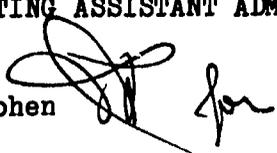


POB 0081

ACTION MEMORANDUM FOR THE ACTING ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: AFR/PD, Norman Cohen



SUBJECT: Authorization of Sudan Policy Analysis and Implementation Program
(650-0071)

Problem: Your approval is requested for a grant of \$5 million from the ESF appropriation to Sudan for the Policy Analysis and Implementation Program. It is planned that \$2 million will be obligated in FY 1983.

Background: The Sudan is confronted by a severe financial crisis, having registered sizeable and growing current account deficits in its balance of payments since the mid-1970s. These perennial deficits have exhausted the country's foreign exchange reserves and have built a heavy foreign debt burden, most of which is in arrears and has been rescheduled. Before rescheduling in February 1983, debt service payments had grown to exceed export earnings. For FY 1982/83, projected export earnings will finance about half the level of the expected \$1.8 billion in imports. Gross foreign exchange reserves currently average less than one week of imports.

The shortage of foreign exchange has seriously affected the economy. Essential imports have been cut back severely, including agricultural inputs, industrial raw materials and equipment, fuel, and spare parts. This has contributed to the deterioration of power, transport and communications facilities and the curtailment of domestic production in industry and agriculture. The situation in agriculture is especially serious, since this sector accounts for 95 percent of the Sudan's exports. Lagging agricultural production, contributing to trade and budgetary deficits, has been a principal cause of the country's economic difficulties.

With the assistance of the World Bank, the IMF and bilateral donors, the GOS has worked since 1978 to reverse the economic deterioration and change the macro-economic policy framework, particularly in key areas such as exchange rates, budget and credit. In June of 1978 the GOS began a series of exchange rate moves, including a recent 44 percent devaluation, that has devalued the Sudanese pound 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 be sure, policy adjustments have not come easily and quickly. Previous reforms have required a reiterative process of studies, analyses, spin-off studies, "test-case" reforms, follow-up studies, impact analyses and evaluations. Poor data, few analysts and little knowledge of workable options further complicate the process and make needed reforms risky and difficult to achieve.

Structural policy reforms will continue to drive Sudan's economic recovery, but the GOS will need foreign support to make the changes effective. At the

January 1983 Consultative Group meeting held in Paris, the GOS requested donors to help identify areas of reform, implement some reforms already identified, and analyze the impact of policy changes. The request generated extraordinary bilateral assistance, and the meeting among Sudan's creditor governments on February 3 and 4, 1983 resulted in an unprecedented debt rescheduling that allowed the IMF 1983 Standby Agreement to be signed. All CG donors agreed to approve and disburse their commitments quickly in order to support the IMF/GOS stabilization and the CG recovery program effectively.

Discussion: The ECPR, chaired by DAA Patterson, approved the Policy Analysis and Implementation Program for \$5 million on July 25, 1983. Of the \$5 million, about half would be used for studies of macroeconomic policy issues and about half for micro-level analysis and technical support. It is proposed that \$2 million be obligated in FY 83 and \$3 million in FY 84. About \$1 million of the FY 83 funds would be for studies of macroeconomic policies and about \$1 million for implementation of policy reforms. A congressional notification was sent to the Hill on July 14, 1983 and will expire on July 29.

This ESF grant responds directly to the requests of the Sudanese government and is consistent with President Reagan's letter to President Nimeiri in October 1982 assuring continued support for Sudan. The goal of this program is to support recovery of the Sudanese economy. The purpose is to assist the GOS efforts in macroeconomic analysis and policy reform by: (1) undertaking analytic studies of national development policies in collaboration with Sudanese institutions and experts; (2) facilitating dialogue on national economic issues and policies among Sudanese experts and the international development community; (3) developing recommendations to strengthen macro-economic policies for consideration by GOS, AID and international development institutions; and (4) taking initial steps through analysis and technical support to encourage changes in GOS policies in such areas as foreign exchange markets and privatization.

Macroeconomic studies financed by the grant will concentrate on balance of trade and foreign exchange regimes, the privatization of parastatal industries, and private sector development. U.S. and Sudanese researchers will jointly address the need for improved information, data and analyses, and will develop follow-up workshops and seminars. Micro-level studies and technical support will maintain the momentum of macroeconomic policy changes by examining specific steps for implementation and, in some cases, assisting the implementation of reforms already identified and agreed upon by the GOS and donors as critical. The implementation studies and technical support will benefit private sector development activities such as river transport operations and several agribusiness sectors.

The grant will be obligated by a grant agreement between the USG and the GOS signed by the Minister of Finance and Economic Planning. Portions of the grant are to be allocated to the principal Sudanese management entities by means of an implementation letter signed by representatives of the GOS, USAID and the managing organization. Studies will be implemented through contracts with a U.S. university, consulting firm or other well established

international organization specializing in macroeconomic analysis of developing countries, and capable of providing internationally respected specialists as researchers and short-term consultants. All grant-funded activities must be approved in advance by AID and by an authorized GOS representative.

During the ECPR it was emphasized that other similar projects which have financed a wide range of studies have required constant supervision, and the ECPR recommended that the Mission hire a program manager through a personal services contract to provide logistical and administrative support. The ECPR also stressed the need to retain sufficient flexibility to conduct studies important for AID program interests even when such studies do not have high GOS priority. This intent will be made clear to the Ministry of Finance and Economic Planning, and the Mission will assure that the Minister's appointed representative has the authority to respond quickly to AID requests for studies addressing our short-term needs.

Recommendation: Based on the importance of supporting GOS policy reform and implementation efforts which directly affect Sudanese economic recovery, the ECPR recommends that you authorize the \$5 million Sudan Policy Analysis and Implementation Program and approve obligation and disbursement of \$2 million of the grant in FY 83 by signing the attached Program Assistance Approval Document.

Clearance

AFR/EA, ESpriggs ES Date 7/28
AFR/DP, HJohnson HB Date 7/28

AFR/PD/EAP, JHeard JH Date 7/29/83
GC/AFR, TBork John R. Bork Date 2/29/83
DAA/AFR, GPatterson GP Date _____

Drafted: AFR/PD/EAP, ^{CP} CPascual: dph: 7/27/83

Doc. 0378J

AID 1120-1 PAAD	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO. Project No. 650-0071	
		2. COUNTRY SUDAN	
		3. CATEGORY Program Grant/Technical Assistance	
		4. DATE July 27, 1983	
5. TO: Alexander R. Love, Acting, AA/AFR	6. OYB CHANGE NO. Not Applicable	8. OYB INCREASE None	
7. FROM: Norman Cohen, AFR/PD <i>[Signature]</i>	TO BE TAKEN FROM: Not Applicable		
9. APPROVAL REQUESTED FOR COMMITMENT OF: \$ 5,000,000	10. APPROPRIATION - ALLOTMENT ESF - FY 1983		
11. TYPE FUNDING <input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT	12. LOCAL CURRENCY ARRANGEMENT <input type="checkbox"/> INFORMAL <input type="checkbox"/> FORMAL <input checked="" type="checkbox"/> NONE	13. ESTIMATED DELIVERY PERIOD FY 1983 - FY 1985	14. TRANSACTION ELIGIBILITY DATE August 1, 1983
15. COMMODITIES FINANCED			

\$41,600 for microcomputers and word processor

16. PERMITTED SOURCE U.S. only: 5,000,000 Limited F.W.: Free World: Cash:	17. ESTIMATED SOURCE U.S.: 5,000,000 Industrialized Countries: Local: Other:
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18. SUMMARY DESCRIPTION
The purpose of the Policy Analysis and Implementation Program is to assist the Government of Sudan with its macroeconomic and policy reform efforts by: (1) undertaking analytic studies of national policies for economic development in collaboration with Sudanese institutions and experts; (2) facilitating dialogue on national economic issues and policies among Sudanese experts and the international development community; (3) developing recommendations to strengthen macro-economic policies for consideration by GOS, AID and international development institutions; and (4) taking initial steps through analysis and technical support to encourage changes in GOS policies such as foreign exchange markets and privatization.

This grant will finance analytic studies (to be determined through collaboration between USAID/Khartoum and Sudanese Government institutions and researchers) of both macro-economic policies affecting national development and micro-level strategies to implement reforms. Macroeconomic studies will concentrate on balance of trade and foreign exchange regimes, the privatization of parastatal industries, and private sector development. U.S. and Sudanese researchers will jointly address the need for improved information, data and analyses, and will develop follow-up workshops and seminars. Micro-level studies and technical support will maintain the momentum of macroeconomic policy changes by examining specific steps for implementation and, in some cases, assisting the

19. CLEARANCES AFR/PD/EAP: JHeard <i>[Signature]</i> AFR/EA: ESpriggs <i>[Signature]</i> GC/AFR: TBORK <i>[Signature]</i> AFR/DP: HJohnson <i>[Signature]</i> DAA/AFR: GPatterson <i>[Signature]</i>	20. ACTION <input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED <i>[Signature]</i> <i>[Signature]</i> AUTHORIZED SIGNATURE DATE Acting Assistant Administrator for Africa TITLE
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implementation of reforms already identified and agreed upon by the GOS and donors as critical. The implementation studies and technical support will benefit private sector development activities such as river transport operations and several agribusiness sectors.

