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Some Reflections on Economic Liberalization in the Sudan.

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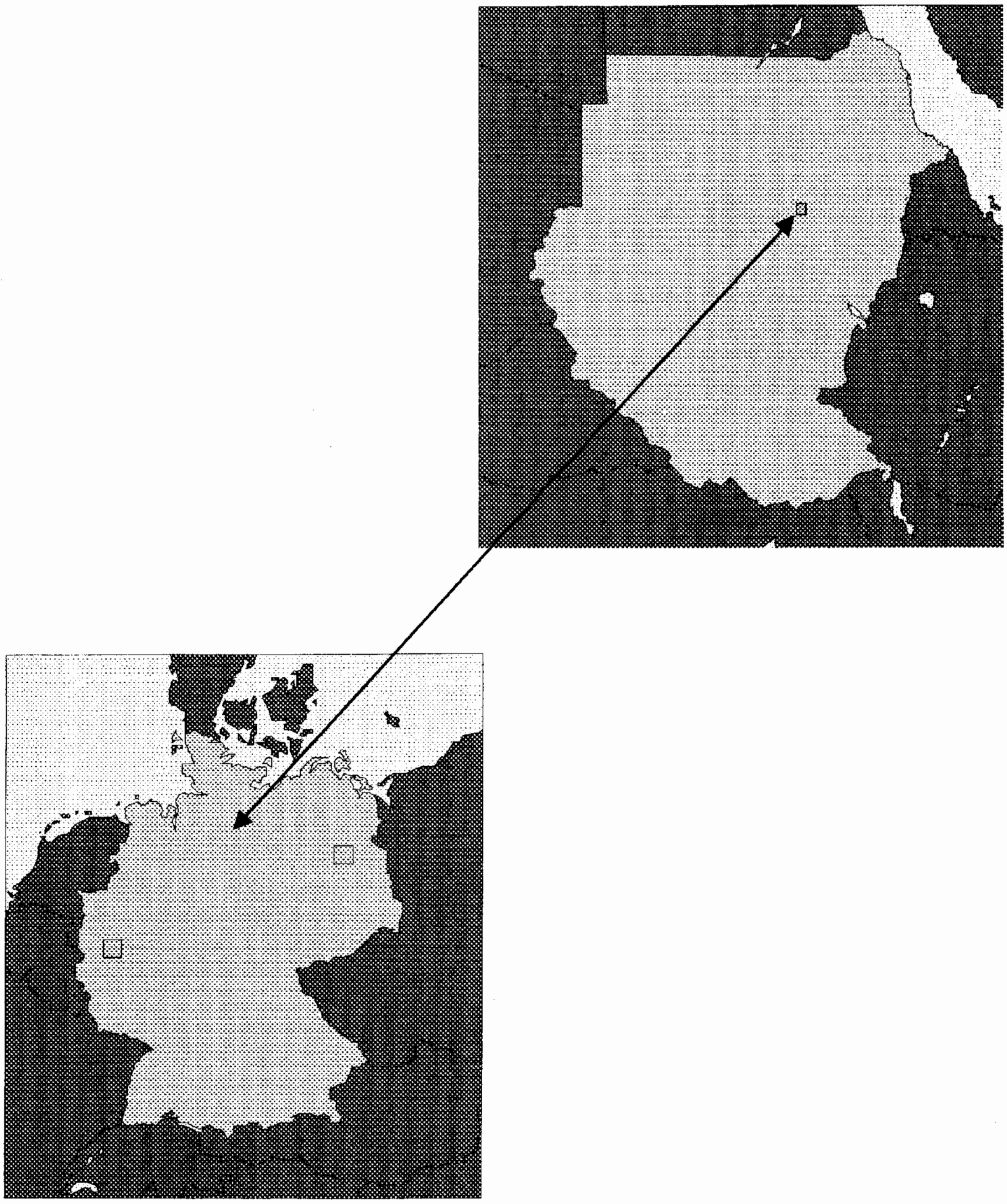
Republic Of Sudan



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SOME REFLECTIONS ON ECONOMIC LIBERALIZATION IN THE SUDAN

Isaac Bior Deng Bior

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May 2000

SOME REFLECTIONS ON ECONOMIC LIBERALIZATION IN THE SUDAN

1. Introduction

1.1. Main Issues of the Economy

A close examination of the behaviour of the Sudan economy from the time of independence in 1956 to the late 1980's reveals a general downward trend. In the 1950's, the economy grew at an increasing rate though at a low level; inflation was unknown; the exchange rate of the Sudanese pound was fixed at about one Sudanese pound to 3.53 United States dollars; and both the balance of payments and government budgets were in generally good shape. It could also be claimed that there was full employment since a great majority of the people practised subsistence agriculture in the rural areas, and therefore there was no open unemployment.

In the 1960's, the economy continued in its growth path, but at a much reduced rate. Similarly, as in the preceding decade, inflation and exchange rate regimes were stable and though the balance of payments and government budgets recorded some deficits, these were very much within manageable limits. Again there was no open unemployment although there was underemployment.

During the 1970's, the economy experienced a degree of stagnation and some inflationary tendencies began to show. But the exchange rate continued to be fixed; it was only in 1978 that it started to fluctuate. The deficits in the balance of payments and government budgets became a cause for concern, and external debts were already high. During this decade, some limited unemployment was registered in the urban areas.

In the early 1980's, the economy started on the descent. GDP growth averaged 0.5% against a population growth rate of 3.1%, the inflation rate was very high, and both the balance of payments and government budgets were firmly in deficits. Urban unemployment became an issue to be reckoned with during this decade. In addition, the accumulated external debt of the country was in the region of US $ 15 million. Towards the end of the 1980´s, the deterioration of the economy had reached crisis proportions. (Details about the performance of the economy are shown in tables 1.1, 2.1, 3.1 and 4.1).

Table 1.1: Real GDP (Ls million) and GDP Growth Rates %

Year	GDP	GDP Growth Rates
1956	299.4	-
1957	313.0	4.5
1958	316.6	1.2
1959	334.8	5.7
1960	352.4	5.3
1961	376.2	6.8
1962	402.6	7.0
1963	408.1	1.4
1964	421.7	3.3
1965	441.3	4.6
1966	456.9	3.5
1967	489.9	7.2
1968	527.0	7.6
1969	505.9	- 4.0
1970/71	524.3	3.6
1971/72		
1972/73		
1973/74	1.346.1	-
1974/75	1.510.8	12.2
1975/76	1.848.0	22.3
1976/77	2.339.7	26.6
1977/78	2.882.7	23.2
1978/79	3.253.8	12.8
1979/80	3.722.8	14.4
1980/81	4.971.3	33.5
Constant Pries 1981/82	6.236.0	25.4
1982/83	6.264.0	0.4
1983/84	6.084.0	- 3.9
1984/85	5.306.0	-12.8
1985/86	5.934.0	11.8
1986/87	6.190.0	4.3
1987/88	6.275.0	- 1.5
1988/89	6.628.0	5.6
1989/90	6.614.0	- 0.2
1990/91	6.691.0	1.2
1991/92	7.447.0	11.3
1992/93	8.389.0	12.7
1993/94	9.002.0	7.3
1995	9.966.0	4.5
1996	10.438.0	4.7
1997	11.071.0	6.1
1998		6.1

Source:

1- Ministry of Planning: Economic Survey 1971/72, 1975/76, 1980/81, 1984/85, 1988/89-1991/92, 1990/91, 1997.

Many factors have been blamed for this steady deterioration of the economy. The internal causes include unstable economic policies, ill-conceived plans, poorly executed and managed projects, irrational resource allocation, neglect of maintenance of capital stock, inadequate and inconsistent implementation of economic policies and negative national savings. Over and above these, numerous political, social and natural problems accentuated the economic situation. The war in South Sudan had continued to drain scarce resources and halted development efforts. The devastating drought of the early 1980's together with the prolonged desertification had left their mark on the economy. The war and the drought have together led to large-scale population movements, which have seriously disrupted traditional production.

Among the external factors are the steady deterioration in the terms of trade, the high protectionist barriers erected by the industrialized countries, sharp increase in the prices of capital goods and other imports and the sluggish demand for primary products by the industrialized countries because of the recession these countries were facing in the 1980's.

Recognising that the above-mentioned problems of the Sudan economy are structural and deep-seated in nature, the new government, which took over power on June 30, 1989, was aware of the great challenge before it. Obviously, there was urgent need to take drastic measures to address these problems.

Those measures were begun in the period between October 1989 and June 1992. They started with the National Economic Salvation Conference (30th October 1989 to 21st December 1989) whose recommendations and proceedings very much influenced the National Economic Salvation Programme, popularly known as the three year Programme 1990-1993. The main thrust of that Programme was the enhancement of the role of the private sector in revitalizing the Sudan economy. In October 1991, more policy measures were announced along similar lines. Again on 2nd February 1992, a comprehensive economic policy package was unveiled by the government, with the aim of realizing the objective the economy through a liberalization policy. In brief this policy package consists of the following:

a) private sector growth strategy;

b) stabilization and liberalization of the prices of goods and services;

c) flotation of the Sudanese pound;

d) abolition of export and import licences;

e) permission to import all goods, except for health, security or religions reasons;

f) scrapping of the export retention scheme;

g) gradual removal of subsidies on essential goods and services such as sugar, wheat flour and petroleum products, but continuing to support drugs, water and electricity;

h) trade promotion measures, such as the introduction of fair trade.

More measures were announced in June 1992 and in the subsequent years. They include:

a) widening the tax base;

b) reduction of financial subventions to the states with the ultimate aim of discontinuing them in the future;

c) putting a ceiling to credit by commercial banks, while increasing the share of the agricultural sector in this;

d) encouraging private investment.

Clearly all these measures were aimed at liberalizing the economy and promoting the free enterprise system with the ultimate objectives of promoting production and growth, economic and price stability, full employment and eliminating budget and trade deficits. These policies are contained in the Ten-Year-Comprehensive National Strategy 1992-2002, a government long-term programme. The programme itself is to be implemented in three phases in the form of medium-term programmes.

1.2. Objectives of the Paper

The primary aim of this paper is to determine the degree of government commitment to economic liberalization using the following criteria:

a) follow-up policy pronouncements and legislation;

b) actual implementation of the measures;

c) whether or not the economy is moving more towards a free market economy;

d) achievement of macroeconomic objectives.

Another objective of the paper is to contribute to an understanding of the nature and scope of economic liberalization, within the context of the Sudan economy.

It should be emphasized at the outset that this paper is intended to be a discussion of the nature of the processes involved, and not an attempt at quantification or a comprehensive empirical investigation.

The paper focuses primarily on five key elements of economic liberalization: fiscal policies and reforms; monetary and credit policies; trade and exchange systems; privatization, restructuring of state enterprises and private sector development; and fiscal federalism. Accordingly, the rest of the paper is divided into six sections. Section two discusses fiscal policies and reforms. The third looks at monetary and credit policies. The question of trade and exchange systems is considered in Section four. The fifth section focuses on issues of privatization, restructuring of state enterprises and private sector development. The sixth section attempts to highlight issues of fiscal federalism. The final section endeavours to draw some conclusions.

But before embarking on a discussion of these elements, it is important first to have a proper understanding of the concepts, nature and scope of economic liberalization and reforms.

1.3. Theoretical and General Considerations

1.3.1 Structural Adjustment Defined

The terms economic liberalization and structural adjustment are often used as if they were synonymous. But there are important differences in their aims, conditionalities and mechanisms used. Structural adjustment programmes were first introduced by the World Bank in 1980. This package of policies is supplemented by a stabilization package sponsored by the International Monetary Fund (IMF) since 1986 (Dasgupta, 1998:78). Stabilization policies are usually subsumed under structural adjustment (for short) though there are somewhat important differences in the two packages, as we will see below.

Balassa defines structural adjustment as "policy responses to external shocks, carried out with the objective of regaining the pre-shock growth path of the national economy". The expression "structural", according to Balassa, reflects the need for *discrete,* as opposed to *marginal*, changes in policies in response to discrete shocks. During the period of adjustment, growth was to take precedence over distribution and production over social justice (Balassa, 1981 : 1-2). Adjustment, following the oil crisis of the 1970s, was not expected to run for more than four or five years. It was not to be the sole concern of the less developed countries who were finding it difficult to balance their internal and external accounts. Along with the less developed countries, the developed world was expected to play its role by liberalizing trade, increasing aid, importing more from the less developed countries, saving energy and increasing private capital flows to these countries. But the package that is being implemented now as "structural adjustment" bears no resemblance to this original conception. It has turned out to be a standard bunch of policies, applicable anywhere any time without reference to any shock, and the entire package has become the concern of the less developed countries. The role of the developed world is almost exclusively as the guiding force behind the World Bank and the IMF, and not as a group of countries sharing the burden of adjustment as a global problem (World Bank, World Development Report, 1980 : 3-12).

1.3.2. Theoretical Anchor

The theoretical underpinning of structural adjustment programmes is provided by the ideas of the *New Political Economy* (Dasgupta, 1998 : 19). The literature of the *New Political Economy* is vast and growing. Some describe it as the new classical economic theory of politics. Some see it more specifically as a political cousin of structural adjustment setting out political preconditions for its success. According to some others, it is a cocktail of marxist concept of the state, without its class analysis, with the Liptonian theory of urban bias thrown in and blended with neo-classical economics. Some even object to its description as a new theory while some others, mainly political scientists, see in it a fudged understanding of the political world and its processes by ignorant economists. Indeed, the *New Political Economy* contains various shades and colours such as public choice, collective choice, social choice or rational choice theories. Some leading economists have criticized the theory of *New Political Economy* by showing that it is internally inconsistent, a historical, is oriented towards justifying market-centred economic policies under authoritarian regimes, is dependent on the rich world institutions for its success and ignores the importance of institutional (and other) factors in the development process (Dasgupta, 1998 : 39-63). One feature of this theory, which this criticism consents with, is its analysis of "rent-seeking behaviour" that has relevance to the less developed countries.

