24.5
Import equivalence	7 days	9 days	13 days	5 days

As indicated in Table 8 below, due mainly to a steady build-up of short-term liabilities to foreign banks and continuous drawings under various IMF credit facilities, the Sudan has been burdened with a negative position on net foreign assets over the past five years. There was further deterioration of its position in 1980.

Table 6 Sudan: Foreign Financing of Central Government Budget, 1975/76-1980/81

(In millions of Sudanese pounds)

	1975/76	1976/77	1977/78	1978/79	Prov. Actual 1979/80	Budget 1980/81	Revised Budget 1980/81 1/	Prov. Actual July-Dec. 1980
Grants	...	...	3.7	7.2	42.0	60.0	79.0	57.2
Commodity	...	...	...	...	30.5	...	38.0 2/	...
Project	...	...	...	...	11.5	...	41.0 3/	...
Loans	...	...	46.0	162.0	266.0	399.8	321.0	118.6
Cash	...	...	...	...	128.5)	189.9)	144.0 2/)	109.2
Commodity	...	...	...	...	29.0)	)	)	
Project	...	...	...	...	108.5	209.9	177.0 3/	9.4
Total	84.5	53.5	49.7	169.2	308.0	459.8	400.0	175.8
Less: Repayments	-19.7	-19.7	-23.3	-22.8	-70.4	-37.2	-37.0	...
Equals: Foreign financing	64.8	33.8	26.4	146.4	237.6	422.6	363.0 4/	...

Sources: Ministry of Finance and National Economy, the Bank of Sudan, and IMF staff estimates.

1/ The 1980/81 estimates as agreed with GOS authorities.

2/ Commodity grants and loans valued at the official market exchange rate.

3/ Project grants and loans are valued at the parallel market exchange rate (at the official rate, project grants would be LSd 25.5 million and project loans LSd 106 million).

4/ Equivalent to $636 million at exchange rates cited footnotes 2/ and 3/ above.

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Table 7. Gross Reserves of Bank of Sudan
(In million of U.S. dollars)

	1977/78	1978/79	1979/80	1980/81 1/
Reserves level	21.9	27.4	40.5	24.5
Import equiv.	7 days	9 days	13 days	5 days

Table 8. Sudan: Gross Reserves and Net Foreign Assets, 1977-80

(In millions of U.S. dollars)

End of Period	June 1977	Dec. 1977	June 1978	Dec. 1978	June 1979	Dec. 1979	June 1980	Dec. 1980
Monetary authorities	-588	-625	-603	-600	-602	-692	-751	-964
Convertible foreign exchange 1/	25	28	22	32	31	80	61	65
Net bilateral claims 2/	-36	-45	-41	-36	-37	-52	-58	-77
Net IMF position 3/	-134	-117	-92	-130	-145	-212	-235	-346
Bank of Sudan short-term liabilities to foreign banks	-341	-386	-391	-399	-384	-445	-456	-530
Liabilities from Kuwaiti loan	-104	-105	-102	-67	-67	-63	-63	-76
Commercial banks	38	27	58	61	99	121	191	291
Assets	55	58	81	168	120	194	265	435
Liabilities	-17	-30	23	-107	-21	-73	-74	-144
Net foreign assets	-551	-598	-545	-539	-503	-571	-560	-673

Source: Data provided by the Sudanese authorities.

1/ The Bank of Sudan is required to maintain at all times gold and external assets (including SDRs) of not less than the equivalent of LSd 7 million.

2/ Includes balances on accounts established under loan agreements with certain Eastern Bloc countries.

3/ As reported by Bank of Sudan

E. External Debt and Annual Services Payments

The Sudan's total outstanding external debt amounted to $3.7 billion at the end of 1981, having nearly doubled since 1976. As shown in Table 9, about $1.9 billion of the total is owed to bilateral creditors, primarily Saudi Arabia, Kuwait, and the United Arab Emirates. Approximately $1.1 billion is owed to multilateral institutions such as the IBRD/IDA, the Arab Fund for Economic and Social Development and the Arab African Bank. The remaining $0.7 billion is owed to various private commercial banks and other financial institutions, and to suppliers.