Conditions and Covenants

The grant agreement will provide for the standard conditions precedent to disbursement, the specification of authorized representatives and the provision of their specimen signatures. The grant agreement will also contain conditions precedent to disbursement for individual activities requiring that the GOS or mutually agreed upon managing entities obtain AID's advance written approval of the respective activities and pertinent procurement procedures and contracting documentation.

Covenants to the grant will specify that AID may brief and de-brief consultants and that appropriate records will be maintained and reports furnished to AID. Managing and recipient entities will be subject to these same requirements through appropriate provisions in sub-grant agreements and implementation documentation.

Project Paper
Attached

July 18, 1983

NOTICE OF MEETINGS

TO: See Distribution

FROM: AFR/PD, Norman Cohen

SUBJECT: ECPR for Sudan Policy Analysis and Implementation Program
(650 X 600)

650-0071

July 25, 1983

2:00 p.m.

Room 6941 NS

- Attachments:
- (A) Issues Memo
 - (B) Outgoing Cable on Project Committee Review
 - (C) Summary of Policy Analysis and Implementation Program
 - (D) PAAD for Policy Analysis and Implementation Program

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AFR/TR/SDF:RWard (3)

MEMORANDUM

TO: AFR/PD, Norman Cohen

Date: July 18, 1983

FROM: AFR/PD/EAP, John Heard

SUBJECT: ECPR Meeting Scheduled for 2:00 p.m. Room 6941 on July 25, 1983
Sudan Policy Analysis and Implementation Program (~~650-K-606~~)

650-0071

1. Financial Plan:

	<u>Amount</u>	<u>% Total</u>
AID	5,000,000	79
Host Country	1,356,700	21
Total	<u>6,356,700</u>	<u>100</u>

2. FY 83 Obligation:

Macroeconomic Studies	1,000,000
Micro-level Support	<u>1,000,000</u>
Total	<u>2,000,000</u>

3. Term of Project:

2 years

4. Description: This grant will finance analytic studies (to be determined through collaboration between USAID/Khartoum and Sudanese Government institutions and researchers) of both macroeconomic policies affecting national development and micro-level strategies to implement reforms. Macroeconomic studies will concentrate on balance of trade and foreign exchange regimes, the privatization of parastatal industries, and private sector development. U.S. and Sudanese researchers will jointly address the need for improved information, data and analyses, and will develop follow-up workshops and seminars. Micro-level studies and technical support will maintain the momentum of macroeconomic policy changes by examining specific steps for implementation and, in some cases, assisting the implementation of reforms already identified and agreed upon by the GOS and donors as critical. The implementation studies and technical support will benefit private sector development activities such as river transport operations and several agribusiness sectors.

5. Purpose: To assist GOS macroeconomic policy analysis and reform efforts by: (1) undertaking analytic studies of national policies for economic development in collaboration with Sudanese institutions and experts; (2) facilitating dialogue on national economic issues and policies among Sudanese experts and the international development community; (3) developing recommendations to strengthen macro-economic policies for consideration by GOS, AID and international development institutions; and (4) taking initial steps, through analysis and technical support to encourage changes in GOS policies such as foreign exchange markets and privatization.

6. **Implementing Agencies:** This grant will be obligated by a grant agreement between the USG and the GOS signed by the Minister of Finance and Economic Planning. Portions of the Grant are to be allocated to the principal Sudanese management entities, e.g. the Ministry of Industry, or other recipient organizations by means of implementation letters signed by representatives of the GOS, USAID and the organization or managing entity. All grant-funded activities must be approved in advance by AID and by the authorized GOS representative designated by the Ministry of Finance and Economic Planning. Direct AID contracts and host country contracts will be used as appropriate. The USAID/Sudan contract officer is responsible for contract actions related to the grant.

7. **Socio-economic, Technical and Financial Soundness:** Suggested program activities stem from two years of discussions among the IMF, IBRD, AID and the GOS, particularly during the January 1983 CG meeting. Donors have agreed to pursue in further detail studies already done on Sudan (particularly the IBRD Hansen Report and IMF exchange rate analysis) in order to provide a sound basis for policy change and implementation. AID has also found it necessary to complement IBRD and IMF analyses on foreign exchange and fiscal policy to determine our position for the CG meetings and to assure that reports cover the breadth of issues in which AID is interested. Studies to be conducted under this grant will address issues such as foreign exchange management, emigration policy and remittances, and domestic finance, which should promote and facilitate sound financial management within the GOS as a whole.

Sudan's entire population, particularly its 15-17 million poor, have a stake in the successful implementation of structural policy reforms. In many cases, earning power and jobs depend directly on economic policies which affect the availability of foreign exchange for imports of necessary spare parts. In agriculture, elimination of price disincentives would increase profits for roughly 70 percent of the national population working in this sector. For all Sudanese, the government's capacity to establish and sustain education, health care and other public services depends on its ability to increase revenues to finance capital and recurrent costs.

8. **Environmental Consideration:** Categorical exclusion approved by G. Thompson, AFR/TR/SDP.

9. **Involvement of Private Enterprise:** This grant is part of a step by step process to strengthen market forces in the Sudanese economy, to encourage private sector development and transition from parastatal industries, and to reduce GOS budget outlays and deficits. Macroeconomic studies may consider which Sudanese industries could be transferred successfully to private sector management, and micro-level activities could include detailed financial analyses of specific industries in order to aid the transitions.

10. **Section 611 (a):** Preliminary cost estimates are based on projections of the necessary person months and support services to complete two years of technical assistance for macroeconomic policy studies and micro-level implementation support. Final cost estimates will be prepared with the scopes of work for individual program activities and approved in each case by the USAID in order to satisfy 611 (a).

8

11. Implementation Plan: The implementation plan is necessarily vague since USAID/Khartoum and the GOS will determine collaboratively the topics to be studied under this program as the first step during implementation. Although the Ministry of Finance and Economic Planning is the only definite actor at this stage, the PAAD should specify how the Mission will manage the program in collaboration with key Sudanese institutions and describe the process for determination of and contracting for necessary analyses and technical assistance.
12. Small and Disadvantaged Business contractor considered: Not believed to be appropriate given the nature of the studies to be carried out.
13. Human Rights Issues: None
14. Waivers Required: None
15. Status of CN: CN submitted to Congress on 7/14/83.

Recommendations of Project Committee: The review committee recommends that the project be approved with the following additions (which have already been made) to the text of the PAID:

- A. Background information detailing Sudan's involvement with international financial institutions since 1978 (see pages 1-3);
- B. A synopsis of the types of studies already done on Sudan and a description of how this program will complement the existing body of knowledge (see pages 16-17);
- C. A description of the program's interrelationship with on-going projects, particularly Agricultural Planning and Statistics and Regional Finance and Planning (see page 12);
- D. A list of priorities for macro and micro activities, with the understanding that final decisions on program activities depend on USAID collaboration with the Sudanese (see pages 16-22);
- E. A reorganization of the micro-level support section to illustrate that planned activities fall into two categories related to policy reform: (1) institutional support for public and quasi-public institutions implementing policy decisions; and (2) technical assistance to aid sectoral privatization and development (see pages 19-22);

The Mission will draft the PAAD taking into account recommendations for implementation. The program will be authorized in the field.