Structural adjustment programmes, according to Chossudovsky, are a concrete reflection of the post-war capitalist system. The reforms "regulate" the process of capital accumulation. This is not, however, a "free-market" system. While supported by neo-liberal economic discourse, structural adjustment programmes sponsored by the Bretton Wood institutions, constitute a new interventionist framework. The IMF, the World Bank and the World Trade Organization are regulatory bodies operating within a capitalist framework and responding to the dominant economic and financial interests. They endeavour to regulate and supervise national economies through the deliberate manipulation of market forces (Chossadovsky, 1997).

The structural adjustment policies of the World Bank and the stabilization package of IMF reflect their common market-oriented approach. But in theory a destruction is often made in the respective jurisdictions of the two agencies. While IMF leads on exchange rates, balance of payments problems and restrictive trade system, the World Bank leads on development, financial institutions and capital markets. Further, roles of the IMF and the World Bank have also been distinguished in terms of macro versus micro, programme versus project loans, demand versus supply, financial versus real and short term versus long term. But these distinctions have been severely eroded and the conditionalities applied by these two institutions have converged into a common area (Polak, Jaques, J. 1994 : 5-11). These two agencies now operate in close understanding with each other.

As regards *economic liberalization*, it is claimed that this grew out of structural adjustment particularly from the World Bank model. The conditionalities imposed by the World Bank tend to be many more in number, less specific, and aiming principally at re-orienting the incentive structure in tune with market-centred economy. These are also less easy to monitor. The three main components of the World Bank conditio- nalities seek to achieve liberalization, privatization and globalization (World Bank, World Development Report, 1994). The core of the idea is that economic management should be left to the market. The prices – prices, rents, wages, interest rates, exchange rates – determined by the interaction of demand and supply forces should be flexible in either direction and should be capable of clearing the market. The resulting allocation would be optimal and efficient, while any deviations from it would involve avoidable social costs. To ensure that markets are allowed to do their jobs, all controls and regulations should be done away with as also measures that constitute barriers to entry (Balassa, 1981 : 13-15).

It follows from this that the state should take a back seat in economic matters. Any intervention by the state – in the form of controls, subsidies, selective protection – would distort prices and make the resulting allocation inefficient, thus hindering economic growth. Controls, by restricting flows of commodities or capital, involve social costs, distort priorities and invole some rationing in some form or another. Further, controls create oppotunities for rent-seeking and bribery on the part of licence-seekers or by accumulation of social/political power. In the case of less developed countries, such controls operate in favour of the better off, mostly urban dwellers, including bureaucrats, at the cost of the rural poor (Dasgupta, 1998 : 92-93).

It follows from this economic philosophy that whatever public sector economic activities are in operation should be closed down, phased out, trimmed or passed on to the private sector. Public ownership should be allowed only in cases of natural mono-polies, public goods or quasi-public goods. These would operate under a memorandum of understanding that delineates the states financial commitments and other responsibilities. Privatization of such enterprises would improve their effeciency and bring in much needed funds for reducing budget deficit.

1.3.3. Reforms, International Phenomena

Reform is a general term and refers to any changes including stabilization, structural adjustment and liberalization. Economic reforms are not confined to any countries or regions of the world. They are an international phenomenon and have been introduced in one form or another in all countries, developed or underdeveloped. Since the collapse of the Berlin wall in 1989, the process of reforms and restructuring of national economies and the world economy has taken on a different face. A "political consensus" on macroeconomic policy has developed. Governments throughout the world have unequivocally embraced the neoliberal policy agenda. Since the early 1990s, macroeconomic reforms adopted in the OECD countries have contained many of the essential ingredients of structural adjustment programmes applied in third world countries (Chossudovsky, 1997). But the institutional mechanics are, however, different. In the developed countries, the Bretton Woods institutions have not played a significant role in "policy surveillance". Governments and markets in those countries have tended to bring about reforms without the mediation of the Washington bureaucracy. But in the case of less developed countries, reforms have been adopted often after armtwisting by the World Bank and IMF. This procedure has provoked much controversy and debate about the "*ownership*" of policies and programmes arrived at in this manner. Critics claim that the reform packages in less developed countries "belong" to the World Bank and the IMF and that the two institutions impose them on countries which are ill-prepared for them in terms of institutional factors, cultural diversities, professional and managerial capacities. This issue of "ownership" is one reason why the two agencies take so much care in making the economic reforms appear homegrown. The theory is that the success of a programme is correlated with feeling in the country that it was developed by it on its own and without outside interference. (Corbo et al, 1992 : 13). The idea behind the *Policy Framework Paper,* which incorporates the conditionalities as decision or declarations by the governments applying for support themselves and, which is prepared in "consultation" with the World Bank and IMF and is approved promptly after submission, is to carry such an impression.

2. FISCAL POLICIES AND REFORMS

2.1. General

Fiscal reforms are an integral part of the liberalization programme. The major objective of such reforms is to reduce fiscal deficit below a certain per cent of GDP. Control of fiscal deficit is expected to bring inflation under control and to allow for stable growth. At the same time, given the link between two deficits, this is also likely to reduce trade deficit, and to maintain exchange rate at stable and competitive levels.

Between the two ways of reducing fiscal deficit – raising revenue and pruning expenditure - the emphasis is on the expenditure side. This is accomplished, according to orthodox liberalization policies, by:

a) reducing the level of subsides;
b) making public enterprises charge fees and prices that cover their costs;
c) cutting public expenditure in general. On this, the main policy issue is to decide on which items the axe falls;
d) reducing or eliminating budget provisions for public enterprises, including privatization. This measure also augments revenues.

Under fiscal reforms, the tax structure is expected to be transparent and simple, not arbitrary and/or depend on the whims and caprices of the taxing authority and also not oppressive. The general consensus is that an increase in tax rates should be carried out as a last resort. The preferred approach is to broaden the tax base, and to keep marginal tax rates low enough to encourage better compliance with tax laws, and the broadened tax net would raise the necessary revenues. As for the effect of trade liberalization on public revenues, theory suggests that the elimination of quantitative restrictions and the tariffication process would, ceteris paribus, raise the international tax share in total taxes. On the other hand, the reduction of tariffs and export taxes as a result of liberalization process would have an offsetting effect. Thus the effect of liberalization on tax revenues from international trade appears indeterminate at least in theory (Dasgupta, 1998 : 96-97).

2.2. Sudan: Policies and Reforms

Having discussed briefly the general framework for fiscal reforms as prescribed by the Bretton Woolds institutions, we now examine the fiscal situation and developments in the Sudan.

As far back as the early 1960s, the fiscal performance of the Sudan has been quite weak, as indicated in table 2.1, with the share total revenue as percentage of GDP declining and that of expenditure increasing. This situation has resulted in unsustainable levels of deficits over the years.

Table 2.1: Public Sector Budget Surplus (+) or Deficit (-)

Year		Surplus/Deficit (LS Million)
1961/62	-	15.17
1962/63	-	17.7
19963/64	-	21.8
1964/65	-	8.8
1966/67	-	19.6
1967/68	-	16.7
1968/69	-	22.6
1969/70	-	36.5
1970/71	-	29.8
1971/72	-	48.3
1972/73	+	10.9
1973/74-1975/76 (average)	+	34.1
1976/77	-	169.5
1977/78	-	139.3
1978/79	-	179.3
1979/80	-	150.6
1980/81	-	280.1
1981/82	-	639.1
1982/83	-	656.0
1983/84	-	943.0
1984/85	-	1,562.0
1985/86	-	2,046.0
1986/87	-	2,338.0
1987/88	-	367.3
1988/89	-	836.5
1989/90	-	1,730.5
1990/91	+	540.0
1991/92	-	30,043.7
1992/93	+	824.0
1993/94	-	13,706.0
1994/95	-	63,385.0
1995 (July-December)	-	9,000.0
1996	-	210,180.0
1997	-	228,000.0
1998	-	163,000.0

Source: Ministry of Finance and National Economy: Annual Budgets

A large proportion of these deficits was financed from external sources leading to dependence on foreign aid and a build-up of external debts. The country resorted to foreign financing because the domestic options for financing budget deficits carry the potential risks of resorting to inflationary finance or financing deficits by incurring arrears with government suppliers or by taxing the financial sector.

2.2.1. Policy Declarations

This situation could not continue indefinitely and called for a remedy, and this remedy has to come as part of a comprehensive reform package, as previous piecemeal reform efforts failed to influence the economy in the desired direction. It was against this backdrop that the government published its reform programme called National Economic Salvation Programme 1990-1993. It is based on the recommendations of the First National Economic Conference.

This in effect could be considered as the beginning of the current series of reforms.

With respect to fiscal policies, the document declared:

1- reduction and complete elimination of fiscal deficits of the current budget over a period of three years starting in 1990/91, and a commitment not to use deficit financing except for production after that period;

2- reduction of subsidies through the introduction of a two-tier pricing system for subsidised goods with the objective of helping the poor sectors of the community, while charging the market price of these commodities to the able sectors. The system will be immediately introduced for sugar and petroleum products and would be expanded to cover other commodities wherever it is administratively feasible;

3- to reduce allocations for chapter 1 of the budget (wages and salaries) by:

   - reviewing the civil service and parastatal sector with the objective of eliminating surplus posts and reducing disguised unemployment;

- establishing a special fund to retrain surplus workers and reemploy them productively;

- monitoring and rationalizing the use of government cars, telephones and other items to reduce government expenditure and to review chapter 2 of the budget with the objective of reducing central government expenditure.

4- reviewing the tax system to reform taxes to ensure equity and consistency with the Encouragement of Investment Act. Steps to be taken in this regard will include:

  - making direct taxes to the main source of revenue, and moving towards a unified and more simple tax system;

  - raising tax exemption levels for small producers with the objective of encouraging production;

  - broadening the tax base and reducing the maximum rate applied on business profit tax while gradually adjusting the tax system to encourage the establishment of public companies as against private companies;

5- expanding the application at a reasonable rate of the sales tax to include most commodities and services. Food commodities will not be included;

6- to use banking system for the collection of business profit tax on commercial activity by asking commercial banks to withhold for the account of the Taxation Departments a certain percentage of the calculated profit on each murabaha transaction. The concerned customers will settle their taxes at the end of the year, with the Taxation Department on the bases of their filed accounts;

7- to review excise taxes on production in case of the introduction of general sales tax on locally manufactured commodities to avoid double taxation;

8- to review customs rates with the purpose of rationalizing and simplifying the system by limiting it to few rates as a step towards applying a unified rate for all commodities;

9- to assist commercial banks to provide remunerative rates of return on investment deposits to facilitate mobilization of private savings and help in mopping the liquidity overhang in the hands of the public. One way would be to authorize commercial banks to adopt and implement a murabaha programme to finance government purchases where the government undertakes to pay remunerative returns on such guaranteed murabahas;

10- to explore possible sources to finance local government by the introduction of at least one new tax during fiscal year 1990/91 to reduce pressure on central budget;

11- to broaden collection of zakat and strengthen its administration

(Ministry of Finance and Economic Planning. 1990 : 6-7).

Between October 1991 and June 1992, the Minister of Finance and Economic Planning re-emphasized these policies in detailed policy statements. However, it is the Comprehensive National Strategy 1992-2002 which placed all previous policies in the broader economic and philosophical context. According to this document, the fiscal strategy was spell out as follows:

1- the government budget should be a reflection of economic policies in all the sectors of socio-economic activity;

2- the application of fiscal policies should take aggregate supply and aggregate demand into consideration, and should be consistent with other macroeconomic policies;

3- the policies should aim at increasing production in all sectors, and especially the agricultural sector;

4- promoting self-reliance and increasing foreign earnings from exports, loans and grants are important components of the fiscal strategy.

In addition, fiscal policies and reforms include the following:

5- eliminating overall budget deficit with the eventual aim of achieving surplus by gradually removing subsidies, starting with non-consumer targeted subsidies, and by restricting deficit financing;

6- opening a separate account for the development budget to be financed from private and public sources, inside and outside the country;

7- reducing the number of public enterprises and restructuring the remaining ones;

8- liberalizing markets and prices;

9- raising central government revenues as per cent of GDP to 25% and keeping central government expenditure as per cent of GDP below 20%;

10-relying more on direct taxes and less on indirect taxes in order to ensure social equity;

11-broadening the base of non-tax revenues, including cost-recovery plans;

12-prohibiting extrabudgetary activities and preparing cash budgets which should take into account stocks in stores;

13-macroeconomic policies adopted by the central government shall be valid at sub-national levels;

14-the states shall rely on their locally-generated resources, and must increase their revenues as per cent of GDP;

15-the Ministry of Finance and Economic Planning shall establish units of the Ministry in other central government ministries and departments and in the states, the objective being to monitor performance;

16-introducing performance budgeting;

17-gradual reduction of the size of "centralized" allocations in the budget;

18-making use of cash budgets in order to properly allocate liquidity in the various sectors;

19-gradually introducing mini budgets, so as to eventually have a budget free of previous obligations;

20-striving to widen the tax net and limiting tax exemptions;

21-more reliance on direct taxes, especially progressive taxes. Efforts will be made to tax commodities and services at progressive rates, but exempting basic goods and services;

22-reviewing tax rates in order to encourage investment (both domestic and foreign) as well as private savings and small and medium-sized entrepreneurs and producers;

23-reviewing the provisions concerning penalties and incentives in the tax law in support of tax reforms;

24-strengthening tax administration;

25-introducing fundamental changes in the tax laws, policies and procedures as well as in the agencies responsible for taxation, supervision, auditing and accounting in order to ensure efficient resources mobilization and equity;

26-directing all government units, enterprises and companies to cooperate with the Department of Taxation on the provision of accurate and reliable information;

27-reviewing the rates of excise duties on regular basis so as to be in conformity with changing conditions;

28-widening the sales tax base;

29-protecting local industries by raising tax rates on imports;

30-simplifying customs procedures;

31-improving tax and customs data- and information bases;

32-intensifying the training of cadres in the taxation and customs units;

33-strengthening the units which combat smuggling;

34-increasing the number of duty free shops;

35-incorporating the Zakat budget into the general budget, in lumpsum;

36-the Zakat administration is the sole authority on issues of Zakat;

37-improving Zakat collections;

38-the federal financial laws, regulations and procedures shall apply to the states, for the purpose of standardization;

39-the budget of the state is a complete programme for the achievement of the economic objectives of the state as well as national economic objectives. In this connection it must take into account the national economic, fiscal, monetary and investment objectives;

40-relating state revenue to GDP and increasing the per cent of revenue to GDP by more than the per cent of expenditure to GDP;

41-the central government grants to the states shall be utilized for development only.