The overall weighted average terms of the Sudan's external debt (which currently reflects an average maturity of 33 years, including a 7-year grace period; an average interest of 2%; and an overall grant element of 63 percent) are considered to be relatively concessional (see Table 10). Nevertheless, a significant portion of the outstanding debt is in the form of suppliers' credits and loans contracted at commercial terms. As a consequence, according to the IMF, debt service payments for 1980 should have amounted to around $280 million. This would have represented a ratio to total exports for that year of around 41 percent. Such a high payment ratio would have been unmanageable. Actually, as reflected in Table 9, the annual payments were virtually cut in half as a result of the debt relief (on official loans) obtained from Paris Club donors and through the accumulation of arrears on payments due to Arab and private creditors.

F. Payments in Arrears

As of the end of 1980, as shown in Table 11, the Sudan was in arrears on some $1.2 billion of its scheduled principal and interest payments. Coupled with payments coming due on existing loans, the Sudan will have no recourse over the next several years but to continue to seek refinancing of its sizeable debt burden.

V. Budget Support Requirements

A. Overall Deficit

Total GOS budgetary expenditures in 1980/81 were estimated at LSd 1.3 billion; total revenues at LSd 768 million. Including other fiscal operations (primarily extra budgetary expenditures), the overall budgetary deficit was an estimated LSd 630 million, or some 48 percent of total expenditures. As reflected in Table 12, a somewhat lower

Table 9. Sudan: Medium- and Long-Term External Public Debt and Debt Service Payments, 1976-81

End of Period	1976	1977	1978	1979	1980	Est. 1981
	(In millions of U.S. dollars)					
Total outstanding debt (disbursed only)	1,722.4	1,949.0	2,250.2	2,856.9	3,487.0	3,694.2
International organizations	374.4	408.5	534.8	655.7	863.2	1,133.5
Of which: net use of Fund credit 1/	(157.1)	(140.4)	(176.3)	(243.4)	(341.7)	(482.3)
Foreign governments	762.2	862.3	865.7	1,362.6	1,785.9	1,897.0
Financial institutions	360.0	377.6	573.6	380.9	567.9	453.2
Suppliers' credits	275.8	300.6	285.1	257.7	270.0	210.5
Debt service payments (during period)	159.0	124.1	130.9	140.0	163.4	234.8
Principal	80.9	62.6	72.5	51.1	100.8	96.7
Interest	78.1	61.5	58.4	88.9	62.6	138.1
			(In per cent)			
Memorandum item:						
Debt service payments/exports of goods and services	23.5	15.1	15.2	13.4	20.6	27.5

Sources: IBRD, IMF, and Bank of Sudan, Economic and Financial Statistics Review, various issues.

1/ Total repurchase obligations to the Fund required to return Fund holdings of Sudanese pounds to 100 per cent of quota.

Table 10: Sudan: Amount and Average Terms of Debt Commitments, 1976-80 1/

	1976	1977	1978	1979	1980
Suppliers' credits					
Amount (US$ millions)	53.3	89.2	35.9	—	—
Interest (per cent)	7.1	5.1	7.8	—	—
Maturity (years)	11.1	13.1	15.0	—	—
Grace period (years)	3.5	3.5	3.9	—	—
Grant element (per cent)	13.2	25.2	11.8	—	—
Financial institutions					
Amount (US$ millions)	160.9	13.8	40.5	51.6	37.0
Interest (per cent)	8.3	8.8	8.7	5.9	8.0
Maturity (years)	10.2	8.8	11.2	14.8	6.0
Grace period (years)	4.5	2.9	6.0	3.4	2.5
Grant element (per cent)	7.1	4.3	5.3	22.3	5.9
International organizations					
Amount (US$-million)	83.9	86.2	140.6	266.2	281.9
Interest (per cent)	3.1	3.3	1.3	1.7	0.9
Maturity (years)	28.6	27.1	34.1	29.3	40.3
Grace period (years)	7.3	6.2	7.8	6.2	8.6
Grant element (per cent	52.8	49.0	66.7	59.3	74.4
Government loans					
Amount (US$ millions	310.0	379.6	504.0	645.9	79.5
Interest (per cent)	3.4	5.2	4.1	7.9	2.3
Maturity (years)	21.5	14.0	22.3	15.2	19.7
Grace period (years)	6.4	3.0	6.9	5.6	5.2
Grant element (per cent)	43.6	27.1	41.5	13.8	46.3
Total					
Amount (US$ millions)	608.1	568.8	721.0	963.7	396.4
Interest (per cent)	5.0	5.0	4.0	6.1	1.8
Maturity (years)	18.6	15.7	23.6	19.1	33.0
Grace period (years)	5.8	3.6	6.9	5.6	7.3
Grant element (per cent)	32.6	29.6	42.9	26.8	62.5

Source: IBRD--Debtor Reporting System (DRS).