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: AID/AFR/PD/EAP, CPASCUAL:DL
7/14/83 632-8286
: AID/AFR/PD/EAP, JHEARD

: AID/AFR/PD/EAP, AREED {DRAFT}
AID/AFR/EA, DMENDELSON {DRAFT}
AID/AFR/DP/PAB, TBETHUNE {DRAFT}
AID/AFR/EA, SWALWORTH {SUBS}

AID/AFR/PD/PPEA, RAULAKH {DRAFT}
AID/AFR/TR/ARD, JSNELL {DRAFT}
AID/PPC/PDPR/ED, JBUTTARI {DRAFT}

ROUTINE KHARTOUM

AIDAC

E.O. 12356: N/A

TAGS:

SUBJECT: SUDAN POLICY ANALYSIS AND IMPLEMENTATION PROGRAM

1. PROJECT COMMITTEE {PC} REVIEWED PAID FOR SUBJECT PROGRAM ON 7/13/83 AND RECOMMENDED THAT ECPR APPROVE THE PROGRAM WITH MINOR ADDITIONS AS SPECIFIED IN PARA 4 BELOW. PROGRAM DOCUMENT WAS NOT REVIEWED AS A PAAD BECAUSE PC FELT IT HAD INSUFFICIENT INFORMATION ON HOW THE PROGRAM WILL BE IMPLEMENTED AND MANAGED. IN PARTICULAR, MECHANISMS FOR MISSION SUPERVISION AND INTERACTION WITH SUDANESE INSTITUTIONS AND CONTRACTING WERE NOT CLEAR. PAAD TO BE DRAFTED AT USAID SHOULD SPECIFY HOW MISSION WILL MANAGE PROGRAM IN COLLABORATION WITH KEY SUDANESE INSTITUTIONS AND HOW IT WILL PARTICIPATE IN DETERMINING AND CONTRACTING FOR NECESSARY ANALYSES AND TECHNICAL ASSISTANCE.

2. THERE WERE NO DOUBTS THAT THE PROPOSED ANALYTICAL EFFORT IS NECESSARY TO ADVANCE SUDAN'S IMPLEMENTATION OF POLICY REFORMS AND TO SUPPORT U.S. EFFORTS IN POLICY DIALOGUE, PARTICULARLY PROMOTION OF MARKET FORCES IN THE

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CP

SUDANESE ECONOMY. ALTHOUGH PROPOSED PROGRAM WILL PROVIDE INFORMATION ON AND SUGGEST SOLUTIONS TO PRESSING SHORT-TERM ECONOMIC POLICY QUESTIONS, IT ALSO WAS CONSIDERED AN IMPORTANT FIRST STEP IN A LONG-TERM EFFORT TO IMPROVE GOS CAPABILITY TO DO POLICY ANALYSIS AND ABSORB THE RESULTS. THE MICRO-LEVEL TECHNICAL ASSISTANCE COMPONENT, THE PC CONCLUDED, WAS NECESSARY TO PROVIDE SUBSTANCE TO AGREED UPON POLICY REFORMS THROUGH INSTITUTIONAL SUPPORT TO GOVERNMENT IMPLEMENTING AGENCIES AND TECHNICAL ASSISTANCE TO SECTORS BEING OPENED TO PRIVATE COMPETITION.

3. IT WAS EMPHASIZED THAT STUDIES AND TECHNICAL ASSISTANCE PROPOSED IN THE PAID ARE ILLUSTRATIVE OF TYPES OF ACTIVITIES WHICH USAID AND SUDANESE WILL DETERMINE COLLABORATIVELY. THE ILLUSTRATIVE LIST, IT WAS POINTED OUT, STEMMED FROM TWO YEARS OF DISCUSSION AMONG IMF, IBRD, AID AND GOS, AND THE TOPICS ARE DESIGNED TO FILL GAPS IN TYPES OF ANALYSES ALREADY DONE ON SUDAN. PC CONCLUDED THAT DESPITE IMF AND IBRD ACTIVITY IN FOREIGN EXCHANGE AND FISCAL AREAS, COMPLEMENTARY AID ANALYSES ARE NECESSARY TO DETERMINE OUR POSITION ON OTHER DONOR STUDIES AND TO ASSURE THAT REPORTS COVER THE BREADTH OF ISSUES IN WHICH AID IS INTERESTED.

4. IN PREPARATION FOR ECPR, TO BE HELD ON 7/25/83, PC DECIDED THAT AFR/PD/EAP WILL ADD THE FOLLOWING TO PAID:

-- A. BACKGROUND INFORMATION WHICH DETAILS SUDAN'S INVOLVEMENT WITH INTERNATIONAL FINANCIAL INSTITUTIONS SINCE 1978, THE TYPES OF STUDIES DONE ON SUDAN, AND HOW THIS PROGRAM WILL COMPLEMENT THE EXISTING BODY OF KNOWLEDGE;

-- B. A LIST OF PRIORITIES FOR MACRO AND MICRO STUDIES AND FOR POLICY IMPLEMENTATION, WITH THE UNDERSTANDING THAT FINAL DECISIONS ON PROGRAM ACTIVITIES DEPEND ON USAID COLLABORATION WITH SUDANESE;

-- C. DESCRIPTION OF PROGRAM'S INTERRELATIONSHIP WITH ON-GOING PROJECTS, PARTICULARLY AG PLANNING AND STATISTICS AND REGIONAL FINANCE AND PLANNING, AND WHAT STEPS WILL BE TAKEN TO ASSURE COORDINATION.

-- D. A REORGANIZATION OF THE MICRO-LEVEL SUPPORT SECTION TO ILLUSTRATE THAT PLANNED ACTIVITIES FALL INTO TWO CATEGORIES RELATED TO MACROECONOMIC POLICY STUDIES: (1) INSTITUTIONAL SUPPORT FOR PUBLIC AND QUASI-PUBLIC

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3

INSTITUTIONS RESPONSIBLE FOR IMPLEMENTING POLICY
DECISIONS; AND (2) DIRECT TECHNICAL ASSISTANCE TO AID
SECTORAL PRIVATIZATION AND DEVELOPMENT. 44

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SODAN POLICY ANALYSIS AND IMPLEMENTATION PROGRAM

GOAL:

SUPPORT SUDANESE ECONOMIC RECOVERY

PURPOSE:

COLLABORATIVE
ANALYTICAL
STUDIES

IALOGUE ON
NATIONAL
ECONOMIC
ISSUES & POLICIES

RECOMMENDATIONS
FOR POLICY
CHANGE

POLICY
IMPLI-
TATI

BACKGROUND:

PROBLEM SOURCES

- Transition from Soviet-style Economy
- 1970s Parastatal Proliferation
- Skilled Labor Emigration

MACROECONOMIC INDICATORS

- Debt Service: 150% of Export Earnings Before Rescheduling
- Balance of Trade: Exports — \$1.8 B; Imports — \$0.9 B
- Exchange Rate: official — LS 1.3/\$1; market — LS 1.8/\$1
- Foreign Exchange Reserves: Less than one week of imports
- Low Parastatal Productivity Relative to Private Sector
- Input Price Distortions; Production Price Disincentives

RAMIFICATION

- Import Shortages: A Industrial Raw Mat Fuel, spare Parts, E
- Incentive to "over Import Commodit
- deterioration of Po Transport and Com tion facilities
- Curtailment of Pr In Industry and A
- Unemployment
- Subsidies to mid- Income Groups

GOV REFORM EFFORTS:

- 70% Devaluation Since 1978/Export Action Program
- Elimination of Wheat Subsidy
- Tax concessions and Loan Programs for Business
- Request at 1983 CG meeting for Policy Analysis Support

AID COUNTRY STRATEGY:

- ODS — Emphasis on policy reform and private sector development
- ABS — Economic and Policy Reforms Principal Short-Range Operational Objectives
- WHEELER GROUP — Advocated short- and long-term studies for use in policy dialogue; setting C1 for FY 84 assistance, background for next CG meeting

PROGRAM DESCRIPTION:

ILLUSTRATIVE MACRO STUDIES

FOREIGN EXCHANGE RATE MANAGEMENT
DOMESTIC FINANCE
EMIGRATION POLICY

PRIVATIZATION OF PUBLIC
INDUSTRIAL INCENTIVE
MOBILIZATION OF DOMESTIC

ILLUSTRATIVE MICRO-STUDIES AND TECHNICAL ASSISTANCE

A. INSTITUTIONAL SUPPORT

- Evaluation of CIP
- Technical Support to Sudanese Businessmen and Employers Federation
- Technical Assistance and Training for Business Support Institutions

B. SECTORAL PRIVATIZATION/A

- Privatization of Sugar Industry
- Technical Support to River Transport Corporation
- Financial Assessment of Public Enterprises Being Converted to Private Sector
- Wage and Incentive Study for Irrigated Agriculture Sector

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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

SUDAN

POLICY ANALYSIS & IMPLEMENTATION PROGRAM

(650-~~K-606~~)
0071

APPROVAL
PROGRAM ASSISTANCE ~~INTRODUCTION~~ DOCUMENT

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I. Summary

A. Recommendation

A grant to the Government of Sudan (GOS) of \$5,000,000 in Economic Support Funds over two years is recommended to help the GOS modify and improve national recovery and development policies. The grant will finance technical support for: (1) collaborative analytic studies of macroeconomic policies affecting national development and micro-oriented reforms; and (2) assistance in implementing policy reforms. Of the \$5 million, about half would be used for studies of macroeconomic policy issues and about half for micro-level analysis and tech support. It is proposed that \$2 million be obligated in FY 83 and \$3 million in FY 84. About \$1 million of the FY 83 funds would be for studies of macroeconomic policies and about \$1 million for implementation of policy reforms.