42-the states shall give priority to spending on state, provincial and local development in order to strengthen infrastructure for development;

43-the states and local councils shall improvise new sources of revenue;

44-continuous consultations and coordination between the central government and the states and between the states themselves on issues of taxes and excises, of which the two levels are jointly responsible, is essential;

45-the state governments shall seek the opinion of the Ministry of Finance and National Economy on any decision, action and law which have financial implication for the central treasury.

(Centre for Strategic Studies. 1992 : 94-96)

It is clear that the above formulation of fiscal policies and reforms reinforces that in the National Economic Salvation Programme 1990-93. Subsequent pronouncements by the Minister of Finance and National Economy in his annual budget speeches and on other occasion are more in the nature of details and articulations than departure from the basic tenets.

In general the aims of the fiscal policies and reforms in the Sudan are: firstly, to reverse the chronic government budget deficits and secondly, to yield more revenue for the government in order to promote growth, economic stability and equity.

2.2.2. Implementation of Policies and Reforms

Following these policy declarations, significant steps were taken to reduce the budget deficits. On the revenue side, performance was rather weak. Total revenue experienced a steady decline relative to GDP from 8% in 1991/92 to 6.4% in 1995. This decline was mostly the result of a decline in non-tax revenues reflecting a sharp drop in the profits transfers from public enterprises and weak collection of fees and charges. The decline in tax revenues was much smaller and was entirely the result of poor performance of taxes on international trade. But there was a somewhat better performance of direct taxes and taxes on domestic goods, which partially offset the weak performance of taxes on international trade.

Overall the weak revenue performance during the period 1991/92 – 1995 was due to several factors: First, GDP growth in the Sudan is driven by agriculture, which is taxed mostly at the local level. Second, some taxes are defined in *specific* terms, as opposed to *ad valorem*, thus reducing their responsiveness to changes in national income. Third, the wide application of presumptive taxation and slow adjustment of tax brackets depressed the responsiveness of direct taxes to changes in national income. Fourth, the proliferation of tax exemptions weakened the taxbase. Fifth, the use of exchange rates for customs valuation, which was even more appreciated than the official exchange rate, adversely affected revenue on taxes on imports. Sixth, the weakening of the public enterprises financial position limited and/or reversed their contribution to the budget. Finally, the general weakness of tax and customs administration contributed to the low levels of tax collection.

On the expenditure side, fiscal adjustments during 1991/92-1995 relied fully on reductions in domestically financed expenditure which declined by 6% of GDP during this period. This outcome was achieved through deep cuts in development expenditures. The reductions in current expenditure was mostly on account of the curtailment of extra budgetary spending and the sharp reduction in subsidies. Despite these efforts, further reductions on current expenditure was not possible due to budgetary overruns, resulting mainly from lax control over the issuance of government guarantees, and the continued government support for domestic petroleum prices.

In general, although there where strong fiscal adjustment and reforms in the early part of the 1990's, there was some relaxation of fiscal policies in the second half of 1995 when fiscal performance became more expansionary than envisaged.

During that period, there was a shortfall in total revenue, which was Ls/65 billion compared with a target of Ls 206 billion. The shortfall occurred in several categories, in particular the minimum turnover tax and revenues from fees and charges. At the same time, there was a high rise in extrabudgetary expenditure caused mainly by the failure to recover the higher costs of petroleum products stemming from a depreciated exchange rate and shortfalls in the collections by the General Petroleum Administration.

As a result, net government borrowing during the second half of 1995 amounted to Ls 82 billion compared to a minimum of Ls 43 billion as planned.

The expansionary fiscal stance continued in early 1996. It was estimated that net government borrowing reached at least Ls 24 billion during the first quarter of 1996 compared with a limit of Ls 15 billion envisaged by the government for the first six months of 1996. Extrabudgetary outlays for petroleum products persisted and salaries were adjusted by 54% in January 1996. At the same time, revenue shortfalls were substantial, including in fees and charges, receipts in the sale of petroleum products, and collection of business profit taxes. Further, intense political pressures associated with the presidential and parliamentary elections in March 1996 had necessitated additional expenditures and may have weakened revenue collection efforts.

This expansionary trend in the second half of 1995 and early 1996 contributed to the rise in inflation during that period from 57% in June 1995 to 103% in March 1996 thereby reversing the decline which was achieved in 1995 as shown in table 3.1 (IMF, June, 1999: 21-25).

Effort to implement the fiscal reforms in a more rigorous manner and to reverse this situation led to the implementation of the following measures during the second half of 1996:

- an increase in domestic prices of petroleum products: for diesoline, from Ls 1,700 to LS 2,500 per gallon ; for gas oil, from Ls 600 – 700 per gallon to a unified price of Ls 1,2 00 per gallon; for furnace oil, from Ls 130,000 to Ls 180.000 per ton;

- an increase in fees and charges: for the Ministry of Interior by 135%; for federal roads by 50%; for government hospital fees by 120%; and for all others by 30%;
- an upward adjustment in stamps duties for all 529 items by 50 – 900%, with an average increase of about 200%.

In addition, various ministerial (Minister of Finance & National Economy) decrees were issued in May and June 1996, with the objective of generating additional revenues, curtailing expenditures and imposing fiscal discipline as follows:

- require all public enterprises to submit all audited accounts to the Auditor-General and the Ministry of Finance & National Economy for approval by the National Assembly (parliament) within 30 days (Decree 27);
- eliminate ad hoc taxes and customs duty exemptions (Decree 32);
- revoke most customs duty exemptions granted to exporters and to local charity organizations as of October 30, 1996 (Decree 50);
- ban all incentives extended by government units and public enterprises without prior consent of the Ministry of Finance & National Economy (Decree 35);
- create a Higher Council for Revenues to monitor monthly revenue collection efforts (Decree 40);
- prohibit all government units and public enterprises from purchasing used vehicles and equipment from the local market (Decree 46);
- eliminate purchases of vehicles and expenditures on building maintenance and rehabilitation by the government as of June 9, 1996 (Decree 38);
- form various committees to review existing tax regulations and to make recommendations on further reforms (Decrees 23, 25, 26, 27, 34, 39, 41 and 42);

- eliminate the practice of providing financial assistance to government officials to visit Mecca on pilgrimage, effective this high season (Decree 48);

- require all government agencies, with virtually no exceptions, to transfer fiscal revenue to main government account at the Bank of Sudan (Decree 36); and

- form a committee to review the allocation of cars to government officials and review ways and means to cut petroleum consumption by the government (Decree 44).

As a result of these measures, revenue performance at the end of 1996 improved markedly with collection rising to 7% of GDP. Almost all the revenue improvement in 1996 was due to revenue on international trade, which in turn reflected the extension of consumption tax to most imports at the rate of 10% effective January 1996, the significant reduction in the spread between the exchange rate used for customs valuation and the official rate, and the initiation of major institutional reforms in the customs administration. (IMF, June 1999: 21-27).

In 1997 and 1998, the drive for tax reforms and the strengthening of tax administration were accelerated. The measures adopted included:

- full application of the official exchange rate for customs;

- the impositions of taxes on petroleum products;

- further efforts to improve tax and customs administration. These included the establishment of bonded warehouses, which enabled better monitoring of the traffic of imported goods;

- transforming specific taxes into ad valorem taxes;

- curbing the powers of ministries and departments to retain internally-generated revenues, such as fees and charges.

- The full impact of these measures was to boost revenue in 1998 to 8% of GDP.

- On the expenditure side, the measures implemented to reduce expenditure included:

- further cuts in development expenditure, which declined from 0.4% of GDP in 1996 to 0.2% in 1998;
- reduction in expenditure on services, mostly on maintenance and subsidies;
- improvement in budgetary controls, such as the amalgamation of all extrabudgetary funds into the budget, and implementation of strict controls with respect to issuance of government guarantees (IMF, June 1999: 21-27).

But the compression of expenditure over the years left very little scope for discretionary spending. The fixed components of public expenditure in the 1998 budget were as follows:

item	as per cent of total Expenditure
1 – Salary and Wages	35
2 – Debt Service	9
3 – General Reserves	11
4 – Transfers	5
5 – Other Obligations	9

Source: Ministry of Finance and National Economy: 1998 Budget

That left only 18% for goods and services and 7% for development expenditure. The 1998 budget had also to accommodate unforeseen events and disasters, such as floods.

Although there was no much room for expenditure compression, the reform measures implemented in 1997 and 1998 helped in sustaining the containment of expenditure.

In spite of these endeavours, however, the war in South Sudan as well as in the east and west of the country continues to divert budgetary resources away from productive use. And the difficult political relations with many countries and organizations; have limited access to external resources and undermined private sector confidence. Besides, the external debt burden is unsustainable.

Some of the drawbacks which constrained the effective implementation of the fiscal reform measures in recent years include:

a) persistent weakness in tax administration and delay in the introduction of value-added taxes (VAT);

b) numerous exemptions under the Encouragement of Investment Act;

c) serious need to enhance fiscal transparency, particularly expenditure on the army and the security organs;

d) proper articulation of fiscal relations between the centre and the states is an imperative.

3. MONETARY AND CREDIT POLICIES AND REFORMS OF THE FINANCIAL SECTOR

3.1 General Objectives and Processes

Generally speaking, the main goals of monetary and credit policies are to maintain low rate of inflation and suitable levels of economic activity through adequate interest rates. Monetary and credit policies are operated through the financial sector[1]. These policies provide necessary incentives to the private agents of production. In the most ideal setting, according to neo-classical economics, interest rates are expected to be flexible and market-determined, while the allocation of credit is to be subjected to the forces of demand and supply. A corollary to this objective is to keep the real interest rate positive, that is, to keep nominal rates ahead of inflation, in order to encourage savings.

Just like any other business concern, banks should aim at profit-maximization. They should preferably be under private ownership, and foreign ownership should not be discouraged. Bank funding of investment should be coupled with other forms of saving – in equities and bonds. Development of a capital market (where stocks and bonds are traded) is seen as a logical progression, which ultimately leads to the integration of the domestic capital market with the global capital market. To achieve this, restrictions on capital inflows should be lifted, and, eventually, full convertibility of currency in capital accounts, which is the ultimate in global integration, should be realised. Once such integration is achieved, interest rates and exchange rates no longer remain under government control, and emerge from the interaction of demand and supply forces in the World market.

Responsibility for monetary policy is largely in the hands of central banks. In their conduct of monetary policy, they set short-term interest rates. These affect the cost of borrowing throughout the economy, from money markets to mortgage rates,

[1] The financial sector is composed of: First, financial intermediaries such as banks, insurance companies, savings- and –loan associations (bulding societies), mutual funds and pensions funds. Second, financial markets comrising the stock exchange, the bond market (government or coporate) the money market for short term securities, the foreign exchange market and the market for derivatives (futures, scoaps and options).

and they have an additional influence through their impact on exchange rates, inflation and growth.

Although central banks are tiny participants in huge financial markets in terms the securities they handle yet they somehow affect the level and structure of interest rates and yields.

The reason the central bank can set interest rates is that it has a monopoly of supplying bank reserves. Banks are required to hold a fraction of money deposited with them in a reserve account at the central bank. The interest rate at which banks demand for reserves matches the central banks supply is known as the central bank funds rate; this is also the rate at while banks lend reserves to each other overnight. The central bank controls it by changing the supply of reserves through sales and purchases of government securities known as open market operations.

When the central bank wants to raise the central bank funds rate, it sells government securities. It receives payment by reducing the account of the buyer's bank, which reduces the volume of reserves in the banking system. Because the banks' demand for reserves exceeds supply, the central bank funds rate is bid up until excess demand is eliminated. And when the central bank wants to lower the rate, it buys government securities, which increases banks reserves and bids down interest rates. Because the supply of banks reserves exceeds demand, the rate falls.

The central bank can also influence the central bank funds rate indirectly in two ways: by changing the discount rate (the rate at which it will lend reserves to banks) or by altering banks reserve requirements (the fraction of their deposits that they are required to hold as reserves). Raising the discount rate makes it less attractive for banks to borrow reserves. This reduces the volume of reserves, which pushes up the central bank funds rate. Increasing reserve requirements boosts banks demand for reserves, which also bids up the central bank funds rate. In both cases, the reverse process is true for reducing the central bank funds rate. But central banks usually prefer to control the rate through open market operations, which have a more stable and predictable impact on the money market.

Changes in the central bank funds rate ripple through the financial markets and the economy. They have knock-on effects on the interest rates, at which banks lend to households and enterprises, hence the amount of credit in the economy, and they influence long-term interest rates, too.

As indicated above, most central banks set monetary policy with the aim of keeping inflation low. In many countries, the aims of monetary policy are defined by the government, but the central banks are allowed to pursue them without political interference.

To meet their aims central banks usually adopt intermediate targets as well. These targets guide policy and their main features are predictability and controllability. One such target is the money-supply growth. The narrowest money-supply measure is the monetary base (Mo), which consists of cash and bank reserves. M1 also includes demand deposits. Broader measures such as M2 and M3 include interest-bearing deposits and short term securities as well. Central banks have greater control over narrower measures, but broader measures are closely correlated with future price changes. The drawbacks of money-supply targets are: first, the historical relationship between money-supply growth and inflation has broken down, and second, financial deregulation and innovation has made the demand for money unpredictable.

The second target is the exchange rate target. Here, a small least developed economy with a poor record of controlling inflation can peg its currency to that of a strong low-inflation economy. But, with freely mobile international capital movements, exchange rate pegs have become vulnerable to speculative attack.