1/ Weighted average terms of contracted external debts, including undisbursed amounts, with a maturity of over one year and repayable in foreign currency.

ratio is being projected for 1981/82; however, this is predicated upon an approximate 42 percent increase in revenues as against a modest 16 percent increase in expenditures. The slower increase in expenditures takes into account the proposed elimination during this fiscal year of current government subsidies on wheat, sugar, petroleum, pharmaceuticals, and milk.

B. Development Expenditures

Development expenditures in 1980/81 were estimated at LSd 356 million. An increase to LSd 514 million is projected for 1981/82. In 1980/81, more than one-half of the overall budgetary deficit, or LSd 346 million, was financed through net foreign borrowings. This amount is roughly equivalent to total GOS development expenditures for the year. A similar situation is projected for 1981/82. In effect, during the past five years the GOS has become totally dependent on foreign sources to finance its development programs.

VI. AID Response.

The U.S. Government has been providing balance of payments support to Sudan through PL 480 and ESF financed commodity import programs since 1978. The justification for such substantial and continued U.S. support is the belief that Sudan can attain a sustainable balance of payments position within the next few years provided that it continues vigorous pursuit of current economic stabilization and reform efforts. The USG has played an important role in encouraging Sudan to adopt an aggressive view to macro-economic policy reform and a positive attitude to the IMF reform process. Since the current economic situation dictates that even more stringent economic reforms will be necessary, it has become essential that the GOS adopt the package of reforms proposed within the newest IMF Standby Agreement as a next and probably not final step. Thus, the USG has linked its ESF assistance closely with progress on this front.

Proposed U.S. Assistance.

The $20 million program grant is targeted at bridging the two or three month gap between the GOS announcement of difficult and politically sensitive economic policy reforms included in the IMF Standby Agreement and the time that disbursements from the IMF Standby Agreement and other donors become available to the GOS. Sudan will continue during this interim period to be faced with severe shortages of foreign exchange which threaten to preclude the timely importation of its most essential and politically sensitive commodities. The FY 1983 Program Grant will provide Sudan with urgently needed foreign exchange once the GOS has committed itself to undertake the required economic policy reforms.

VII. Implementation Arrangements and Procedures.

The Grant Agreement will provide, upon the satisfaction of the conditions precedent, for the immediate disbursement of up to the full amount of the Grant into an account owned by the GOS in a U.S. bank. Disbursement from the GOS's account will be used to alleviate a severe balance of payments problem and facilate the undertaking of an array of difficult policy reforms. It is expected that all disbursement from the GOS account in a U.S. bank financed by the Grant will be completed within sixty days after the signing of the Grant Agreement.

A. Terms and Conditions of the Grant.

1. Conditions Precedent.

The Grant Agreement will contain two (2) conditions precedent normally applied to program grants to facilate their administration. Prior to the first disbursement of funds under this Grant, the GOS will furnish to AID the following:

(a) An opinion of counsel, acceptable to AID, that the Agreement has been duly authorized and ratified by, and executed on behalf of, the GOS, and that it constitutes a valid and legally binding obligation of the GOS in accordance with all its terms.

(b) The name or names of the person or persons holding or acting in the office of the GOS specified in the Agreement and a specimen signature of each person specified in such statement.

The Grant Agreement will stipulate that the GOS will have up to thirty (30) days to meet these conditions precedent. USAID/Khartoum will promptly advise the GOS when the conditions precedent have been met.

2. Covenants.

The terms and Covenants specified below will be contained in the Grant Agreement or in a side letter similar in form and substance as the side letter that was used in the FY 1982 Commodity Import Program.

(a) To insure compliance with the needed policy reforms which this Grant is expected to facilitate, the Grant Agreement will contain six covenants which will denote the GOS agreement to procede with a series of expected policy reforms. The general covenants related to policy concerns are as follows:

(1) The GOS agrees to continue its work in assuring that controlled prices for commodities will be maintained at levels that reflect the prevailing rate of exchange.