B. Summary Description of Grant

Since independence in 1956 Sudan has experienced a difficult transition from an Anglo-Egyptian Condominium and, more recently, from a Soviet-style and supported economy. With the rise of oil and manufacturing prices in 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 implementation, Sudan has moved from a balance of payments surplus to a large deficit. Production declined markedly in the irrigated agriculture sector, which had been the major source of foreign exchange earnings. This situation has continued until now the total accumulation of external debt approximately equals GNP. By the time of the 1983 debt rescheduling, debt service had reached 150 percent of exports. Imports for 1982/83 are estimated at \$1.8 billion and exports for the year are estimated at \$900 million, leaving a trade deficit of \$900 million.

With the assistance of the World Bank, IMF and bilateral donors, the GOS has worked since 1978 to reverse the economic deterioration and revise their macro-economic policy framework, particularly in key policies such as exchange rates, budget and credit. The IMF initiated Sudan's first Stand-by Agreement in 1978 which collapsed within a year, partly because of the GOS's inability or reluctance to implement needed policy reforms, and partly because of possible weaknesses in

the IMF approach. The Stand-by Agreement was replaced by a three-year Extended Fund Facility (EFF) Agreement in 1979 under which measures would be taken to cut government expenditures, increase government revenues, reduce the growth of the money supply, reschedule debt, and alter the exchange rate so as to encourage foreign exchange earnings and channel them into official hands.

Nonetheless, the macroeconomic situation deteriorated, rather than improved, in the first two years of the agreement. When EFF targets were not met in 1979, they were revised for 1980 and 1981. Table 1 below indicates that the GOS was also unable to meet these already modified targets. For the six months ending December 31, 1980, for example, the modified program required that net domestic borrowing would not increase more than LS 205 million, yet it actually rose LS 283 million. For the ensuing six months in 1981 money supply was not to increase more than 20 percent, but in fact grew 50 percent. Moreover, over the first two years of the agreement, the government budget deficit rose from 8 percent of GNP to 13 percent of GNP. By almost any criterion, performance under the Agreement was even less satisfactory than the economic performance preceding it.

TABLE 1. TARGETS AND PERFORMANCE UNDER THE
IMF AGREEMENT, 1980 and 1981

	1980		1981	
	Program	Actual	Program	Actual
1. Increase in net domestic borrowing, 6 months	205	283	159	376
2. Money supply (percent increase)	--	--	20	50
3. a) Tax revenue	--	--	608	598
b) Nontax revenue	--	--	160	92
c). Total govt revenues	--	--	768	690
4. Expenditure	--	--	1313	1321
5. Government deficit as percent of GNP	7	8	11	13

Source: International Monetary Fund

It was in this context that renegotiations over the third year of the agreement broke down in May 1981. It was clear that the original objectives could not reasonably be expected to be attained. Instead, the GOS undertook some measures and agreed to future performance of others, and concluded a one-year Stand-by Agreement with the IMF in February 1982. Prior to that agreement, the government had announced a series of reforms, including most notably a change in the exchange rate and a schedule for ending subsidies to a number of basic commodities. In addition, the government undertook to deliver on other performance criteria in the Stand-by Agreement itself.

The World Bank has also worked with the GOS in designing an economic recovery package. Beginning with the Bank's Hansen Report in early 1982, the Bank has helped the GOS develop a Three Year Recovery Investment Program with a great deal of bilateral coordination and support. The Bank has concentrated largely on raising production in the irrigated sector to levels achieved in the early 1970s, but the Hansen Report provided the basis for extensive donor activities through its analysis of current public investment and prescription for investment priorities in the future.

Despite encountering implementation and political constraints, the GOS has responded in good faith to the suggestions of the International Financial Institutions and bilateral donors. In June 1978, the GOS began a series of exchange rate moves, including a recent 44 percent devaluation, that devalued the Sudanese pound 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 the budget, increase government revenues and improve the external trade balance.

To address the internal price distortions which have historically encouraged consumption at the expense of productive investment, the GOS has raised prices, including those of politically sensitive urban consumer items such as wheat, sugar and petroleum. The GOS has agreed to eliminate all budget subsidies by passing international price increases to the consumer. Exemplary of GOS efforts to rationalize both the domestic economy and trade activities has been the Export Action Program aimed at increasing public and private investment in the agricultural sector. The program has restructured the system of pricing and supply of agricultural inputs while introducing a host of new incentives for increased production.

Such policy adjustments do not come easily or quickly. Previous reforms have required a reiterative process of studies, analyses, spin-off studies, "test-case" reforms, follow-up studies, impact

analysis and evaluations. Poor data, few analysts and little knowledge of workable options further complicate the process and may aggravate the risk and difficulty of needed reforms.

Further structural policy reforms are necessary for economic recovery, but the GOS needs outside support to make changes effective. At the January 1983 Consultative Group meeting in Paris, the GOS requested donors to help identify policy issues for reform, implement some reforms already identified, and analyze the impact of policy changes. The request generated extraordinary bilateral assistance, and the meeting among Sudan's creditor governments on February 3 and 4, 1983 resulted in an unprecedented debt rescheduling that permitted signing the IMF 1983 Standby Agreement. All CG donors agreed to approve and disburse commitments quickly to support the IMF/GOS stabilization and the CG recovery program effectively.

This ESF grant responds directly to the requests of the Sudanese government and is consistent with President Reagan's letter to President Nimeiri in October 1982 assuring continued support for Sudan. The goal of this program is to support recovery of the Sudanese economy. The purpose is to assist the GOS to carry out macroeconomic analysis and reform.

The macroeconomic studies financed by the grant complement both the analyses and experiences of other donors working in Sudan; they will concentrate on trade and exchange systems, privatization of parastatal industries, and private sector development. U.S. and Sudanese researchers jointly will address the need for improved information and analyses and will present their findings in follow-up workshops and seminars. Technical support will maintain the momentum of macro-level policy changes by examining specific steps for implementation and, in some cases, assisting the implementation of reforms already identified and agreed upon by the GOS and donors as critical. The implementation studies and technical support are expected to benefit several private sector development activities, including river transport and agribusiness operations.

The Policy Analysis and Implementation Program is an important part of USAID/Sudan's country strategy to help implement macroeconomic policy reform and support private sector development through technical services in conjunction with balance of payments support under the Commodity Import and P.L. 480 Programs. This program supplements project assistance, which is directed toward developing institutional capabilities in specific policy areas, by addressing policy issues outside the scope of the Agricultural Planning and Statistics, Energy Planning and Management, and Regional Finance and Planning Projects.

Studies will be implemented through a contract with a U.S. university, consulting firm or other well established international organization specializing in macroeconomic analysis of developing countries, and capable of providing internationally respected specialists as researchers and short-term consultants who will work with Sudanese researchers. The micro-level studies will be implemented either by direct contracts with consultants, or a U.S. university or a private sector firm with relevant expertise. A key Sudanese research institution for macro-economic studies would be identified. Sudanese institutions which may be affected include the National Development Bank, the River Transport Corporation, and the National Water Authority. In all instances, USAID approval of specific activities must be obtained, but implementation arrangements will be simplified as much as possible in the interest of flexibility and quick response.

C. Summary of Findings

Conclusions are that:

1. The grant will facilitate and support economic policy reform and recovery;
2. Implementation of the grant will facilitate and support continuing policy dialogue between AID and the GOS;
3. Monitoring and evaluation of grant progress has been adequately planned;
4. The grant does not present any significant environmental issues; and
5. All statutory criteria have been satisfied.

II. Background

A. General Background and Rationale

The Sudan is confronted by a severe financial crisis, having registered sizeable and growing current account deficits in its balance of payments since the mid-1970s. These perennial deficits have exhausted the country's foreign exchange reserves and have built a heavy foreign debt burden, most of which is in arrears and has been rescheduled. Before rescheduling in February 1983, debt service payments had grown to exceed export earnings. For FY 1982/83, projected export earnings will finance about half the level of the expected \$1.8 billion in imports. Gross foreign exchange reserves currently average less than one week of imports.

The shortage of foreign exchange has seriously affected the economy. Essential imports have been cut back severely, including agricultural inputs, industrial raw materials and equipment, fuel, and spare parts. This has contributed to the deterioration of power, transport and communications facilities and the curtailment of domestic production in industry and agriculture. The situation in agriculture is especially serious, since this sector accounts for 95 percent of the Sudan's exports. Lagging agricultural production, contributing to trade and budgetary deficits, has been a principal cause of the country's economic difficulties.