The third option is to target inflation directly by having explicit inflation targets which the central bank has to meet. The advantages of this approach include transparency and accountability. But it has its problems, too. For one thing, because monetary policy operates with long lags, central banks have to adjust policy on the basis not of current inflation, but of future inflation, which is difficult to forecast.

In concluding this section, it must be pointed out that the central banks have other functions. As well as setting monetary policy, the central bank supports and regulates the banking system, notably by acting as a lender of last resort to banks in financial distress. Thirdly, many central banks used at one time (and some continue) to finance government budget deficits. But, because the net effect on money supply of the tools used are either ineffective or harmful, many countries have abandoned this approach.

3.2 Monetary Policies and Performance

3.2.1 The Policy Objectives

The objectives of monetary and credit policies in the Sudan have always been expressed in general terms, without any definite focus. This is evident from the various official documents from the Ten-Year-Plan for Economic and Social Development 1960/61 – 1970/71 to the Comprehensive National Strategy. Even the Act and regulations of the Bank of Sudan do not shed much light on the main goals of monetary policy. Nor do annual reports of the Bank of Sudan provide any clues in this regard. These reports are concerned with the general performance of the Sudan economy. They report on issues such as the GDP, production by sectors, money-supply, banking and financial institutions, public finance, foreign trade, balance of payments and foreign exchange policies, inflows of external resources and Bank of Sudan financial statements for the previous year. There is no mention of the objectives which should be achieved. Instead, the role of the Bank of Sudan is defined to be to finance the government budget (Ministry of Finance and National Economy, 1990: 7-8; IMF, 1999: 34). The implication of this is that the objectives of the monetary and credit policies coincide with the government economic objectives in general. This practice stems from the institutional arrangement where the Bank of Sudan falls under the Minister of Finance and National economy. In other words the Bank of Sudan, which is responsible for monetary and credit policies, does not enjoy any independence.

More recently, however, the objective of the Bank of Sudan has been gradually and informally changed from the task of financing the budget deficit and credit allocation to that of inflation control (IMF: 1999: 38).

3.2.2. The Policies

The first major document to state the monetary policies and reforms more fully is the National Economic Salvation Programme 1990-1993. It says that the monetary and credit polices shall be as follows:

a) maintenance of policies that would help to stabilize exchange rate at its current levels for a reasonable period of time;

b) to adjust credit policies, with the objective of establishing direct linkage of credit and production, and to strengthen credit monitoring to curb inflationary financing of non-production activities;

c) the acceleration of islamization process of the banking system (including the central bank, commercial banks and specialized banks) and insurance companies, and changing the existing rules and polices, to achieve this objective;

d) establishment of a capital market for trading in financial papers;

e) consistent with export liberalization, the export sections in the Ministry of Trade and the Bank of Sudan are to be scaled down;

f) privatization of government-owned commercial banks by transforming them into public companies and starting with an immediate privatization of Sudan Commercial Bank;

g) to start capitalization of public and private debt owed to commercial banks on the basis of acceptable agreement and to issue new shares to be sold to the public. (Ministry of Finance and National Economy, 1990: 7-8)

These policies have been further elaborated in the Comprehensive National Strategy 1992-2002. According to this document, the monetary policies are directed towards the realization of the following objectives:

a) full utilisation of available resources;

b) promoting economic development;

c) maintenance of price stability and low inflation;

d) achievement of self-reliance;

e) equitable distribution of income;

f) fostering balanced regional development.

According to the document, these objectives shall be achieved through:

1) setting overall credit ceilings;

2) setting sectoral credit ceilings, in order to encourage priority sectors and promote production;

3) linking credit ceilings to actual deposits, so as to provide finance from real resources;

4) linking the amount of capital of commercial banks with the size of financing provided by these banks;

5) increasing the level of capital of specialized banks, out of their surpluses and profits;

6) allowing the specialized banks to raise part of their capital through public floatation;

7) augmenting the resources of the specialized banks from foreign loans and grants;

8) devising ways and means to utilise the financial resources of insurance companies;

9) widening the financial sector by encouraging the establishment of development finance firms, investment banks and other financial institutions;

10) devising methods which will make it possible to utilise all financial resources properly.

With regard to the external sector, the objectives of monetary policies are:

a) consolidating the position of external reserves;

b) correcting the external disequlibrium.

These objectives shall be achieved by:

1) adopting the policy of self-reliance as a permanent strategy while at the same time promoting good external relations, with the objectives of encouraging foreign investment;

2) concluding trade agreements with friendly countries;

3) promoting trade through preferential trade agreements, bilaterally and regionally;

4) attracting foreign resources through private institutions, such as banks and national development financing agencies;

5) continuing with the policy of repaying foreign debts, in particular the most urgent ones.

Concerning the development of financial institutions, the policy aims at:

a) horizontal expansion of existing institutions through more branches, agents, mobile exchanges and similar channels;

b) encouraging the establishment of financial institutions whose procedures are simple and flexible;

c) consolidating financial institutions horizontally and vertically;

d) creating and deepening awareness among the citizens about the benefits of saving and investment;

e) promoting the establishment of specialized financial institutions which focus on certain sectors and roles;

f) establishment of a deposits guarantee agency;

g) developing and generalizing various approaches to, and techniques of, investment;

h) establishment of stock exchanges;

i) devising channels for financing small-scale producers, artisans and craftmen;

j) providing means for collective financing of major development projects;

k) simplifying administrative procedures relating to guarantees including the reduction of fees, and introducing new techniques of guarantees;

l) encourage the formation of producer unions and producer cooperative societies, and arranging suitable financing for them.

Concerning islamic financing modes, the approach shall be:

1) for the Ministry of Finance and National Economy and the Bank of Sudan to implement the islamization of financial institutions;

2) the formulation and implementation of a training and staffing plan for these financial institutions;

3) the revision of syllabuses on economics, commerce, banking and law in the universities and higher institutes, in order to incorporate into them islamic ideas and principles.

As regards insurance companies, the policy shall be:

a) introducing sharia and arabic into insurance business;

b) ensuring a proper representation for the insurance supervisory body and the insurance sector in all committees and councils formed to examine issues relating to insurance laws, regulations and policies;

c) re-energising the insurance sector, diversifying the forms of insurance coverage and increasing the number of policy holders;

d) issuing appropriate laws to make insurance compulsory for all enterprises, companies and units;

e) paying special attention to training, and introducing insurance studies in the faculties of economics and commerce;

f) establishing an institute for insurance studies;

g) increasing the retention limit in all reinsurance agreement to 35% of the total premiums paid;

h) increasing the size of mutual insurance to 35% by the end of the programme;

i) strengthening the insurance companies financially by encouraging more investment in this field and revising the legal reserve requirements in their favour.

More of these policies and reform measures are contained in the budget speeches of the Minister of Finance and National Economy (Minister of Finance and National Economy, 1997: 12, 17-18; 1998: 23-24; 1999: 8-10, 26), and in the monetary and credit policies issued by the Bank of Sudan at the beginning of every fiscal year.

3.2.3. Implementation of Policies

Over the past several years, the high inflation which the country has been experiencing, as shown in table 3.1, led to a high degree of financial disintermediation and a rise in velocity.

Table 3.1: Consumer Price Indices and Inflation Rates, 1979-1998 (Base Year, January 1990 = 100)

	High Income Group		Middle Income Group		Low Income Group			
Year	Price Index	Inflation Rate	Price Index	Inflation Rate	Price Index	Inflation Rate	Unified Price Index	General Inflation
1970	1.09	0.99				1.04		
1971	1.10	0.92			1.00	1.01	1.05	0.97
1972	1.19	8.18			1.12	12.00	1.16	10.09
1973	1.38	15.97			1.30	16.07	1.34	16.02
1974	1.71	23.91			1.65	26.92	1.68	25.42
1975	2.07	21.05			2.05	24.24	2.06	22.65
1976	2.11	1.93			2.08	1.46	2.10	1.70
1977	2.48	17.53			2.43	16.83	2.46	17.18
1978	2.97	19.76			2.84	16.87	2.91	18.32
1979	3.97	33.67			3.81	34.15	3.89	33.91
1980	5.02	26.45			4.79	25.72	4.91	26.09
1981	6.13	22.11			5.89	23.00	6.01	22.56
1982	7.87	28.38			7.48	27.00	7.68	27.69
1983	10.37	31.77			9.76	30.48	10.08	31.13
1984	13.55	30.67			13.10	34.22	13.33	32.45
1985	19.95	47.23			19.05	45.42	19.50	46.33
1986	25.60	28.32			24.72	29.76	25.16	29.04
1987	31.76	24.06			31.12	25.89	31.44	24.98
1988	46.58	46.66			47.18	51.61	46.88	49.14
1989	81.66	75.31			81.55	72.85	81.61	74.08
1990	134.99	66.80	134.30	67.40	137.50	68.61	134.86	67.38
1991	295.70	120.18	306.00	123.70	305.00	121.82	303.07	122.52
1992	666.41	125.37	665.90	117.60	650.90	113.41	664.30	119.24
1993	1338.20	100.80	1340.40	101.30	1310.70	101.43	1336.35	101.18
1994	2899.90	116.70	2888.30	115.40	2843.20	116.92	2886.24	115.93
1995	4944.20	70.50	4863.20	68.40	4787.50	68.38	4876.53	68.97
1996	11040.00	123.30	11317.60	132.70	11263.50	135.30	11235.54	130.44
1997	16179.10	46.40	16604.30	47.70	1649.10	46.40	16475.09	47.19
1998	18891.30	16.80	19444.90	17.10	19298.60	17.60	19276.80	17.01

Source: Central Bureau of Statistics, October 1999, Khartoum

The expansion of broad money during the period 1992-1996 averaged 85%. This decelerated to 30% in 1998 (IMF, June 1999: 32). With the economy significantly demonetised during the period 1992-1996, the task of conducting effective monetary policy became increasingly difficult.

The immediate challenge was to bring inflation down so that the rate of return on deposits becomes positive. This would lead to more intermediation in the financial sector, which is good for the conduct of monetary policy. But instead of concentrating on measures, such as tightening credit ceilings to the private sector and the government, the authorities expended a lot of time and effort on islamization programme and on experimenting with new instruments with which to conduct monetary policy and reforms in line with islamic precepts.

The Sudan introduced islamic banking in 1984 and adopted it universally in 1992. The main feature of islamic banking is the prohibition of charging of interest in financial transactions. Deposits and financing operations are conducted under various modes. The most frequent ones are briefly described below (IMF, 1999: 35):

a) Musharaka: is an equity participation contract between the bank and the client. The two parties contribute jointly to finance a project. The main features of this instrument are: (i) profits are shared according to an agreed ratio, but losses are borne in proportion to contribution; (ii) the contract can be open-ended or tied to a specific project; (iii) each party has an option of participating in the project management ---- usually the bank;

b) Mudharaba: is another equity participation contract. It is a trustee-type finance contract, where one party provides capital and the other labour. The main features of this contract are: (i) profits are distributed according to an agreed ratio; (ii) in case of a loss, the provider of labour will not be compensated for labour, while the provider of capital bears all the financial loss, provided there was no violation of contract, mismanagement or criminal conduct on the part of the working partner; (iii) the Mudharaba Contract can be restricted (e.g. to a specific transaction) or unrestricted; (iv) the restricted mudharaba cannot be terminated until its conditions are fulfilled;

c) Murabaha: is a debt instrument. It is a purchase and resale contract, with the resale price based on cost plus profit mark-up. The bank purchases the goods ordered by the client and resells them to him at a higher price, usually on deferred payment. The main features of this contract are: (i) the cost and mark-up must be known to the bank and the client; (ii) the bank must assume ownership of the goods prior to reselling them to the client (bearing all the ownership risks in the interim); (iii) the client's promise to buy the goods, purchased on his behalf by the bank, may or may not be binding. In the Sudan, it is binding; (iv) no interest is levied on late payments, but the bank could require collateral; (v) the bank cannot sell a murabaha contract to a third party except at par;

d) Salam: is another debt instrument. It is a purchase contract with deferred delivery of goods (opposite the murabaha) and is mostly used in agriculture finance. The main features of this contract are: (i) the contract applies only to products where availability on maturity date is normally assured and their quality and quantity can be specified; (ii) the bank pays the client the full negotiated price of the contracted goods (eg. crops) when the contract is signed; (iii) the seller is only obliged to deliver the promised products or the price he received from the bank if the products could not be delivered; (iv) the contract can be sold to a third party only at par;

e) Qard al-Hasan (Good Loan): is also a debt instrument. It is an interest-free loan contract, usually collateralized;

f) Ijara: is a quasi-debt instrument. It is a leasing contract where a party leases an asset for a specified amount and term. The main features of this contract are: (i) the owner of the asset (the bank) bears all the risks associated with ownership; (ii) the asset can be sold at a negotiated market price effectively resulting in the sale of the ijara contract; (iii) the contract can be structured as a lease-purchase contract, where each lease payment includes a portion of an agreed asset price; (iv) the contract can be made for a term covering the assets expected life.

These islamic financial instruments do not differ very much in substance from the more commonly used instruments. Despite their exotic names, they are close variants of the more familiar instruments, with the same objectives. But the islamic instruments can earn only "profits" and not "interest".

All in all, these efforts have been a unique challenge in the development of market-based instruments for monetary control and government finance in the Sudan. For effective indirect and market-based monetary controls, the Bank of Sudan needed to have discretionary controls over the growth of reserve money. Invariably, this would be facilitated through: (a) the existence of independent funding markets for the budget; and (b) the availability of flexible instruments with which to offset and regulate the flow of liquidity. These have been absent in the Sudan and these have frequently perpetuated reliance on direct controls. In addition, the absence of the money market, and the inability to create them, as promised in the policy pronouncements, has led to large swings in banks reserves.