(2) The GOS agrees to continue its review of revenue generating policy and procedures and agrees to initiate measures to reform tax structures to ensure the collection of adequate domestic revenues to meet the Government's economic stabilization objectives.

(3) The GOS agrees to review its foreign exchange and import licensing systems to ensure that they function effectively in meeting the needs of the private sector.

(4) The GOS agrees to determine and institute policy reforms necessary to encourage increased private savings and investment, particularly from Sudanese working abroad.

(5) The GOS agrees to issue regulations concerning the importation and distribution of petroleum products, and as determined appropiate, increase the private sector participation in the importation and distribution of petroleum products.

(6) The GOS agrees to issue regulations in implementation of the investment code as necessary to encourage foreign and domestic private investment.

(c) Finally, to assist in the implementation of the U.S. Assistance Program in Sudan, the Grant Agreement will contain the following covenant:

(7) The GOS agrees to deposit local currency funds in a Trust Account, specified by AID, in an amount equivalent to ten percent of the amount of this grant for use in the administration and management of the U.S. Assistance Program in Sudan.

3. Special Covenants.

The Grant Agreement will contain two (2) special covenants normally applied to Program Grants.

(a) The GOS will agree that this agreement and the Grant will be free from taxation or fees imposed under laws in effect in the Democratic Republic of Sudan.

(b) The GOS will agree that the funds provided under this grant shall not be used to finance military or paramility requirements of any kind, including the procurement of commodities and/or services for those purposes.

4. Other Terms and Provisions of the Grant.

Host Government Contributions:

(a) As part of the GOS committment to this program grant, the GOS will agree that within twelve months from the date of final disbursement of funds under this agreement, the GOS will import or cause to be imported goods and services from the United States in an amount equivalent to the disbursements made under the Grant.

(b) The Government agrees to make available within a specified period of time, local currency in an amount equivalent to the U.S. dollar disbursement made under this Grant to finance local currency development activities, mutually agreed upon by AID and the GOS. This contribution will include the local currency deposited by the GOS in a Trust Account for use by the USAID/Khartoum for program management and administration.

5. Disbursement Procedures.

Disbursement of funds made available under this Grant will be made pursuant to requests for disbursement by the GOS in such amount or amounts, and at such time or times as AID agrees in writing. Requests for disbursements will be submitted to USAID/Khartoum. The request(s) for disbursement may be made upon satisfaction of the conditions precedent to disbursement. In accordance with the disbursement request(s), AID will deposit the funds into an account of the GOS in a bank in the United States which will be named by the GOS. The terminal date for requesting disbursements of funds will be one hundred and eighty (180) days from the date of execution of the Grant Agreement.

6. Trust Account Deposits.

The GOS 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 GOS. Deposits in this Trust Account will be in local currency and equal to 10 percent of the value of this grant. Disbursements from the Trust Account may be made by the U.S.G. to cover program management and administrative costs of the U.S. Assistance Program to Sudan and administrative costs of other elements of the U.S. Mission to the Sudan.

7. Reports and Records.

(a) The GOS will agree to maintain financial records of local currency expenditures made under this grant for three years and will agree to AID inspection of such records during the period of time which they are maintained.

(b) Fifteen (15) months after signing the Grant Agreement, the GOS will agree to provide to USAID a financial report of goods and services procured from the U.S. by the GOS in compliance with provisions of this Grant.

8. Implementation Schedule.

Agreement signed	December 1982
Conditions Precedent met	January 1983
Final Disbursement Request	June 1983
Submission of List of Imports from the U.S.	September 1984

B. Recommendations:

The purpose of this Program Grant (Cash Transfer) is to assist the Government of Sudan to bridge the two or three months gap between the announcement of difficult and politically sensitive policy reforms and generation of revenues from either Sudan's own resources or disbursements from other nultilateral or bilateral donors. The program grant will provide Sudan with urgently needed foreign exchange, thereby allowing it to procure essential imports and undertake an array of difficult policy reforms.

The provision of this Program Grant will signal the GOS that the U.S. supports Sudan's efforts to attain a sustainable balance of payments polition within the next several years, provided that the Government continues to pursue its current economic sta stabilization and recovery efforts.