The current economic crisis originated in the early 1970s when the GOS undertook an ambitious public sector development program aimed at developing agricultural potential. Key objectives were the removal of infrastructural bottlenecks; increased wheat, rice and sorghum production for domestic food self-sufficiency; and a broadening of the agricultural export base through diversification into food crops while deemphasizing cotton production.

The program did not achieve its objectives. Rising import costs, especially for petroleum products, were a major factor, as were unexpected declines in export earnings, poor project planning, and transport and communications problems. Unwise economic management and policies, however, played the key role. Not only did the GOS embark on an ambitious development program, it also increased government involvement in virtually every phase of economic activity. This included establishing a number of public sector enterprises in industry and agriculture, the imposition of controls on both producer

and consumer prices, and the institution of public monopolies for marketing and exporting most major agricultural commodities. The Government reversed its intervention policy in the late 1970s, but not until after the economy had suffered a rapid and pronounced decline.

A number of other factors also contributed to the decline and now complicate stabilization and recovery efforts as well. As export earnings declined and import costs mounted, the lack of foreign exchange with which to buy raw materials, replacement machinery, and spare parts became a key impediment to maintaining domestic production. The Government's failure to make timely exchange rate adjustments while maintaining a costly set of consumer price subsidies caused serious distortions in the allocation of the country's scarce foreign exchange and budgetary resources. The lack of physical and institutional infrastructure and failure to maintain existing transport and communications networks also undercut efforts to maintain domestic production, and added to the country's growing balance of payments problem.

The sustained exodus of trained Sudanese to the Middle Eastern oil countries for the past eight years has had an especially serious and broad impact on the Sudanese economy. An estimated half million Sudanese work abroad. Their emigration constitutes a brain drain that has deprived both government agencies and private firms of needed talents, and too much of the hard currency earnings remitted by these emigrants goes for consumption rather than investment. The GOS needs to find ways to retain skilled workers through increased salary incentives if it is to surmount a key barrier to improving local management capabilities. The GOS also needs to identify ways to attract remittances for productive uses in the Sudan without deterring the inflow of these resources, if it is to realize the potential financial benefits of the large and growing community of Sudanese working abroad.

Within the last two years, the Government of Sudan has shown strong and growing determination to undertake difficult macroeconomic and sectoral policy reforms. The GOS reaffirmed this commitment at the January 1983 Consultative Group meeting in Paris, but shortages of domestic analytic expertise combined with poor data and few well defined policy options make effective change difficult. Some of the important steps already taken include:

1. Assessment of land and water charges on all crops in the major irrigated agricultural areas, rather than only on cotton, thus eliminating major disincentives to cotton production;

2. Introduction of private competition to the Sudan Oil Seeds Company, abolishing its previous export monopoly;
3. Devaluation of the Sudanese pound as part of an Export Action Program to increase public and private investment in export agriculture;
4. Abolition of the Sugar and Distilleries Public Corporation and establishment of the four constituent sugar production units as independent companies with an eye toward eventual divestiture from the public sector;
5. Official support for private sector competition to break up the River Transport Corporation's monopoly on transport services on the Nile.

Many of these initial steps, however, may not have a lasting impact unless the donor community provides technical support for implementation. Private sector activity in river transport, for example, has not materialized because the GOS has not developed a system and organization for licensing private river transport enterprises. To date, the GOS has received 15 applications for licenses, but the organization charged with issuing licenses, the Department of Inland Navigation of the Ministry of Transport and Communications, is staffed only with a director who has no knowledge nor expertise in the field.

In another case, GOS divestiture of public sugar industries is most likely when their level of managerial and production efficiency make them attractive to private entrepreneurs. Such improvements in efficiency require considerable outside technical and financial resources as well as sound GOS policies to improve the sugar industry's financial viability.

Since the current economic situation dictates the necessity of rigorous economic reforms, macroeconomic and public policy issues (particularly those related to trade, foreign exchange and government deficits) must continue to be studied. Analysis of, and guidelines to, proper exchange rate adjustments, especially as they relate to subsidies on food and other "essential" items, directly affect Sudan's current budget and import levels as well as domestic stability. Income transfers to the poor, which may be more efficient than blanket price subsidies on consumption items, need to be considered. The GOS must examine the competitiveness of Sudanese exports and options for diversification to strengthen export earnings. Reducing dependence on

foreign advisors and expertise requires new incentives to keep skilled Sudanese within the country.

On an even broader scale, the GOS must consider how to implement its goal of encouraging private sector investment. The GOS must develop appropriate policies, incentives and tax packages and improve the management and skills of promotion and servicing organizations. There has been only a limited effort to determine the incentives, services and benefits which investors should reasonably expect. The best kinds of investments and businesses for Sudan must be determined, and these must receive special emphasis. The organizations which promote and service investments lack policy and operational tools and are afflicted with administrative and organizational problems which impair their effectiveness. Prospective investors could use a liaison and contact organization for obtaining local commercial data and information on opportunities and incentive packages.

The GOS has ultimate responsibility for making policy and organizational changes and sustaining their effectiveness. They have demonstrated their understanding of these responsibilities through reorganizations which uproot inefficiencies implanted in the 1970s. This grant will help the Sudanese move forward with reforms which require technical help. Providing such support now promises to reduce the need for assistance in the future on problems which will grow more severe if left unattended.

B. Organizational Setting

Both the macroeconomic studies and the micro-level technical support financed through this grant will require USAID/Sudan to work with or through local institutions responsible for either broad policy determination or implementation. The roles of organizations likely to be affected are considered in section III in context of their relevance to grant activities. This subsection briefly describes the responsibilities of several of these institutions.

Ministry of Finance and Economic Planning (MFEP). MFEP directs and coordinates policy reforms, consults and negotiates with multilateral and bilateral donors, manages the annual recurrent and policy development budgets, and has drafted the Three-Year Public Investment Program. Because ultimate budget and programming decisions rest with the Minister, MFEP decides on project funding, allotment and approval.

Ministry of Industry (MOI). MOI is primarily responsible for promoting and organizing Sudan's industrial development. The Ministry establishes plans for both public and private sector development, manages parastatal enterprises and provides information for potential investors. Bureaus within the MOI include organizations for Industrial Cooperation and Industrial Production, a Research and Consultancy Institute, and a Central Office overseeing executive, financial and administrative concerns.

Ministry of Cooperation, Commerce and Supply (MCCS). MCCS organizes and rationalizes Sudan's export and import markets to promote international trade and to assure adequate import supplies within the country. To implement its mandate, MCCS supervises public importing and exporting corporations, surveys domestic market conditions, sets prices for state-controlled goods, examines international markets for Sudanese products, and contends with relevant international quotas. MCCS has divisions for trade, supplies, industrial support, imports, "ways and measures", and cooperation.

Department of Inland Navigation. The Inland Navigation Department is part of the Ministry of Transport and Communications. It is responsible for implementing the 1980 Presidential Decree allowing private competition for river transportation services. The Department licenses river transport enterprises, but lacks the expertise to issue regulations and licenses. No private competition has materialized but all 15 applications for licenses are pending approval.

National Development Bank (NDB). NDB is a Sudanese-Egyptian joint venture established in March 1982 as one of the economic integration projects between the two countries. The bank is expected to finance development projects, the main objective of which is to support integration between Sudan and Egypt. In November 1982, President Nimeri officially inaugurated the bank. The bank capital is 10 million Sudanese pounds consisting of one million shares of ten Sudanese pounds each. 35% of the total shares are allocated to public banks, companies, and corporations, 25% to individuals, 15% to associations and cooperative societies, 15% to the private sector companies and businessmen, and 10% to the Egyptian banks and companies.

The objectives of the bank are to:

1. Identify the potential for development and encourage and stimulate investments in all sectors of Sudanese economy by providing finance and other forms of assistance;
2. Provide new means for encouraging individual savings from various sectors of the Sudanese people;
3. Establish economic projects in various fields of development, relying on the savings of individuals, groups and available loans;
4. Encourage the flow of local and foreign capital towards private enterprise activities mainly in agriculture and agro-industries;
5. Cooperate with public and private institutions to improve the general climate for investment;
6. Practice all banking activities and participate in financing internal and foreign trade;
7. Establish or participate in establishing and finance or participate in financing development projects in various fields; and
8. Strengthen and consolidate economic relations between the people of the Nile Valley.

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III. Program Description

- A. Goal. To support recovery of the Sudanese economy.
- B. Purpose. To assist GOS to achieve macro-economic policy analysis and reform by: (1) undertaking analytical studies of national policies for economic development in collaboration with Sudanese institutions and experts; (2) facilitating dialogue on national economic issues and policies among Sudanese experts and the international development community; (3) developing recommendations to strengthen macro-economic policies for consideration by GOS, AID and international development institutions; and (4) taking initial steps, through analysis and technical support to encourage changes in GOS policies such as foreign exchange markets and privatization.
- C. Relation to Mission Strategy. The Policy Analysis and Implementation Program is an important part of USAID/Sudan's country strategy to help implement macroeconomic policy reform and support private sector interests through technical services in conjunction with balance of payment support under the Commodity Import and P.L. 480 Programs. This program supplements project assistance, which is directed toward developing institutional capabilities in specific areas, by incorporating policy issues outside the Agriculture Planning and Statistics, Energy Planning and Management, and Regional Finance and Planning Projects.