Efforts are in progress for the development of islamic instruments for monetary control and government finance. In this respect, the authorities are striving to have in place two instruments: The Central Bank Musharaka Certificate (CMC) and the Government Musharaka Certificate (GMC). The former is intended to be used for managing banks liquidity and the latter to raise funds for the government. Without doubt, this is uncharted monetary territory, coupled with the fact that the conduct of monetary policy is usually a complex matter. It is therefore too early to pass a judgement on the impact of monetary policy on inflation and the economy. It is equally not clear whether this approach is consistent with the liberalization of the financial sector.

4. TRADE AND EXCHANGES RATE SYSTEM AND REFORMS

4.1. Nature of Trade Liberalization

Discussion on trade liberalization complements that in the preceding sections. The standard prescriptions on policies related to trade regime have their origin from a common economic philosophy and the shared views of the International Monetary Fund, the World Bank and the General Agreement on Tariffs and Trade/World Trade Organization. The summary of these shared ideas goes as follows:

a) trade benefits every participant though some benefit more than others;

b) the productivity and efficiency of a country's economy are linked with its outward orientation. The rate of growth of an economy is positively correlated with its degree of integration within the global economy. In contrast, the inward-looking economies tend to be inefficient and generate low growth;

c) the theory of comparative advantage determines what a country can produce and export best;

d) any barrier to trade in the name of self-sufficiency based on a strategy of import-substitution promotes inefficiency. Import controls and regulations, make the production of tradable costly, thus taking away any comparative advantage in producing them. They impose heavy welfare costs on consumers in terms of higher prices of import substitutes. Further, such controls encourage rent-seeking activities that cause further diversion of resources for the unproductive pursuits and impose further welfare loss on the economy;

e) even if import liberalization results in the closing down of some lines of domestic production, it is inevitable and is welcome as it helps to determine which of the domestic productions are and are not in tune with comparative advantage. Armed with this knowledge and the weeding out of inefficient industries, domestic resources would now be diverted to industries that enjoy comparative advantage, thus leading to growth;

f) subsidies distort allocation of resources and do not allow market forces of demand and supply to equalize and, thus, determine the desirable level of prices and output at which the market cleared. Any restraint on the free functioning of market forces, particularly by the state, is bad per se. There should be no interference with the entry of multinational corporations in the domestic market, or of their capital and remittances. The government should be neutral and non-discriminatory in its attitude towards them;

g) The world trade is, on the whole, free and competitive, and the prices ruling in the world market emerge from the interaction of the forces of demand and supply, and hence, are rational and objective, and reflect the scarcity value of the products in question. A country would do well to take these prices into account in deciding which products to promote and which not to promote for both production and export. (Dasgupta, 1998: 138-139)

These views are supposed to form the basis of trade policies in the less developed countries and everywhere. But such a trade regime does not exist in practice, not even in the developed countries, which are behind such views. On the contrary, these countries impose many trade barriers to trade, provide massive subsidies to their farmers, are members in regional economic blocks and try to be self-sufficient in items, such as wheat and oil, on which they do not necessarily enjoy comparative advantage. Indeed, trade restrictions imposed by developed countries take a variety of forms. These barriers take the form of safeguards, anti-dumping legislation's and countervailing duties, voluntary export restraints, multifibre agreement, Super 301 and voluntary import enhancement.

Trade liberalization is an important step towards free trade and, as noted above, it is expected to provide unmitigated benefits, at least in goods. But the actual improvement in the trading environment facing the least developed countries can be substantially more limited than it might first appear (UNCTAD, 1996; 28-32).

All the same, trade liberalization policies have been formally adopted, and are being implemented, in many developing countries.

4.2. Policy Measures for Trade Liberalization in the Sudan

Sudan's external sector has been facing severe difficulties over a period of several years as shown in table 4.1.

Table 4.1: Balance of Current Account (in Million US $) 1981/82-1998

1981/82	-1,183.0
1982/83	- 774.0
1983/84	- 558.0
1984/85	- 234.0
1985/86	- 299.0
1986/87	- 178.0
1987	- 709.0
1988	- 240.1
1989/90	- 225.3
1990	- 76.1
1991	- 101.3
1992	- 87.0
1993	- 84.1
1994/95	- 1,420.7
1995	- 1,479.1
1996	- 1,547.6
1997	- 1,639.1
1998	- 1,995,5

Sources: Bank of Sudan, Annual Reports; Ministry of Finance and National Economy, Annual Economic Surveys; IMF, June 1999

NB: Figures for the year 1994/95 – 1998 are revisions by IMF staff based on information obtained from government authorities.

Even figures for the 1960s and 1970s show a persistent deficit in the balance of payments. Among the factors contributing to this deterioration are: (i) loss of competitiveness by Sudanese exports and dependence on a few export items; (ii) general decline in the terms of trade; (iii) general decline in production for export due to a shift in incentives in favour of non-tradable; (iv) the inability to attract remittances from Sudanese nationals working abroad, through official channels; and (v) the loss of traditional markets, such as China and India.

The trade reforms which were introduced in the early 1990s, as part of overall programme of economic reforms, were aimed at remedying this decline. In the external sector, the immediate aim was to reduce the balance of payments gap to a reasonable level. This would pave the way for achieving external balance, leading to growth in the long run.

The National Economic Salvation Programme 1990-1993 sets out the reforms in the external sector as follows:

1- strengthening of steps taken to increase exports, especially export of cattle and sheep and non-traditional and new exports like corn;

2- to export processed and semi-processed goods in which Sudan has comparative advantages, such as cotton yarn, textiles and edible oils, after agreeing with the owners of these industries on a rehabilitation programme with governments assistance and an equitable division of the proceeds of the programme;

3- liberalization of export prices and use of export price levels for indication only. Cotton and gum arabic will be exempt from the policy in 1990/91;

4- abolition of export licence system and limiting the procedure to a simple recording system for statistical purposes and the monitoring of repatriation of proceeds;

5- abolition of market monopolies for all agricultural commodities, starting with oil seeds at the beginning of the new season;

6- introduction of retention system whereby exporters (other than cotton and gum arabic) will be allowed to retain 40% for traditional exports and 100% for new or marginal commodities to be used by them according to the following guidelines:

   - to finance import of production inputs for priority industries including textile,edible oil, food industries, chemical industries and packaging industries;
   - all agricultural inputs and equipment;
   - inputs for transportation industry;
   - building materials;

7- to maintain the restriction of barter trade, self-financing system and nil-value;

8- sale of land in different cities to Sudanese nationals working abroad, to be paid for in foreign currencies;

9- to establish Mudharaba funds in foreign exchange to be managed by authorized banks only, with all dealings to be carried out in foreign currencies;

10-to expand the Duty Free Shops Corporation operation to cover main commodities;

11-to strengthen the existing procedures for smuggling control and organize border trade.

(Ministry of Finance and Economic Planning, 1990: 8-9)

The Comprehensive National Strategy 1992-2002 reaffirmed and elaborated these policies as follows:

1- liberalization of internal trade and allied activities;

2- abolition or reduction of export duties;

3- giving priority in allocating credit to export financing and creation of export fund;

4- increasing value-added by encouraging agro-industries and processing of agricultural produce;

5- simplifying export procedures by reducing the number of agencies dealing with different aspects of exportation and by creating more awareness of laws and regulations on export;

6- opening new markets abroad by intensifying trade promotion activities, making maximum use of international and regional organizations, and by establishing more honorary consulates and economic attaches;

7- satisfying the requirements of packaging and quality control;

8- involving the private sector in the formulation of trade laws and policies and in delegations travelling abroad;

9- establishing a livestock export chamber;

10-intensifying oil and mineral exploration for oil and mineral;

11-granting facilities and privileges for the production and export of gum arabic in accordance with the Encouragement of Investment Act;

12-expediting the establishment of National Export Council;

13-continuing with the on-going policy of promoting the cultivation of cotton in the rainfed sector;

14-creating an export stabilization fund;

15-replicating the experiences gained in spinning and tannery and in other areas, with the aim of increasing value-added.

(Centre for Strategic Studies, 1992: 198-199).

It is clear that the emphasis is on the promotion of exports, with the aim of increasing foreign exchange.

However the government remains committed to the liberalization policy with respect to imports. (Minister of Foreign Trade, 1997: 11)

4.3. Implementation of Policies and Reform

On the ground, the implementation of export policies witnessed some successes. The value of exports averaged $ 500 million per year during the period 1990-1995 and rose to $ 620 million in 1996. From 1992 to 1996, the value of exports increased by 77%. The annual rate of increase was as follows:

1993	6%
1994	26%
1995	31%
1996	12%

(Minister of Foreign Trade, 1997: 2)

Among the factors which contributed to this rise are: (i) increase in the number of export commodities from 27 in 1994 to 63 in 1996/97. The composition of Sudan's exports has diversified over the past few years to include, in addition to cotton and gum arabic, the traditional exports, a number of non-traditional ones, mainly: ground nuts, sesame, livestock, gold, meat, wildlife products, fish, drugs, charcoal, textiles and "guar" gum; (ii) the number of importing countries rose from 27 in 1994 to 62 in 1996/97. The new markets which were penetrated include: South Africa, Mexico, Vietnam, Ukraine, The Philippines, Belarus, North Korea, Saudi Arabia, United Kingdom, Germany and Italy. These improvements resulted partly from flexible policies on payment arrangements and trade promotion activities.

After this recovery, total exports declined in 1997 and remained the same in 1998. This was mainly due to a sharp fall in export prices and the adverse impact of floods on the output of irrigated schemes. The decline in export prices however masked a broad-based robust performance in the growth of export volume.

But despite this general improvement in the export performance, merchandize imports have increased at a faster rate since 1994/95. This increase in imports is a reflection of increased volume of imports. This itself is the outcome of the liberalization of imports. The Sudan no longer applies quantitative import restrictions. All goods can be imported to the Sudan except these which are prohibited by islamic values and security considerations such as spirits and wines, narcotics, gambling equipment, arms and ammunitions. In general, imports do not need import licenses except in a few areas where appropriate technical specifications are necessary and for statistical records. The imports of the following goods to the Sudan is subject to licensing:

item	Licence Granted by
Pharmaceuticals	Ministry of Health
Medicines, Medical Equipment, Foodstuff	Ministry of Health
Seeds, Fertilisers, Pesticides	Ministry of Agriculture and Forestry
Livestock, Poultry	Ministry of Animal Resources
Communications Equipment	Ministry of Communications and Roads
Arms and Ammunitions	Ministry of Interior
Airport Equipment	Civil Aviation Department
Sugar, Used or Second-Hand Goods	Ministry of Foreign Trade
Equipment and Industrial Imports	Ministry of National Industry
Toxic Chemicals	Ministry of Environment and Tourism

Source: World Trade Organizations, 1999: Accession of Sudan, Memorandum on Foreign Trade Regime

Broadly speaking, following the adoption of a trade reform package in 1996 which lowered a number of tariff bands and the maximum tariff rate, the pace of trade liberalization slowed in 1997, as tariff rates were increased for revenue reasons (Minister of Finance, 1998). The tariff increase applied to cement, plastic raw materials, packaging materials and plastic products and a surcharge on imports, called "defence tax". On the positive side for trade liberalization, certain export taxes were lowered.

During 1998, the pace of trade liberalization picked up, as emphasis shifted to an outward-oriented development strategy. There was a reduction in the number of tariff bands and tariff rates were lowered substantially. On the export side, the policy of liberalzation was boosted following the lifting of export ban on scrapiron and bars and the reduction of export surrender requirements. (IMF, 1999: 54-55)

There is a general tendency to focus on the reform of merchandise trade in the Sudan. But the importance of trade in services and trade-related intellectual property rights is equally recognized. Sudan has signed the relevant protocols relating to the liberalization of services, such as financial services, transport and communications, educational and scientific research, commercial, health and other services. The country is a member of the World Intellectual Property Organization (WIPO) and supports its objectives, including the protection of intellectual property. The Sudan however recognises the importance of amending policies and laws pertaining to services and intellectual property because they are skewed in favour of the developed countries. For instance, patent rights do not recognize traditional knowledge of medicinal herbs. These issues must be properly addressed in order to enable reforms in these aspects of trade to be implemented smoothly.

4.4. The Foreign Exchange Regime

From 1955/56 until 1978, the Sudan had a fixed exchange rate regime with one Sudanese pound (Ls 1) approximately equivalent to US $ 2.83. In 1978, the first devaluation of the Sudanese pound was made, with the main objective of making the Sudanese exports competitive in the world market. This was followed by several years of tentative reforms. In particular during the period 1992-1996, Sudan undertook several unsuccessful attempts at exchange market reforms (IMF, 1997). But the lack of supporting financial policies, compounded by the limited effectiveness of monetary policy instruments and lack of foreign exchange reserves, undermined these reform efforts. Thus, at the beginning of 1997, the exchange arrangement in the Sudan consisted of two markets: a free accounts-to-accounts market (open only to individual accounts holders) and the official market rate, comprising the Bank of Sudan, the commercial banks and the authorized non-bank dealers. The accounts – to – accounts market was free of restrictions on current or capital transactions and the exchange rate was freely determined by market forces, whereas the official market was limited to permissible current and capital account transaction (for bank and non-banks authorized dealers), and the exchange rate was administratively set by a joint committee, composed of representatives of the Bank of Sudan, commercial banks and non-bank authorized dealers.

Starting in 1977, the strategy to ensure a successful and sustainable inification of foreign exchange market involved: (i) a progressive narrowing of the spread between the two exchange rates; (ii) a reduction and elimination of export surrender requirements to the Bank of Sudan accompanied by shifting official imports from the Bank of Sudan to the private sector; (iii) the development of an indirect monetary instrument (the CMC) to manage liquidity, and to assist the Bank of Sudan intervention to reduce excess volatility in the unified market; and (iv) the continuation of tight and fiscal policies.

A wide range of structural reform measures were introduced in 1997. These measures include: (i) restructuring the joint committee to include a representative from the Bank of Sudan; (ii) widening the exchange rate band; (iii) abolishing the fixed margin between the buying and selling rates; (iv) abolishing the surrender requirements to the Bank of Sudan of the 20% of non-bank authorized dealers daily transactions; (v) unifying the appreciated customs exchange rate with the official exchange rate; (vi) reducing the spread between the accounts – to- accounts and official rates; (vii) reducing, in steps, the surrender requirement of the Bank of Sudan; and (viii) drafting regulations on foreign exchange exposure limits. At the same time, the pricing and importation of several petroleum products were liberalized and the financing of public sector imports through the Bank of Sudan (other than petroleum products, life-saving medicines and spare parts for some strategy projects) were eliminated.