It is, therefore recommended that the proposed Program (Cash Transfer) Grant to Sudan in the amount of $20 million from the FY 1983 ESF Account be approved.

PAAD Annex: Illustrative List of Imported Commodities

-Fertilizer
-Jute/baling hoops
-Petroleum products
-Tallow
-Spare parts
-Agricultural machinery, equipment and other inputs
-Road maintenance equipment
-Railroad equipment and spare parts
-Telecommunications equipment
-Industrial inputs and equipment
-Chemicals and tinplate
-Trucks, trailers and buses
-Drilling equipment and pumps

The original document contained the ESF Cable Series, (1982) which included the following:

Kharto 10950 (Confidential)

State 319146 (Limited Official Use)

Kharto 10056 (Limited Official Use)

Kharto 10056 (Limited Official Use)

Kharto 10056 (Limited Official Use)

Kharto 09744 (Confidential)

State 301723 (Confidential)

State 299998 (Confidential)

Kharto 10935 (Unclassified)

Kharto 10822 (Unclassified)

Kharto 10501 (Unclassified)

Kharto 10822 (Unclassified)

Kharto 10501 (Unclassified)

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. GENERAL CRITERIA FOR COUNTRY ELIGIBLITY

1. FAA Sec. 481. Has it been determined that the government of the recipient country has failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully? — No

2. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on 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?	
5.	ISDCA of 1981 Secs. 724, 727 and 730. For specific restrictions on assistance to Nicaragua, see Sec. 724 of the ISDCA of 1981. For specific restrictions on assistance to El Salvador, see Secs. 727 and 730 of the ISDCA of 1981.	N.A.
6.	FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property?	No

7.	FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC?	
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 has spent on military equipment? (Reference may be made to the annual "Taking into	Yes

Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

11. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

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 82 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? 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. 620E 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	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 82 OYB.

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.)

17. ISDCA of 1981 Sec. 721. See special requirements for assistance to Haiti.

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?

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?

b. ISDCA of 1981, Sec. 725(b). If ESF is to be furnished to Argentina, has the President certified that (1) the Govt. 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.?

This activity will provide assistance using FY 83 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 Govt. of Chile has made significant progress in human rights; (2) it is in the national interest of the U.S.; and (3) the Govt. 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?

This activity provides assistance using FY 83 ESF to Sudan.

GRANT AGREEMENT BETWEEN THE GOVERNMENT OF SUDAN AND THE UNITED STATES OF AMERICA (650-K-605)

1.1 By this Agreement made and entered into on the XXth day of XXXXXXXXXX, 198X, the Government of Sudan (hereinafter referred to as the "Government") and the United States of America, acting through the Agency for International Development (hereinafter referred to as "AID"), hereby agree as follows:

ARTICLE 1. The Grant.

For the purpose of assisting the Government to alleviate a severe balance of payments problem and undertake an array of difficult policy reforms, AID hereby grants to the Government, pursuant to the Foreign Assistance Act of 1961, as amended, twenty million United States Dollars ($20,000,000).

ARTICLE 2. Conditions Precedent to Disbursement.

Section 2.1. Conditions Precedent. Prior to the first disbursement of funds under this grant, the Government will, except as the parties may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID:

(A) An opinion of counsel acceptable to AID that this Agreement has been duly authorized and ratified by, and executed on behalf of, the Government, and that it constitutes a valid and legally binding obligation of the Government in accordance with all of its terms.

(B) The name or names of the person or persons holding or acting in the office of the Government specified in this agreement, and a specimen signature of each person specified in such statement.

Section 2.2. Notification. When AID has determined that the conditions precedent specified in Section 2.1. have been met, it will promptly notify the Government.

Section 2.3. Terminal Date for Conditions Precedent. If all the conditions specified in Section 2.1. have not been met within 30 days from the date of this Agreement, or such later date as AID may specify in writing, AID, at its option, may terminate this Agreement by written notice to the Government.

ARTICLE 3. Disbursements of the Grant.