Data generated through this program will feed directly into development assistance projects. Information on exports, imports and terms of trade, for example, will be used to set agricultural production targets, analyze producer incentives and study regional needs through the Agricultural Planning and Statistics (APS) Project. The Regional Finance and Planning Project, recently expanded to examine national fiscal policies, will use studies on exchange rate management and emigration policy to determine GOS revenue needs and to plan expenditures. The Policy Analysis and Implementation Program, in turn, will rely on agricultural sector data such as yields and domestic prices from the APS project to predict future exports and necessary imports. Once USAID/Sudan and the GOS confirm which topics will be studied, formal mechanisms for coordinating this program with on-going projects will be established. In particular, the Mission will look to establish a dialogue between the Ministry of Finance and Economic Planning and the Ministry of Agriculture's Planning and Agricultural Economic Administration.

The proposed program is a two-year, initial phase of a long-term effort to strengthen GOS policy analysis and technical capabilities. The proposed FY 1985, DA-financed, Macroeconomic Policy Project, will follow this program by continuing such policy analysis and technical services and strengthening Sudan's institutional capacity to undertake such analysis. The Policy Analysis and Implementation Program reinforces policy reform and analysis provided by the World Bank and IMF.

D. Implementation

This grant will be obligated by a grant agreement between the USG and the GOS signed by the Minister of Finance and Economic Planning. Portions of the Grant are to be allocated to the principal Sudanese management entities, e.g. the Ministry of Industry, or other recipient organizations by means of an implementation letter signed by representatives of the GOS, USAID and the organization or managing entity. All grant-funded activities must be approved in advance by AID and by the authorized GOS representative designated by the Ministry of Finance and Economic Planning. Direct AID contracts and host country contracts will be used as appropriate. The USAID/Sudan contract officer is responsible for contract actions related to the grant.

A detailed description of the implementation arrangements is provided in Part V.

E. Environmental Impact

The activities to be funded under the grant agreement are for consultancy and technical assistance. No grant-funded activity will result in a physical or direct impact on the environment. During the design of program policies, consideration should be given to possible environmental training, consultancies and technical assistance which would promote sound environmental management techniques.

Pursuant to 22 CFR Part 216.2 and consultation with the Africa Bureau Environmental Officer (5/23/83), the grant qualifies for a categorical exclusion from formal environmental review procedures and requires no further environmental impact assessment.

F. Costs

Estimated costs for grant-funded activities:

	<u>Percent</u>
1. Macroeconomic Policy Studies	40
2. Microeconomic Implementation Analysis	10
3. Technical Assistance Promoting Managerial Efficiency	40
4. Workshops, Seminars, and Conferences to Disseminate and Assess Studies	5
5. Other, e.g., (Observation and study tours, communications, contingencies)	<u>5</u>
Total	100

G. Illustrative Program Activities

Technical and financial support will be provided for policy analysis and reform activities such as:

1. Through collaboration among the Government of Sudan, Sudanese institutions and researchers, and USAID/Khartoum, identify major national economic policy issues appropriate for analytical investigation. Illustrative national policy issues are discussed in the following subsection.
2. Draft scopes of work for eight to ten studies of major macroeconomic policy issues.
3. In collaboration with Sudanese institutions and experts, undertake long-term analytical studies of national policy issues, draw conclusions, and suggest policy recommendations.
4. Provide short-term consultants to assist USAID/Khartoum and the Government of Sudan to undertake brief assessments of policy problems which may arise, and to assist researchers engaged in policy studies under this contract as appropriate.
5. Arrange workshops, seminars and conferences, as appropriate, to assess and disseminate the findings, conclusions and recommendations of the macroeconomic studies performed.

6. Arrange for observation and study tours for senior officials of the Government of Sudan and other organizations concerned with national development issues and policies to observe and study institutional arrangements, laws, and operating procedures for dealing with such issues and policies in other countries.
7. Utilize fully Sudanese capabilities to undertake research, collect data, conduct surveys, analyze information, reach conclusions, and make recommendations.
8. Provide a senior, research economist resident in Khartoum to assist in refining research methodology, resolving research problems which arise, serve as a liaison between the head office of the contractor and collaborating Sudanese researchers and institutions, and be responsible for administrative duties as well as economic responsibilities.
9. Identify and provide an economist under a personal services contract to serve on a two-year assignment as a monetary, banking and credit specialist in order to strengthen the Mission's analytic capabilities in these areas. The economist will report to the Associate Director for Policy and Program, USAID/Khartoum.
10. Evaluate economic impact of CIP imports and uses of local currency.
11. Assess studies on economic costs associated with commodity subsidies and price controls.
12. Review the feasibility and impact of privatization on commodity distribution.
13. Conduct studies to identify and help prepare a plan of action for divestiture of parastatal enterprises.
14. Provide technical and financial support to identified industries and businesses currently in the process of or scheduled for transition from public to private management.
15. Analyze micro-level constraints to productive private and public investments, such as labor and power shortages, and recommend plans of action to address their effects on agricultural and industrial development. Industries and constraints which may be the subject of further analysis or may receive technical assistance are discussed later in this section.

H. Illustrative National Policy Issues

Because of the size of USG program in Sudan and Sudan's political and economic importance, much attention and many studies have been aimed at Sudan's current economic crisis: IMF studies; the World Bank's Investing for Economic Stabilization and Structural Change; a U.S. Treasury Country Paper of June 1982; an AID/AFR contract with Economist Anne Krueger for a report in March 1982; numerous AID sector analyses; and case studies done under the direction of the interagency USG Working Group on African Economic Crises commonly called the Wheeler Group.

The most thorough and comprehensive study on the Sudan's crisis has been the World Bank's Hansen Report completed in February 1982. That study outlined the following conditions in its "optimistic scenario" under which Sudan's economy could recover by 1991:

1. Improved management of Sudan's external debt (and need for donor rescheduling);
2. Increased donor support from current \$600 million per year to \$1,600 million per year through 1991;
3. Zero percent growth rate of Sudan's economy in real terms;
4. Implementation of approximately 54 major recommendations concerning policy and structural changes, including the following areas:
 - a. Revising tax structures to promote exports;
 - b. Revising pricing structures of agricultural and export commodities and introducing other production incentives;
 - c. Removing all subsidies;
 - d. Improving administrative and management procedures;
 - e. Increasing dramatically the role of the private sector;
 - f. Establishing a 3-Year Investment Program aimed at implementing reforms and rehabilitating the economy;
 - g. Rehabilitation of critical infrastructure.

The recommendations of the Hansen Report have become an action agenda for the GOS as well as multilateral and bilateral donors. Some of the recommendations made, such as liberalizing prices for wheat and sugar, can be readily implemented. Other recommendations require further studies to outline the full ramifications of policy change and the steps necessary for implementation. The illustrative macroeconomic studies listed below stem from discussions in the January 1983

Consultative Group meeting which led to informal donor agreement to pursue the recommendations of the Hansen Report in further detail.

Although many studies have already been done on Sudan, AID has found it necessary to complement them with its own analyses. Because of its experience with Agriculture Planning and Statistics Project, for example, AID was able to contradict the IMF's position that Sudanese agricultural production is price inelastic and thus justify a liberalization of agricultural prices. The results of the Policy Analysis and Implementation Program, then, are necessary both to influence Sudanese economic policy and to provide the basis for sound guidance from the donor community. Final topics will be decided through collaboration between USAID/Sudan and GOS institutions. The following list indicates AID's priorities and may change with Sudanese input.

1. Foreign Exchange Rate Management. The fixed dual exchange system results in significant distortions in imports, investment, and production for export. Analysis of the foreign exchange system and opportunities for strengthening it is needed to suggest improvements.
2. Emigration Policy. Sudanese Labor Department records of workers who emigrated by official channels show that the yearly pace of emigration has accelerated up to five times since 1975/76. Between 1977/78 and 1979/80, approximately 57 percent of newly trained skilled laborers, technicians and assistant technicians emigrated. Relatively inexperienced and less skilled laborers usually replace these emigrants, thus rendering lower quality service at higher unit costs. Because emigrants repatriate some savings to Sudan, however, the net economic impact of labor emigration is unclear. Although direct control of emigration would be difficult, a study should determine ways in which the GOS could focus its emigration policies on encouraging repatriation of wages and on providing incentives to retain skilled laborers.
3. Privatization of Public Enterprise. Despite large GOS investments in industry and agriculture during the 1970s, these were not the leading growth sectors in the economy. Manufacturing, for example, grew by only four percent per year over the period, reflecting serious delays in bringing public sector plants into operation. Much of the manufacturing growth stemmed from private sector investments, which in 1982 accounted for about 90 percent of total industrial output, but only some 50 percent of new investment in recent years. Some of the constraints faced by the parastatal sector could be relieved by encouraging more private sector initiative in selected areas now largely in the public sector. A study should consider which

industries the GOS wishes to transfer to private sector management and what steps are necessary during the transition.