In 1998, further steps were taken in preparation for the unification of exchange markets. They included: (i) imposing a set of prudential regulations for banks´ foreign exchange positions; (ii) review of the numerous regulations governing the official exchange market and those governing the accounts-to-accounts market with a view to establishing a single regulatory framework for both markets. During 1998, the exchange rate markets were unified. The joint committee was no longer in charge of setting the official exchange rate, and banks and non-banks authorized dealers were free to determine exchange rates and transact freely within the unified regulatory framework. The official exchange rate – which is used for government transactions and for customs valuation - is determined by taking a 5-day-moving average of the market determined rate. The moving average diverges very little from the average daily market exchange rate.

However, capital accounts transactions, involving the use of export proceeds or transactions, are permitted only on a case by case basis. Individual unrestricted accounts with resources originating from abroad may be opened, and with no restrictions, whatsoever (IMF, 1999: 54-55).

Table 4.2: Exchange rate movements from 1957 to 1999 at the end of Year (L.S. per Dollar)

Year	Official Rate	Parallel Rate
1957-1977	0.3	
1978	0.4	
1979	0.5	
1980	0.5	
1981	0.9	
1982	1.8	1.8
1983	1.8	2.1
1984	2.5	3.15
1985	2.5	4.25
1986	2.5	4.1
1987	4.5	4.5
1988	4.5	11.3
1989	4.5	11.3
1990	4.5	11.3
1991	15	30
1992	100	143
1993	215	335
1994	315	525
1995	832	905
1996	1460	1795
1997	1712	1840
1998	2370	2400
1999	2580	2580

Source: Bank of Sudan

5. Privatization, Restructuring of State Enterprises and Private Sector Development

5.1. General Considerations

A distinctive feature of the 1960´s, 1970´s and the first half of the 1980´s had been the growing involvement of the state in the economies of less developed countries. Of particular importance was the expansion of state-owned enterprises. The growth of public enterprises was seen by the governments as an important instrument for fostering rapid economic progress and changes. Yet in many countries, the contribution of these enterprises to the process of economic development failed to meet expectation. State enterprises, which were expected to provide an investible surplus to the government, often required subsidization and imposed an additional fiscal burden on the economy. In many instances, the economic performance of public enterprises was inferior to that of the private sector. This performance became a cause for concern. One indication of the increasing concern over the performance of the public enterprises in developing countries has been the wide interest in privatization as a policy option, particularly after mid-1970´s.

Three main arguments underlie the privatization option: first, the alleged comparative inefficiency of public enterprises; second, the desire to reduce the size of government and its budget deficit; and third, an ideological preference for the private sector. These arguments follow from the economic philosophy underlying liberalization as a whole and the idea that economic management should be left to market forces.

Privatization requires that, whatever public sector economic activities are in operation they should be closed down, trimmed, phased out or passed on to the private sector. Public ownership should be allowed only in cases of market failure due to: (i) existence of natural monopolies which constrain competition; (ii) existence of "public goods"; (iii) presence of externalities which make private costs and benefits diverge widely from social costs and benefits; (iv) considerations on merit goods; and (v) absence of a full set of markets. (Stiglitz, 1988)

5.2. Sudan: Policies and Actions

5.2.1. Policies

Although some form of privatization might be traced back to earlier periods, the actual wave started in 1971 following an abortive coup détat by Marxist-Leninist elements within the May regime of Nimeiry. Privatization began at that time with the denationalization of some of the trading and manufacturing concerns, which were nationalized or confiscated by the government in 1970. But these measures lacked coherence and were isolated bits of policies. So they did not take strong roots, and where not followed through with any degree of tenacity. It was only in the early 1990's that the privatization option was seriously contemplated when a number of committees were formed to review the performance of all public enterprises and development projects. These committees recommended the liquidation or restructuring of many development projects and public enterprises, and those recommendations became the basis for subsequent policies and actions.

The most comprehensive and explicit expression of the government commitment to privatization and the promotion of the private sector came in 1990 with the publication of the National Economic Salvation Programme 1990-1993. One of the main objectives of the Programme is the "enhancement of the role of the private sector, whether national or foreign, to play a more active role in achieving the objectives of the Programme and to re-orient financial, economic and institutional structures to create a more conducive environment for private sector participation" (Ministry of Finance and Economic Planning, 1990: 2). One way to achieve this general objective was through "fundamental reforms of the parastatal sector through liquidation, privatization or turning public enterprises into joint ventures with domestic and foreign private sector participation" (Ministry of Finance and Economic Planning, 1990: 3). The National Economic Salvation Programme defined the aim of the policy action with regard to the parastatal sector as the reduction of government involvement in the economy. In particular the Programme listed the public enterprises to be sold, liquidated, privatized or restructured in the various sectors of socio-economic activity as follows (Ministry of Finance and Economic Planning, 1990: 10-11):

in the agricultural sector:

- White Nile Agricultural Corporation;
- Blue Nile Agricultural Corporation;
- The Northern Agricultural Corporation;
- Tokar Agricultural Corporation;
- Nuba Mountains Agricultural Corporation.

in the industrial sector:

- all government-owned textile companies and factories;
- all government-owned food industries;
- all government-owned tanneries.

in the hotel industry:

- all government-owned hotels;
- government-owned rest houses (a list to be determined);
- government shares in any hotels or hotel companies;
- any other government-owned tourism institutions, deemed saleable.

in the transportation and communication sector:

- to privatize Sudan Airways by changing it into a corporate company, in which national and foreign private sector will be allowed to participate and the government may – if it so wishes – enter as a partner with its existing assets. The government will not insist on a majority shareholding;
- to allow national and foreign private sector participation in Sudan Shipping Line;
- to abolish government monopoly of the following areas and institutions and allow private sector ownership fully or partially:

a) mail and telegraph;

b) telecommunications;

c) river transportation;

- sale and liquidation of all loss-making public-owned commercial enterprises as per the studies undertaken in this area.

in the energy sector:

- to focus efforts on exploitation and extraction of Sudanese petroleum;
- abolishing of government monopoly of energy-generating companies;
- to invite and encourage national and foreign sector to participate in building energy generation stations with a capacity of one thousand megawatts in Khartoum and to provide very generous incentives for such investment;
- to start, using Sudan's own resources, the first phases of heightening Roseires Dam project and try to solicit external financing to complete the project;
- to start promotion of mobilizing international financing for Hamadab Dam.

human resources:

- to secure financing for the first phase of the Education Revolution Programme (doubling the intake of present universities and adding four new ones);
- to earmark Ls 200 million as an initial amount to finance peace efforts, start implementing the federal system and prepare for the reconstruction of the South in accordance with the recommendation of the National Dialogue Conference for Peace.

In the social sector

- to establish a special fund for social welfare (the social solidarity fund) to help the low-income sector of the society and mitigate the cost of adjustment for these vulnerable groups. An initial amount of LS 1,000 million should be earmarked for the fund in the 1990/91 budget;

- to provide funds for resettlement of the displaced to productive areas and to utilize part of the special fund provisioned for agricultural and industrial investment for this purpose.

Commitment to privatization and the development of the private sector is further elaborated and reaffirmed in the Comprehensive National Strategy 1992-2002. The strategy states that one method to ensure "lean" and efficient government is through the proper distribution of roles between the government, the private sector and the civil society. This requires institutional changes in the process of implementing the various forms of privatization, which are grouped into three main types: (i) *privatizing of production*: under this category, the government retains ownership, but contracts out delivery of services. Public health and waste disposal, drainage, transportation, maintenance of buildings and equipment, postal services and aerial spraying are amenable to this approach; (ii) *privatizing management*: here the government retains control of equity, but the operational aspects of the enterprise are contracted out to private management. Hotels are a good example of this approach; and (iii) *privatizing of ownership*: this involves the sale of government equity to the private sector. The sale can be whole or partial.

The strategy emphasizes that the government can only intervene in "strategic" activities, and those which are essential but not attractive to the private sector. However, activities under state control should be run on commercial basis.

The strategy recognizes that privatization involves many sacrifices and the government should have appropriate social policies in place to protect the disadvantaged members of the society.

With respect to promoting private sector investment, the Strategy calls for a national investment programme whose objectives and priorities are consistent with the overall economic goals and priorities. (Centre for Strategic Studies, 1992: 190-191)

5.2.2. Practical Measures

The most recent position of the government on privatization is contained in a report entitled *Sudan's Experience in Privatization: Objectives, Forms and Programmes* prepared by the Technical Committee for the Disposition of Public Enterprises, Ministry of Finance and National Economy. The first part of the report focuses on the nature, objectives and forms of privatization in the Sudan. It is a reaffirmation of the policy framework discussed above. The rest of the report provides what has actually been achieved and future programmes.

According to the report, privatization in the Sudan has been institutionalized through legislations and organizational framework, as follows: (i) an Act for the disposition of public enterprises was issued in 1990; (ii) the relevant regulations were issued in 1992; (iii) a technical committee for the disposition of public enterprises has been established under the Ministry of Finance and National Economy; and (iv) a high council for the disposition of public enterprises, and various technical committees for the different sectors, have been set up.

The High Council for the Disposition of Public Enterprises has made recommendations concerning the enterprises that should be privatized. And, on the basis of its recommendations, the Council of Ministers resolved (resolution 1155) to dispose of public enterprises in three stages; those to be privatized with immediate effect; those to be privatized in two to three years; and those to be privatized in more than three years.

The following criteria have been set by the High Council for the Disposition of Public Enterprises when considering the disposal of public enterprises:

Status	Nature	Recommendation
Enterprises which are financially and economically viable	Strategic, essential, socially important	To continue in the public sector
Enterprises which are financially and economically viable	Non-strategic, not socially important	To be transferred to the private sector
Enterprises which are financially and economically weak	Strategic, essential, socially important	To be restructured as a state-owned company
Enterprises which are financially and economically weak	Non-strategic, not essential, not socially important	To be liquidated

When the first wave of privatization was implemented, the above criteria were observed and this resulted in:

1- outright sale to the private sector;

2- partnership between the government and the private sector;

3- leasing;

4- liquidation;

5- restructuring;

6- creation of limited liability companies;

7- maintenance of the status quo: continuing in public sector.

The most up-to-date position with respect to privatization is shown below by sectors:

Industrial Sector:

Project/Enterprises	Date of Disposition	Buyer/New owner
Kenaf Abu Naama	March 1992	Dali and Mazmum Company
White Nile Tannery	April 1992	Consortium of Companies
Blue Nile Packaging Company	November 1993	Sudanese-African Company
Sata Company	November 1993	Sudanese-African Company
Krikab Sweets Company	May 1991	Samir Ahmed Gassim
Rea Sweets Company	May 1991	Mohamed Ahmed Gassim
Port Sudan spinning Factory	March 1993	Dawooe Company
Khartoum Tannery	November 1994	El Higgira Construction Co.
El Gezira Tannery	March 1993	Joint Venture with Dawooe
Aroma Carton Factory	May 1990	Halfa citizen by Presidential Decree
Red Sea Tannery	June 1995	Red Sea State
Nyala Tannery (Institute for Tannery)	February 1993	Southern Darfur State
Fruits and Vegetable Factories	April 1993	Northern State
Karima Dates Dehydration Factory	April 1993	Northern State
Bamhora Woodwork Factory	August 1993	Sudan Estate Bank
Kadugli Tannery	December 1994	Southern Kordufan State
Babanousa Milk Factory	January 1996	Western Kordufan State
Kassala Onions Dehydration Factory	June 1995	Kassala State
Hides Processing and Trading Company	April 1995	Liquidated

By agreement between the National Minstry of Industry, represented by Spinning and Weaving Public Corporation, and Dawooe company; the following factories are to be rehabilitated:

1) Hag Abdalla Spinning and Weaving Factory;

2) El Gadu Weaving Factory;

3) Shendi Weaving Factory;

4) Kosti Weaving Factory.

In addition, Nyala Weaving Factory is to be restructured to become a public limited liability company.

Agricultural Sector:

Project/Enterprise	**Form of Privatization**	**Buyer/New Owner**
Northern Agricultural Corporation	Liquidated with effect from October 1992	Constituent Units run by independent boards of directors as private firms
Blue Nile Agricultural Corporation	Liquidated effective from October 1992	25 firms formed and have taken over assets
Tokar and Delta Agricultural Corporation	Liquidated effective from October 1992	Delta-Tokar Company
Chicks Production Project	Transferred to Popular Policy Administration effective from April 1995	Popular Police Administration
Northern Gezira Milk Project	Transferred to Gezira State effective June 1994	Gezira state
Gezira Scheme	To be retained	To continue under the central government
Agricultural Engineering Administration of Gezira Scheme	Restructuring in progress since October 1992	Private firm under formation
Ginning Units of Gezira Scheme	Restructuring in progress since October 1992	Being restructured as private firms
Stores of Gezira Scheme	Restructuring in progress since October 1992	To continue under the central government – to be run on profits and losses basis
Gezira Scheme Rail Network	Restructuring in progress since October 1992	To continue under Gezira Scheme – to be run on profits and losses basis
Rahad Agricultural Corporation	Restructuring in progress since October 1992	To continue under the central government to be run on profits and losses basis
Rahad Agricultural Corporation-Agricultural Engineering Administration	Restructuring in progress since October 1992	Measures under way to form a public limited liability company
Rahad Agricultural Corporation Ginning Unit	Restructuring in progress since October 1992	Measures in progress to form a firm to be managed on profits and losses basis

Agricultural Sector (Continuation):

Project/Enterprise	Form of Privatization	Buyer/New Owner
New Halfa Agricultural Corporation	Restructuring in progress since October 1992	Reorganization under way
New Halfa Agricultural Corporation-Agricultural Engineering Administration	Restructuring in progress since October 1992	To become a public limited liability company
New Halfa Agricultural Corporation-Ginning Unit	Restructuring in progress since October 1992	Being organized into a firm to be managed on profits and losses basis
Public Corporation for Irrigation and Drilling	Restructuring in progress since October 1992	Being organized into a public limited liability company
Livestock Marketing Corporation	Liquidated with effect from October 1992	Rolling stock transferred to Sudan Railways Corporation; the rest of assets transferred to the Bank of Animal Resources, with value to be considered as shares of the Ministry of Finance & National Economy in the Bank
Livestock Project	Liquidated with effect from December 1993	Assets to be transferred to Bank of Animal Resources, with the value to be considered as shares for the Ministry of Finance & National Economy in the Bank
Kassab Ginning Factory	Sold to Sennar State effective from March 1996	Sennar State – Rehabilitation Unit
Rabak Ginning Factory	Sold to White Nile Development (Holding) company in September 1994	White Nile Development (Holding) Company
White Nile Agricultural Corporation	Liquidated with effect from 1997	81 agricultural companies formed and assets transferred to them, the value to be considered as shares of White Nile State in these companies.