Section 3.1. Disbursement. Disbursement of the funds made available under this Grant may be made in one or more tranches pursuant to a request or requests for disbursement by the Government in such amount or amounts, and at such time or times as AID may agree in writing. Request(s) for disbursement of funds will be submitted to the Director, USAID/Khartoum, on AID Form 1034 (Public Vouchers for Purchases and Services Other than Personal). The request(s) for disbursement may be made upon satisifaction of the conditions prededent to disbursement under Section 2.1. In accordance with the disbursement requests, AID will deposit the funds into an account designated by the Government in a bank in the United States.

Section 3.2. Terminal Date for Disbursement. The terminal date for requesting disbursement of funds will be 180 days from the date of execution of this agreement except as AID may otherwise agree in writing.

ARTICLE 4. General Covenants

Section 4.1. The Government agrees to continue its work in assuring that controlled prices for commodities will be maintained at levels that reflect the prevailing rate of exchange.

Section 4.2. The Government agrees to continue its review of revenue policy and procedures and initiate measures to reform tax structures to ensure the collection of adequate domestic revenues to meet the Government's economic stabilization objectives.

Section 4.3. The Government agrees to review its foreign exchange and import licensing systems to ensure that they function effectively in meeting the needs of the private sector.

Section 4.4. The Government agrees to determine and institute policy reforms necessary to encourage increased private savings and investment, particularly from Sudanese working abroad.

Section 4.5. The Government agrees to issue regulations concerning the importation and distribution of petroleum products, and as determined appropriate, increase the private sector participation in the importation and distribution thereof.

Section 4.6. The Government agrees to issue regulations in implementation of the investment code as necessary to encourage foreign and domestic private investment.

Section 4.7. The Government agrees to deposit local currency funds in a Trust Account specified by AID, in an amount equivalent to ten percent of the amount of this Grant for use in the administration and management of the U.S. Assistance Program in Sudan.

ARTICLE 5. Special Covenants.

Section 5.1. The Government agrees that this Agreement and the Grant will be free from taxation or fees imposed under laws in effect in the Democratic Republic of Sudan.

Section 5.2. The Government agrees that the funds provided under this Grant shall not be used to finance military or paramilitary requirements of any kind, including the procurement of commodities and/or services for those purposes.

ARTICLE 6. Imports from the United States.

The Government agrees that within twelve months from the date of final disbursement of funds made under this Agreement, the Grantee shall import or cause to be import into the Sudan, goods and services from the United States in an amount equivalent to the disbursements made hereunder. Documentation evidencing such imports shall be retained by the Government and shall be made available for review or audit in accordance with Article 8. Within fifteen months of the date of final disbursement of funds under this Agreement, the Government agrees to submit to AID a list of goods and services imported in compliance with this Article. ..

ARTICLE 7. Local Currency Contribution.

The Government agrees to make available within X years of the date of this Agreement, Sudanese Pounds in an amount equivalent to the U.S. Dollar disbursements made hereunder, to finance local currency development activities mutually agreed upon by AID and the Government. Notwithstanding the preceding sentence and included therein, the Government agrees to deposit into a Trust Account to be administered by AID, ten percent of such Sudanese Pounds, when requested to do so by AID, for use by AID for the management and administration of the U.S. Assistance Program to the Sudan. The highest rate of exchange which is not unlawful on the date of execution of this Agreement shall be used in determining the local currency equivalent.

ARTICLE 8. Records.

The Government will maintain financial records, in accordance with generally accepted accounting principles, to assure compliance with this agreement. Such records will be maintained for at least three years from the date of final disbursement hereunder and will be made available upon request for examination at any reasonable time by the authorized representative of AID.

ARTICLE 9. Suspension, Cancellation or Termination.

Section 9.1. Suspension. If at any time:

(A) The Government shall fail to comply with any provision of this Agreement; or

(B) An event occurs that AID determines to be an exceptional situation that makes it improbable either that the purposes of the Grant will be attained, or that the Government will be able to perform its obligations under this Agreement; or

(C) Any disbursement by AID would be in violation of the legislation governing AID;

Then, AID may suspend or cancel any disbursement of United States funds under this Agreement.

Section 9.2. Termination. This Agreement may be terminated by mutal agreement of the parties at any time. Either party may terminate this Agreement by giving the other party thirty (30) days written notice.

ARTICLE 10. Miscellaneous.