4. Domestic Finance. Between 1975/76 and 1979/80, domestic expenditures rose 24 percent per year while revenues grew only 16 percent annually. Analyses are necessary to determine the revenue incentive and distributional effects of World Bank recommendations to increase the coverage and rate of direct taxes and to move from specific to ad valorem rates on indirect taxes. Another measure to be examined is the overall reduction of public wages while increasing the salaries of highly skilled civil servants. The significance of budget support by donors should be assessed.

5. Industrial Incentives. The GOS initiated a policy in 1972 of granting tax holidays and special privileges to new enterprises; the Encouragement of Investment Act of 1980 renewed these concessions for agricultural and industrial investments. Nonetheless, Sudan currently faces a downturn in industrial investment largely affecting the replacement of aging equipment and installation of new capacity to meet rising demand. The GOS has set up two specialized financial institutions, the Sudan Development Corporation (SDC) and the Industrial Bank of Sudan (IBS), which lend to and hold equity in the industrial sector. Neither institution has met expectations. A large percentage of SDC's capital is in non-project financial investments, and the IBS has a poor record of commitments to new projects and of recovery of outstanding loans. A study should examine necessary changes in both existing tax concessions for businesses and lending policies of the SDC and IBS.

6. Other Issues. This list by no means exhausts the subjects which could be considered as part of a series of macroeconomic policy studies. The following issues might also be considered:

- a. Mobilization of domestic savings;
- b. Macroeconomic aspects of population growth;
- c. Recurrent cost implications of external development assistance;
- d. Economic implications of Sudan's national food policy;
- e. Effective protection and international trade.

I. Micro-Level Support:

Successful implementation of macroeconomic policy changes requires both management capability at the government level and technical knowledge within individual industries. The micro-level activities to be financed by this program address both of these needs by providing: 1) direct technical assistance to aid sectoral privatization and development; and 2) institutional support for public and quasi-public institutions responsible for implementing policy decisions. The following activities illustrate the types of services AID may finance under each of these areas in order to facilitate successful policy changes; they are listed in order of priority:

1. Sectoral Privatization and Assistance

a. Privatization of the Sugar Industry. After petroleum imports, sugar is the largest single item on Sudan's import bill, surpassing wheat. Demand for sugar now exceeds 400,000 metric tons per year and has risen approximately 4.5 percent annually. In 1979/80, the last year for which reliable figures are available, Sudan imported some 294,000 metric tons of sugar requiring \$120 million in foreign exchange.

The Sudanese sugar industry currently consists of four publicly owned production units and one private company at Kenana. The four public companies, which produce approximately one-third of Sudan's sugar, have operated much below capacity in recent years. Operating records show that the Kenana Sugar Company ranks among the top 1% of all sugar factories worldwide for overall efficiency of operations and product recovery.

Prior to April 1981 the four public sector estates were operating divisions of the Sugar and Distilleries Corporation (SDC). The corporation was responsible for a range of centralized services including central and overseas procurement, training administration, legal services, auditing and cost accounting, disbursement of operating finance, and overall budgeting. The SDC reported to the Ministry of Industry, which itself was responsible for implementing new projects, supervising the work of the SDC, and maintaining relations with other ministries, in particular the Ministry of Finance. The latter, through the Public Corporation for Sugar Trading (PCST), controlled all sugar revenues, fixed the price of sugar, and (together with the Ministry of Cooperation, Commerce and Supply) controlled sugar quotas and distribution. Other ministries involved with sugar production included the Ministry of

Irrigation which controlled the release and pumping of water for the four estates, and the Ministry of Public Service and Administration Reform which controlled the terms and conditions of sugar industry employees, including the common wage scale and grading system applying to all public sector corporations.

In May 1981 a Presidential Decree dissolved the SDC and announced a policy establishing the four public sector production units (at Guneid, New Halfa, Sennar and Assalaya) as independent companies reporting to the Ministry of Industry. The GOS intends to raise managerial and production efficiency in these sugar companies to make them attractive to private entrepreneurs. Eventual privatization will require technical and financial assistance now, and sound GOS policies to enhance the viability of the sugar industry.

The GOS requested the World Bank to finance a detailed assessment of the sugar industry. In line with the report's recommendations, the GOS contracted for technical assistance for the management of Guneid and New Halfa factories. After reviewing the bids from three international firms, the GOS selected Arkel International on the basis of low price and capability demonstrated in technical assistance to the Kenana Sugar Company. The potential role for AID is to: (1) help the GOS finance technical assistance from Arkel until a World Bank loan provides long-term financing in approximately a year; and (2) provide technical support for GOS efforts to develop adequate incentives for private sugar production.

b. River Transport Corporation. A number of assessments found that Sudan makes very limited use of the river transport potential of the Nile, which holds promise of low cost transport and service to areas not well served by rail or road. Until recently, the public sector River Transport Corporation controlled all river transport operations, but in 1980 a Presidential Decree authorized competition. Actual private sector activity, however, has not materialized because the GOS has not developed a system for licensing river transport enterprises. The organization charged with issuing licenses, the Department of Inland Navigation of the Ministry of Transport and Communications, currently holds 15 applications for licenses, but it is staffed only with a director who has limited knowledge or experience in this field.

USAID/Sudan has received a request from the Director of the Inland Navigation Department for technical assistance to advise the GOS on the appropriate organization, procedures and technical matters related to licensing. The request calls for 10 person months of technical assistance in management administration, marine engineering and transport economics. Preliminary inquiries indicate that the Coast Guard would be the most appropriate USG agency to provide the requested assistance. The Coast Guard does the licensing for all river pilots, equipment and boats in the U.S., and would be able to assist the Inland Navigation Department in developing a practical organization plan and issuing regulations for licenses.

c. Divestiture of Public Enterprises. The GOS has announced a policy of disposal of government-owned, business economic units. For major and "strategic" enterprises, e.g. agricultural schemes, cotton, textiles and sugar, the GOS will ask donors to fund a management contract to rehabilitate and install competent management as a first step towards eventual full divestiture. The GOS intends to divest immediately other public enterprises, e.g. perfume, candy, tannery, paint, and packaging. The PRE Bureau reconnaissance team suggested that AID retain an international financial accounting firm to prepare a financial assessment of public enterprises including current financial condition, operating performance, asset evaluation, and forecast, as the first step toward obtaining investment banking assistance and choosing a strategy for divestiture. Such financial studies would facilitate divestiture of these public enterprises.

d. Agricultural Labor Shortages. For many years, seasonal labor was recruited directly from rainfed areas to pick cotton on the major irrigation schemes. Up to one million persons have been employed in this way and were recruited through a national campaign in the early to mid seventies. Since then the responsibility for recruitment has been delegated to the major production schemes. The recruitment of labor, particularly for cotton harvesting, has involved considerable effort. Many of those who were recruited came to the irrigated cropping areas after they had completed their rainfed operations. This complementarity was one way in which benefits accruing to the irrigated subsector provide significant benefits to the rainfed subsector.

More recently, however, labor shortages during harvesting have been severe constraints to production, and some crops have been left in the field. While no figures are available, a significant

proportion of the cotton crop has been lost, on some schemes perhaps as much as 25 percent, because of the failure to complete cotton picking. The problem has been particularly evident on the Rahad scheme where the situation is compounded by the unfamiliarity of management with labor recruitment procedures, the relatively large size of tenancies and areas devoted to cotton, which require substantial non-family labor, and the delays in establishing housing and social services at the scheme. Labor recruitment difficulties in general, have been exacerbated by an inadequate daily wage which has fallen in real terms to levels where laborers find it more profitable to expand rainfed activities than to pick cotton. AID could provide technical assistance to determine options and implementation steps to increase the capacity of cotton producers to harvest cotton efficiently.