Transport and Tourism Sector:

Project/Enterprise	Form of Privatization	Buyer/New Owner
Sudan Hotel	Sale with effect from 1991	National Social Insurance Fund
Red Sea Hotel	Sale effective 1992	Sudanese-Kuwaiti Company (Hilton)
Juba Hotel	Transferred to Peace and Development Corporation in 1992	Peace and Development Corporation
Kosti Rest House	Transferred to Kosti Province effective 1992	Kosti Province
Atbara Hotel	Transferred to the University of Wadi Nil in 1991	University of Wadi Nil
Erkowit Resort	Transferred in 1991	Eastern State
Supplies and Refreshments Administration	Transferred in 1992	Students Support Fund
Communications and Telecommunications Corporation	Partnership between government 60% and other shareholders 40%	New Company "Sudatel"
Grand Hotel	Leased to Malaysian Unka Suka Company	Under the name: Khartoum Grand Holiday Villa
Arous Tourism Village	Leased to Tommy Diving and Photography Company since 1991	Tommy Diving and Photography Company
Friendship Palace Hotel	Partnership between the government and Dawooe	Run under management contract

Miscellaneous:

Project/Enterprise	Form of Privatization	Buyer/New Owner
Sudan El Akhtan Company	Sale	Agricultural Bank of Sudan
Sudan Commercial Bank	Sale	Agricultural Bank of Sudan
Khartoum Milk Company	Government shares in company transferred to Martyrs Organization	Martyrs Organization
Sudan Oil Seeds Company	Government shares transferred to Martyrs Organization	Martyrs Organization
Crop Protection Company	Government shares transferred to Martyrs Organization	Martyrs Organization
National Cinema Company	Government shares transferred to Martyrs Organization	Martyrs Organization
National Distillery Company	Government shares transferred to Martyrs Organization	Martyrs Organization
Rainbow Paints Factory	Government shares transferred to Martyrs Organization	Martyrs Organization
Sudan Construction and Development Company	Liquidated	Assets taken over by the Sudan Estate Bank
Public Estate Corporation	Liquidated	Assets taken over by the Sudan Estate Bank
Central Distribution House	Liquidated	Assets taken over by Culture House and Information Printing and Publication House .... now under a new name of Distribution House under The Minister of Culture and Information
Sudan Mining Company	Sale	Advanced Mining Works company
Free Shops Corporation	Restructuring	Sudan Free Zones and Free Shops Company Limited

The immediate effect of these privatization measures was to boost public revenue and reduce government expenditure. The measures have also contributed to the growth of the private sector, and hopefully, to more efficiency in the economy. Other measures which are being taken to promote the development of the private sector include: (i) complete overhaul of the Encouragement of Investment Act, to make it less complicated and more business-friendly; (ii) paying special attention to the small entrepreneurs, including women; (iii) establishment of links between the local private sector and foreign business; (iv) creation of more mechanisms for consultation, such as chambers of commerce and similar business associations; and (v) improving the data and information base.

6. FISCAL FEDERALISM

6.1. General Considerations

Public revenues and expenditures, properly measured, should include these of state governments, public enterprises and the central bank (Williamson (ed.), 1994: 26). A discussion of fiscal policies and reforms is, therefore, incomplete if it does not take into account the budget of these entities, and in particular those of the states. This section is concerned only with certain aspects of state revenues and expenditures.

6.2. Division of Fiscal Powers

To begin with, the federal system was introduced in the Sudan in 1994, and involves three levels of government: federal, states and local governments. The constitution provides clear revenue and expenditure assignment for each of these levels (The National Assembly, 1998: 35-37). The main revenue sources of the federal government are:

a) customs revenues and revenues from international ports and airports;

b) companies profits taxes, personal income taxes and stamp duties of federal and inter-state transactions;

c) profits from national projects; provided that there shall be allocated a certain percentage to the states, in which these projects are located, as the law may specify;

d) excise duties from federal industries;

e) taxes on foreign organizations and their activities;

f) any other taxes or fees that do not affect the fiscal resources of state and local governments;

g) foreign grants, loans and credit facilities.

The constitution specifies the fiscal resources of the states as follows:

a) business profit taxes; provided that there shall be a certain percentage allocated to local governments, by federal law;

b) excise duties from state industries;

c) proceeds from licences issued by the states;

d) profits from the projects of the states;

e) domestic grants, loans and credit facilities.

As for the local governments, their fiscal resources shall come from:

a) estates taxes;

b) sales taxes;

c) agricultural and animal production taxes; provided that there shall be allocated a certain percentage to the states, by federal law;

d) charges on local land and river means of transport;

e) excise duties from local industries, handicrafts and artisans;

f) any other local resources.

In addition to these powers, the Southern states have been granted “more” powers by the 14th Constitutional Decree (Implementation of the Peace Agreement), which forms part of the Constitution of the Republic of the Sudan in 1997. According to this document, in addition to the sources of revenue set forth in the 12th Constitutional Decree (listed above), the Southern states shall have the following sources of revenue:

a) profit taxes from comprise, factories and agricultural enterprises, not falling under the federal government;

b) property taxes;

c) proceeds from state licences;

d) a share in taxes from federal projects, enterprises and services situated in the Southern states;

e) a share in fees levied on mining operations for metals and petroleum, in the Southern states;

f) revenues collected from federal industrial, agricultural and commercial projects, situated in the Southern states;

g) revenues allocated to the Southern states by the federal government from economic and development projects;

h) net proceeds from customs, air, road, postal and river services situated in the Southern Sudan. The same shall be allocated to resettlement, rehabilitation and reconstruction projects;

i) financial grants from the federal treasury for services in the Southern states;

j) development aid and donations from foreign sources.

Most of the basic services such as primary health care, basic education, the provision of drinking water and local infrastructure are the responsibilities of the states (The National Assembly, 1998: 35-36). But the central government is in charge of macroeconomic policies as well as the functions spelt out in constitution.

6.3. Practical Aspects

In practice, most states – Red Sea, Southern Darfur, Southern Kordufan, Northern Kordufan, Nothern, Western Darfur, Western Kordufan, Kassala and Nile River plus the ten states of South Sudan – depend on federal subventions for their expenditures on personnel and general services. But expenditures on local development are largely the responsibility of these states, except the Southern states, which depend wholly on federal transfers.

The revenue base for the Southern states is, for all practical purposes, non-existent at the moment, as there are virtually no private enterprises or other economic activities there, except for small-holder agriculture at subsistence level. But in a few garrison towns, such as Juba, Malakal, Wau and Renk, there is some commercial activity which can yield some revenue for the states. However, due to widespread tax evasion and avoidance, weak tax administration and a great tendency for rent-seeking behaviour by public officials, revenue collection is extremely meagre. It could be claimed that the governments in the Southern states resemble departments and units of the central government in the way they prepare and implement their budgets.

In the case of the ten Northern states, listed above, the revenue base is extremely weak, and they are unable to finance even modest development activities.

For the "richer" states – Khartoum, Gezira, Sennar, Gedaref, White Nile and Blue Nile – the central government does not make any transfers to them on account of expenditures on personnel and general services. In fact; these states could be considered as the beneficiaries of federalism, at least for the moment, because most economic activities are concentrated in these states. The same activities were the source of central government revenues before the adoption of the federal system. These six states have budgets which are more or less independent of the federal budget. However, all states, "rich" or "poor", compete for development funds from the federal government.

All fiscal transactions between the states and the federal government are channelled through the National State Support Fund, Federal Government Chamber. The status of this Fund has been the subject of widespread criticisms for many reasons, not least because its existence has no convincing justification.

The Ministry of Finance and National Economy prepares a consolidated budget by major categories of classification. The latest consolidate budget is available for 1998. For example table 6.1 shows the consolidated expenditures for the period 1994/95 – 1998.

Table 6.1: Sudan: Central Government Expenditures, 1994/95-98

	1994/95	1995	1996	1997	1998
	(In billions of Sudanese pounds)				
Total expenditure	670.6	1,033.7	2,176.0	3,386.0	3,949.9
Total expenditure (excluding interest arrears)	337.6	503.7	925.0	1,202.0	1,709.0
Current expenditure (excluding inter-est areas	278.1	376.0	727.0	1,109.0	1,550.0
Wages and salaries	48.9	60.0	220.0	375.0	573.0
Goods and services	105.9	155.7	244.0	329.0	312.0
Ministries	32.8	55.4	78.8	...	...
Defence 1/	65.5	80.6	95.2	...	...
Other 2/	7.6	19.7	70.0	...	...
Current transfers	39.1	38.5	56.0	48.0	89.0
To regions	20.0	16.7	35.4	...	...
To institutions	19.1	21.7	20.6	...	...
Interest paid	34.0	39.6	100.0	100.0	139.0
Other	...	...	...	258.0	440.0
General reserves, (including for emergency, exchange rate changes, and other expenditures)	50.2	82.1	107.0	213.0	185.0
Capital expenditure and net lending	59.5	67.0	56.0	93.1	156.0
Development expenditure	58.8	67.0	56.0	93.1	156.0
Foreign financed	31.0	39.0	34.1	26.4	34.0
Domestically financed	23.5	23.7	21.9	66.7	122.0
Agriculture and industry funds	4.3	4.3	...	0.0	0.0
Equity	0.7	...	...	0.0	0.0
Net lending	...	...	...	0.0	0.0
Extrabudgetary outlays	...	58.0	192.0	0.0	0.0
Interest arrears	333.0	530.0	1,251.0	2,184.0	2,240.0
			(In per cent of GDP)		
Total expenditure	22.0	24.0	26.6	18.2	22.0
Expenditure on cash basis	11.1	12.1	9.6	7.5	8.8
Current expenditure (excluding inter-est arrears)	9.1	9.0	7.1	7.0	8.0
Defence	3.0	2.9	0.9	1.0	...
Wages and salaries	1.6	1.4	2.2	2.1	2.9
Development expenditure	2.0	1.6	0.6	0.6	0.8
Interest arrears	17.7	11.9	13.9	13.8	11.5

Source: Ministry of Finance and Economic Planning; and Fund staff estimates.

1/ As reported by the authorities.

2/ General social support, including support for poor families, medicine, and medical treatment.

The details of spending at the state level are hard to know, and this is also true of revenues. This issue poses a great challenge to policy-makers and researchers. But it is possible to compile details of revenues and expenditures of the states since the introduction of the federal system in 1994. This task could be easy in certain states and impossible in others. In Khartoum, Gedaref, Kassala, White Nile, Blue Nile and Sennar states detailed information on revenues and expenditures is available in published or semi-published form. For the rest of the states in the Northern Sudan, the required information could be obtained with the assistance of state officials. But for the Southern States, it will almost be impossible to get the required information.

7. CONCLUDING REMARKS

This paper concludes with a number of remarks. The first of these is about the arguments underlying the choice of economic liberalization strategy in the Sudan. Secondly, the objectives and contents of the reform package will be examined visa via the standard prescriptions of the Bretton Woods institutions. Thirdly, an assessment will be made on the actual implementation of the stated policies and the degree to which the objectives have been achieved. Finally, a broad impression will be made on the impact of the reforms on the standard of living of the people.

7.1 Arguments Underlying the Economic Liberalization Strategy in the Sudan

Three closely interrelated arguments have been put forward for the adoption of economic liberalization policy in the Sudan.

The first argument stems from the perceived failure of, and disappointment with, previous development paradigms in the country, going back to pre-independence period. From independent until the mid-1980's, Sudan could be described as a socialist planned economy. At least three long-term and medium term plans were prepared and implemented. Emphasis in those plans was on the need for active state intervention and participation in the economy. This interventionist approach was deemed to have failed measuring by the set objectives and targets. The perception that development planning strategy has failed, is claimed to have led to a shift in paradigm towards a neo-classical market-oriented view of the development process and policy.

The second argument for advocating economic liberalization is based on ideological preference for the role of markets, prices and private enterprise in the economy. Such an argument is supported and preached by the major international and bilateral donors, who make the adoption of "policy reforms" a condition for granting technical assistance and loans.

The third factor which is claimed to have given impetus for the adoption of reforms in the Sudan in early 1990's is that, during the last quarter of the century, economic reforms have become a global stampede. Countries of every geographic region, income level and ideology have joined the rush for changes and no country would like to left out of fashion.

The fourth factor which has facilitated the adoption of reforms in the Sudan is the argument that the majority of policy-makers are biased towards western ideas and ideologies having been educated in the west or by westerners.

In the final analysis, it would appear that all these factors have played some role to influence the decision to adopt the economic liberalization strategy. However, it appears that the driving forces behind the reforms are the Bretton Woods institutions.

7.2. Objectives and Contents of Economic Reforms in the Sudan

The above conclusion seems to be borne out of the fact that, to a large degree, the objectives and contents of the reform package in the Sudan seem to accord with the so-called "Washington Consensus", which is summarized as follows:

Fiscal Discipline : the objective here is to reduce or eliminate budget deficit to a certain ratio of the gross domestic product. The budget should include those of the central government, sub-national governments, the central bank and public enterprises.