Section 10.1. Implementation Letters. From time to time, for the information and guidance of both parties, AID will issue Implementation Letters describing the procedures applicable to the implementation of the Agreement. Except as permitted by particular provisions of this Agreement, Implementation Letters will not be used to amend or modify the text of this Agreement.

Section 10.2. Representatives. For all purposes relevant to this Agreement, the Government will be represented by the individual holding or acting in the office of *XXXXXXXXXXXXX and AID will be represented by the individual holding or acting in the office of Director of the USAID Mission to the Sudan, each of whom, by written notice, may designate additional representatives. The

names of the representatives of the Government, with specimen signature signatures, will be provided to AID, which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

Section 10.3. Communications. Any notice, request, document or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following address:

To the Government:

Mail Address:

Alternate address for cables:

To AID:

Mail Address:

Alternate address for cables:

All such communications will be in English unless the parties to the Agreement otherwise agree in writing. Other addresses may be substituted for the above upon giving of notice.

IN WITNESS WHEREOF, the Government and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

For the Government of Sudan:	For the United States of America:
By_____	By_____
Title_____	Title_____

Date of Agreement:_____.

THE PRESIDENT

Khartoum 25.9.1982

Mr. President and Dear Friend,

Last November I announced an economic reform and fiscal austrity program which included, inter alia, a significant devaluation of the Sudanese pound of 80%, removal of all subsidies on commodities, production incentives, control of public expenditure, rehabilitation of existing capital stock.. etc. This program was formulated in coordination with both World Bank and International Monetary Fund.

Some of the measures have been harsh on our people and have naturally given the disruptive elements in our country a chance for political exploitation, at a time we so much needed stability to support the peace efforts and forces in the area; and at a time our country is receiving increasing influx of refugees from six neighbouring countries.

Mr. President and Dear Friend.

At present we are conducting a further dialogue with both the World Bank and the Fund for a recovery program on which we have reached an agreement on all the basic issues. Our only difference with the Fund is on the EXTENT of another adjustment in the rate of exchange which we believe should not, at present, exceed 30%, whereas the Fund insists on 45%. Such an issue we believe should not, in the circumstances, be considered on purely technical basis, void of social and political constraints. We are therefore seeking your support.

We also seek such support in an increased level of US aid particularly in wheat imports over the next few years in addition to the present level until our current plans with the World Bank for restructuring the agricultural sector are fully implemented.

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We take this opportunity to thank you personally and to express our gratitude for the members of your esteemed government and the American People for their continuous support to Sudan in the past and we look forward to more cooperation under your able leadership in the future.

With our best wishes of good health and continued happiness, please, accept, Dear Friend the assurances of our highest consideration and gratitude.

Sincerely

GAAFAR MOHAMMED NIMEIRI
PRESIDENT OF THE DEMOCRATIC
REPUBLIC OF THE SUDAN.

H.E. RONALD REAGAN
PRESIDENT OF THE UNITED
STATES OF AMERICA,
WHITE HOUSE,
WASHINGTON.

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THE WHITE HOUSE

WASHINGTON

October 22, 1982

Dear Mr. President:

I read your letter of September 25 with great interest and concern. Virtually all countries, including my own, are experiencing economic difficulties but Sudan's burden has been a particularly heavy one.

Let me express my admiration for the courageous course of economic reform you have taken for the betterment of the Sudanese people. The United States Government has enthusiastically supported the efforts already undertaken, and I want to assure you that you can expect the continued full support of the United States as you work to consolidate the gains already attained and continue on the difficult and treacherous path towards a rejuvenated economy. In this regard, while it is contrary to longstanding USG policy to intervene in International Monetary Fund negotiations with member nations, the United States has been working hard to foster the sort of broad support within the creditor and donor communities that Sudan needs. If we are to succeed in this effort, however, it is crucial that Sudan and the International Monetary Fund reach agreement on an appropriate set of economic policies that will not only provide the basis for sustained economic growth, but will also serve as a focal point around which Sudan's friends can rally with the complementary debt relief and other balance of payments assistance.

Finally, mindful of Sudan's difficult times, my Administration has allocated over $30 million in assistance this fiscal year under our Food for Peace

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program, an increase in funding over previous years. I hope this will ease some of the burden of your people.

Sincerely,

Ronald Reagan

His Excellency
Gaafar Mohammed Nimeiri
President of the Democratic Republic
of the Sudan
Khartoum