2. Institutional Support

- a. Private Sector Finance. A number of local institutions provide credit to local private enterprise. Among these are the Sudan Rural Development Corporation and the National Development Bank both of which are relatively new. Limited technical assistance and training could assist these organizations to support local private enterprise.
- b. Private Sector Policy Dialogue with GOS. The Sudanese Businessmen and Employers Federation (SBEF) represents private firms in the Sudan. However, SBEF has no capacity to assess proposed GOS regulations or policies. The PRE team recommended establishment of a policy office within SBEF which would have competence to comment and advise the GOS on complex and difficult economic and financial matters. Short-term TA could assist SBEF to establish this capacity.
- c. Evaluation of the Commodity Import Program. Since FY 1980, AID has granted over \$200 million to the Government of Sudan for the Commodity Import Program. Projections for the next three years suggest an additional \$360 million for these purposes. As indicated in the FY 1985 Annual Budget Submission, an evaluation of the CIP is needed in FY 1984. This evaluation will assess the development impacts of the overall program and individual commodity purchases for determining the benefit to Sudan's economy and planning commodity procurements in future years.

IV. Financial Plan

Tentative U.S. dollar and LSD budgets are:

A. Budget for Macro-Economic Policy Studies (US\$)

<u>Type</u>	<u>Person Months</u>	<u>Cost</u>
Researchers Salary (Study 1-9, 9 pm each)	83	600,000
Short-term Consultants Salary	17	88,230
Senior Research Economist	24	300,000
U.S. Support Staff (2)	24	65,030
Overhead for U.S. Institution (100% of salaries)		1,053,260
Per Diem (for Researchers)	25	96,650
Per Diem for Short-Term Consultants	12	49,680
Travel		
3 RT for each researcher (9)		67,500
RT for each short-term consultant		40,450
Observation Tours (12)		
Travel (12 RT)		30,000
Per Diem		37,600
Typing and Reproduction of Reports		10,000
Apple IIe Computer, Printer, Software (3)		21,600
Wang Word Processor (2)		20,000
Vehicle & Parts (Senior Research Economist)		<u>20,000</u>
	Total	2,500,000

B. Estimated Budget for Micro-Level Studies and Technical Support

<u>Item</u>	<u>Person Months</u>	<u>Cost</u>
Researchers' salaries (6 at 6 pm each)	36	\$252,000
Short-term Consultants (11 at 12 pm each, 6 at 6 pm each)	186	1,338,400
Per Diem (for Researchers)	29	121,800
Per Diem (for Short-term Consultants)	125	525,000
Travel		
2 RT for each researcher (6)		30,000
2 RT for each short-term consultant (11)		55,000
Site Visits (15)		
Travel (15 RT)		25,000
Per Diem	10	<u>40,800</u>
Short-term U.S. Training (8)	24	<u>112,000</u>
	Total	\$2,500,000

C. Estimated Host Government Contribution* (Dollar equivalent to LS)

<u>Item</u>	<u>Cost</u>
Local consultants (9 x 225/day x 12 pm)	\$730,000
Per Diem (9 x 2 pm x 75/day)	40,500
Honoraria and Per Diem for field workers (9 x 15,000)	135,000
Administrative Officer (24 x 150/day)	79,200
Secretarial Support	75,000
Data Processing, Analysis	180,000
Reproduction and Printing	27,000
Translation	50,000
Conference Support	<u>40,000</u>
Total	\$1,356,700

*Host government contribution will be funded through local currency generated from CIP merchandise sales.

V. Implementation Arrangements

A. Implementation Plan

The \$5 million grant will be obligated by grant agreement with the GOS signed by the Minister of Finance and Economic Planning which will designate an authorized representative to approve all activities on behalf of the GOS. Allocation among various activities within the amounts specified in Section IA above will be agreed by USAID and Ministry of Finance and Economic Planning.

Some portions of the grant are expected to be allocated or to the collaborating Sudanese macro-economic research institution or other Sudanese managing entities. Appropriate policy studies and the institutions to be involved will be selected in the first stage of the program through collaboration among the GOS, Sudanese institutions and researchers, and USAID/Khartoum as described in Section III of the paper.

After potential grant-funded studies and activities have been identified, they must be approved by USAID and the GOS authorized representative. USAID will approve activities through Implementation Letters. In some cases direct AID contracts will be necessary; otherwise, Sudanese managing entities and recipient organizations will be responsible for contracting directly for approved services. Host country competitive contracting procedures in accordance with Handbook 11 and Supplement B to Handbook 1 will be utilized, including formal bidding on proposals where required. Detailed guidance on applicable AID contracting requirements will be provided to the GOS and the concerned subsidiary organizations by Implementation Letters.

Consultants and training activities and other procurement financed under the Grant will be subject to U.S., local nationality and source/origin requirements. In some instances the identification and recruitment of specialized consultants may prove difficult, and the services of a recruiting agency may be financed by the grant. In selected instances AID may serve as disbursing agent under host country consultant contracts. Although the grant essentially will be disbursed on a reimbursement basis or directly by AID to contractors, AID may also provide advances to the GOS and non-profit organizations to enable the timely initiation of specific host country activities.

In some instances, the managing entity or recipient organization will make travel arrangements and provide clerical services and in-country

transportation; however, in selected instances the latter costs may be financed under the grant. Further details on host country contribution to the local costs of grant activities will be set forth in the sub-grant agreements and implementation letters, as appropriate. Under the grant agreement and implementing documents, USAID will reserve the right to brief and debrief consultants and to receive copies of written material produced by consultants. U.S. consultants arriving in Sudan may receive a security briefing at the Embassy.

B. Records, Reports and Evaluation

Each managing entity or recipient organization using funds provided under the grant will be required, in accordance with implementation documentation, to retain and make available copies of all contracts and procurement documents and to maintain and make available records acceptable to AID concerning the use and application of grant funds. Within six months of beginning their analyses, researchers and consultants working on macroeconomic studies and micro-level support strategies will make a formal presentation to USAID and the Ministry of Finance and Economic Planning on their progress, probable conclusions, and potential micro-level activities supporting macroeconomic policy changes. Final written reports will be provided within 18 to 24 months of the obligation date. Short-term technical consultants supporting the implementation of micro-level activities will also report to USAID and the Ministry of Finance and Economic Planning on the progress and financial status of implementation activities.

USAID/Khartoum will complete a preliminary evaluation of the project within 18 months of the obligation date. The nature of the grant does not lend itself to the formal specification of detailed outputs and end of project status. Accordingly, the evaluation will emphasize the following:

(i) the extent to which eligible activities have been performed (e.g., consultancies, training activities, observation visits, etc.);

(ii) the extent to which macroeconomic policy studies have addressed constraints to financial stability and economically productive activity, the relevance of micro-level implementation strategies to macro-policies, and the effectiveness of technical support for implementation activities;

(iii) the appropriateness and effectiveness of the implementation methodology used for this grant.

This evaluation will be a continual monitoring process and will be used to plan corrective action for implementation. The initial evaluation will be updated and modified at six months intervals, until a final evaluation is completed upon disbursement of all grant funds.

C. Conditions and Covenants

The grant agreement will provide for the standard conditions precedent to disbursement, the specification of authorized representatives and the provision of their specimen signatures.

The grant agreement will also contain conditions precedent to disbursement for individual activities requiring that the GOS or mutually agreed upon managing entities obtain AID's advance written approval of the respective activities and pertinent procurement procedures and contracting documentation. Covenants to the grant will specify that AID may brief and de-brief consultants and that appropriate records will be maintained and reports furnished to AID. Managing and recipient entities will be subject to these same requirements through appropriate provisions in sub-grant agreements and implementation documentation.

INITIAL ENVIRONMENTAL EXAMINATION
OR
CATEGORICAL EXCLUSION

Project Country: Sudan

Project Title: Policy Analysis and Implementation Program

Funding: ESF FY (s) 1983 & 84 \$ 5,000,000

CE Prepared by: Carlos Pascual, AFR/PD/EAP

Environmental Action Recommended:

Positive Determination _____
Negative Determination _____

Categorical Exclusion:

This activity meets the criteria for Categorical Exclusion in accordance with Section 216.2 (C) and is excluded from further review because:

Please refer to page 9 of the text.

Concurrence: **GEORGE R. THOMPSON**
 Bureau Environmental Officer

APPROVED _____
SAPPROVED _____

DATE JUN 9 1983

Clearance: GC/AFR C. P. Date 9 June 83

ANNEX

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 ELIGIBILITY

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?
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

No

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

4. FAA Sec. 532(c), 620(a), 620(f), 620D; FY 1982 Appropriation Act Secs. 512 and 513. Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Vietnam, Syria, Libya, Iraq, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver? No

5. ISDCA of 1981 Secs. 724, 727 and 730. For specific restrictions on 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 non 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?
- (b) If so, has any deduction required by the Fishermen's Protective Act been made?
9. FAA Sec. 620(c); 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? (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?
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
- No
- No
- At present Sudan is not in arrears on loan repayments to A.I.D.
- No
- 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 a
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

No

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 EX 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.

3. 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.