Public Expenditure priorities: policy reform here consists in redirecting expenditure from politically sensitive areas towards neglected fields with high economic returns and the potential to improve income distribution.

Tax Reforms: the aim of tax reforms is to sharpen incentives and improve horizontal equity without lowering realised progressively. Tax reforms involves broadening the tax base and cutting marginal tax rates. Improved tax administration is an important aspect of broadening the tax base.

Financial Liberalization: the ultimate objective of financial liberalization is market – determined interest rates. A sensible interim objective is the abolition of preferential interest rates for priveleged borrowers and achievement of a moderately positive real interest rate.

Exchange Rates: countries need a unified exchange rate (at least for trade transactions) set at a level sufficiently competitive to induce a rapid growth in non-traditional exports, and managed so as to assure exporters that this competitiveness will be maintained in the future.

Trade Liberalization: quantitative trade restrictions should be rapidly replaced by tariffs, and these should be rapidly reduced until a uniform low tariff is achieved.

Foreign Direct Investment: barriers impeding the entry of foreign firms should be abolished; foreign and domestic firms should be allowed to compete on equal terms.

Privatization: state enterprises should be privatized.

Deregulation: governments should abolish regulations that impede the entry of new firms or restrict competition, and to ensure that all regulations are justified by such criteria as safety, environmental protection, or prudential supervision of financial institutions.

Property Rights: the legal system should secure property rights without excessive costs, and make these available to the informal sector.

(Williamson, John (ed.), 1994: 26-28)

It is clear from the above summary and from the policy measures, outlined in sections two to five, that the objectives of the reform package adopted in the Sudan are compatible with those prescribed by the World Bank and the IMF. The same is true of the means recommended by those institutions for achieving those goals , except in the case of the financial sector. In this area, the reforms in the Sudan focus on the development of new and untried instruments. With respect to property rights, the reforms are silent. Apart from those exceptions, it can be claimed that the reforms adopted in the Sudan since the beginning of the 1990´s broadly accord with the Washington Consensus. Moreover, those policies have been proclaimed on various occasions and in different for a throughout the decade. To that extent, it can be claimed that there is real commitment to the policy economic liberalization in the Sudan. This conclusion is further strengthened by the fact that a reform package has been put in place for the period 1999-2001, as shown in Annex 1.

7.3. Assessment of Reforms

As would be expected in a less developed economy such as the Sudan, the overall level of implementation has fallen short of policy ambitions. This has been particularly true in certain aspects of the reform package than in others.

With respect to *fiscal policy and reforms*, significant steps were taken in the early 1990′s to reduce fiscal deficit, but these were not sustained in mid-1990′s. However, towards the end of the decade, the domestic fiscal deficit fell from 3.6 per cent of GDP in 1996 to less than 1 per cent of GDP in 1997 and 1998, as shown in table 6.1. Public expenditure continues to be heavily weighed in favour of politically sensitive areas, such as defence, police, salaries and wages and general services. The government has been unabled to reduce the size of the bloated civil service as well as organized forces. However, development expenditure has been reduced substantially and the government focuses only on areas such as the exploitation of petroleum, physical and social infrastructure. But even these are underfunded.

An important aspect of expenditure where there has been some success is in the reduction or elimination of subsidies. Subsidies on wheat flour, sugar, petroleum and cement have been abolished; electricity is cross-subsidized and subsidies on drugs have been sharply reduced.

As regards tax reforms, measures taken in the 1990′s succeeded to broaden the tax base. The tax net has been widened and deepened and includes:

(i) personal income taxes;
(ii) business profits taxes;
(iii) private companies taxes, including banks and insurance companies taxes;
(iv) taxes on Sudanese nationals working abroad;

(v) agricultural taxes;
(vi) capital gains taxes;
(vii) sales taxes;
(viii) sales taxes on services;
(ix) excise taxes;
(x) import duties;
(xi) consumption taxes;
(xii) defences tax;
(xiii) export duties;
(xiv) services taxes.

The tax base is wide enough. The only problem from the point of view of yield is taxable capacity. This is very low. In addition to taxes, fees and charges now contribute substantially to public revenues.

Concerning privatization, there is some degree of success although implementation falls far short of the target. Doubts have frequently been expressed about the degree of transparency in the disposition of public enterprises. There are also allegations of cronyism and questions about the performance of enterprises which are disposed. In particular, it is claimed that profitable and viable public enterprises are sold to known individuals. Moreover, these enterprises subsequently become monopolies. A case in point is that of Sudatel.

Trade liberalization has proceeded well. There are no longer quantitative restrictions; no import and export licenses except in specified fields; and import and export taxes are lower than previously.

As regards the *value of Sudanese* pound visa vis other currencies, this has been unified since the end of 1998. Since then, the movement in the value of the pounds has been within acceptable limits.

With respect to foreign direct investment, this is very weak in spite of the laws, regulations and policies which are supposed to attract foreign business.

Financial liberalization is still the weakest area. The instruments for managing banks´ liquidity and for raising funds for the government are still being refined.

On the whole, implementation remains weak, but there are certain areas of success where previous regimes have failed. Privatization and abolition and reduction of subsidies are examples of difficult policy areas where the government has succeeded.

7.4. Impact of Reforms

During the last several years, the annual rate of growth of GDP has been very impressive as indicated in table 1.1. But the question remains, has this growth been reflected in the standard of living of the majority of Sudanese? The answer is a resounding **No**! It appears the fruits of economic growth have benefited only a very small minority, with the majority languishing in poverty.

One study for UNDP in 1998 came to the conclusion that at least 95% of Sudanese are below the poverty line. The details of that study and similar ones are worth looking at.

Annex 1:

Sudan: Summary and Timetable of Possible Policy Measures and Structural Reforms, 1999-2001

Policy Area	Objective	Strategies and Measures	Timing of Policies	Technical Assistance Requirement
1. External policies				
a. Exchange system	Maintain a unified and flexible exchange rate system	Implement sound financial policies designed to ensure stable conditions in the foreign exchange market, and to faciliate a build up of international reserves	Throughout the period	
	Improve the operation of the foreign exchange market	Set the BOS exchange rate based on daily average market rates, and eliminate the 2-day limit on banks to sell the foreign exchange	1999	MAE
		Eliminate or extend the 10-day limit for exporters to sell foreign exchange	1999-2000	
b. Trade system	Promote trade and encourage exports	Reduce the simple average tariff rate from 25 percent to below 15 percent, and the maximum tariff rate from 80 percent to 30 percent	By end-2001	FAD
		Eliminate Ministry of Commerce stamping requirement but continue ex-post reporting	1999	
		Eliminate the export tax on cotton	Year 2000 budget	
		Review taxation of gum arabic	1999-2000	
		Eliminate surrender requirements that remain on cotton, and gum arabic.	1999	
		Eliminate export ban on raw skins and hides	1999	
		Eliminate the positive list of essential goods which can be imported using bank credit facilities	2000	
		Introduce the WTO valuation standard for customs purposes	2001	
c. Statistical issues	Strengthen the balance of payments statistics	Review reporting requirements and improve information regarding private transfers, foreign investment and trade data.	1999	STA
2. Fiscal policies and reforms				

a. Fiscal stance	Reduce domestic financing of the fiscal deficit and generate a current surplus.	Increase government revenue, maintain strict expenditure control, and improve the efficiency and effectiveness of expenditures	Throughout the period	
b. Revenue mobilization	Increase the revenue efforts	Introduce measures to increase the revenue/GDP ratio by 2-3 percentage points annually by expanding the tax base through discretionary measures and improvement in tax administration, including a review and reduction of exemptions and the strengthening of the Customs and Tax Departments	Throughout the period	FAD
	Improve the efficiency of the tax system	Introduce and improve the operational efficiency of a broad-based value-added tax (VAT)	1999-2001	FAD
		Review and reform the direct tax system	2000-2001	FAD
		Improve customs and tax administrations, including improving coordination through unifying the taxpayer ID numbers and strengthening the large taxpayer unit.	1999-2000	FAD/UNDP
c. Expenditure	Improve the overall expenditure policies	Maintain tight control on expenditures, and pursue a policy which aims at increasing the budgetary share of development, rehabilitation, and maintenance of critical social and economic infrastructure	Throughout the period	
d. Reduce reliance on BOS credit	Create non-inflationary financing instruments	Operationalize the Government Musharaka Certificate (GMC) as a financing instrument	1999	MAE/IDB
e. Institutional reform	Improve the budget process	Introduce a 3-year rolling medium-term macro-fiscal framework	1999-2001	
		Improve budget execution by introducing quarterly rolling financial planning, and improve the quality of financial reports on budget executive	1999	
		Introduce program-based budgets, and integrate the development and recurrent budgets.	2000-2001	
	Strengthen budget reporting	Improve and make more timely the monthly	1999	FAD

	and monitoring	accounting report and transform the directorate-General of the Federal Government accounts into the primary agency for maintenance and distribution of actual fiscal data		
		Improve revenue accounting and monitoring, with emphasis on the largest revenue generating departments and corporations	1999	
	Improve budget classification	Align the classification of revenue, and recurrent and development budgets with the GFS economic classification, and code the accounts accordingly	1999-2001	STA
3. Monetary and credit policies and institutional reforms				
a. Monetary police stance	Maintain low inflation rate	Target growth of monetary aggregates consistent with the inflation growth objectives, and exchange market stability	Throughout the period	
b. Monetary policy instruments	Increase reliance on indirect monetary policy management	Introduce open market operations (OMO) in GMC	1999	MAE
		Introduce auction mechanism for BOS financing to banks	1999-2000	MAE
		Develop effective modality for overdraft facility, and lender of last resort window	1999-2000	MAE
	Reform existing direct control instruments	Introduce reserve requirements based on weekly averaging of reservable deposits and gradually unify the reserve requirement on domestic and foreign currency deposits	1999-2001	
		Abolish BOS lending to non-bank enterprises (directly or through syndication)	1999	

c. Institutional reforms	Establish effective banking supervision operation.	Increase the quantity and quality of human resources available for banking supervision department, and develop inspector certification programs to provide a core of banking	Throughout the period	MAE

		supervisors with recognition of professional career status		
		Enforce prudential regulations and review their adequacy for Islamic banking	1999-2001	IDB/MAE
		Shift the emphasis of on-site-inspection from an audit focus to the evaluation of the safety and soundness of a bank performed "top down" rather than "bottom up"	1999	MAE
	Strengthen the banking system	Complete the introduction of the new bank accounting system, and standadize bank income statements	1999	
		Agree with banks on measures to reduce the size of non-performing loans, and ensure that provisioning is adequate	1999	
		Complete a review of the non-bank financial institutions to ensure that they are adequately regulated	2000	
d. Reporting and monitoring	Increase reporting efficiency	Improve the flash reporting system (including through standardizing and simplifying the bank reporting forms) and prepare daily financial indicators reports	1999	
4. Federal-states relations				
a. Fiscal relations	Clarify and rationalize tax jurisdiction	Review the federal-states fiscal relationships including revenue sharing arrangements with a view to reducing agricultural taxes and abolishing the practice by some states of collecting the taxes at state borders	1999-2001	FAD
	Prepare general government budget	Compile the general government budget (including actual execution) with the federal and states governments starting with the largest states	2000-2001	
b. The National States-Support Fund	Strengthen the Fund by making tranfers conditional on fiscal reforms in the states	Increase allocation of the state budgets to development and social spending, while restraining current expenditures	Throughout the period	

5. Agriculture				
a. The irrigation sector	Reform the national irrigation schemes	Continue privatizing, as appropriate, supplementary service units at the Gezire scheme	1999-2001	
		Develop an action plan to reform the management of the common infrastructure of the Gezira scheme	1999-2000	WB
		Use the experience gained from reforming the Gezira scheme to develop plans for reforming the other national schemes	Throughout the period	
6. Privatization and restructuring				
a. Privatization	Accelerate the privatization program	Continue the ongoing privatization and restructuring program	1999-2001	
		Implement attached privatization plan	1999-2000	
b. Restructuring				
7. Infrastructure				
a. Water	Improve the provision of safe water	Implement pricing policy suitable for recovering operating costs, maintenance, equipment replacement and gradually reduced subsidies	2001	
b. Energy	Improve power supply	Open the electricity sector (power generation and distribution) to foreign and domestic private investors, and divest non-core functions	1999	
	Achieve full cost recovery	Establish pricing policy for recovering operating costs, maintenance, equipment replacement and eliminate subsidization	1999-2001	
8. Private sector development				
a. Regulations	Reform the regulatory framework to make it transparent and "friendly" to both domestic and foreign investors	Review and amend the Investment Encouragement Act, with a view to reducing concessions to a minimum non-renewable level, and centralizing all tax concessions	1999	
		Review labour market regulations	2000-2001	
		Introduce a comprehensive anti-trust law	2001	
a. Investment environment	Liberalize the investment regime	Conduct a comprehensive review of licensing procedures for new private sector investment to simplify the process	1999	
		Continue to open strategic industries (e.g., utilities and mining) to private sector investment (domestic and	1999	

		foreign)		
9. Social sectors				
a. Education	Make primary education universally available	Increase the federal support for states primary education program	Throughout the period	
		Prepare a timetable for making primary education compulsory, and monitoring increase in enrolment rations	1999	
b. Health	Improve prevention	Develop a program for making basic preventive health care, maternity, and paediatric health universally available	2000	WB
		Develop a program to support states health programs financially, logistically, and technically	2000	WB
c. Social service delivery	Compile full data set on programs at the federal and states levels	Conduct a comprehensive review of the delivery of social services including public expenditure policies and patterns for the social sectors at the federal and states levels in all provinces	1999-2000	WB
		Conduct a comprehensive review of household coping strategies, and the impact of the conflict on social development and poverty	1999-2000	WB
		Implement a reform program based on the outcome of the reviews	2000-2001	

Bracketed benchmarks indicate "highly tentative" pending a collaborative assessment of reforms with World Bank staff.

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