



University of Bremen

SUDAN ECONOMY RESEARCH GROUP

DISCUSSION PAPERS

Towards Alternative Economic Policies
For Sudan

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Prof. Dr. Karl Wohlmuth

Foreword

In the course of a training programme at the University of Bremen with the theme 'Structural Adjustment Policies In Non-Oil Developing Countries, with Special Emphasis on Sudan' (May to July 1990) six officials from the Ministry of Finance and Economic Planning in Khartoum, Sudan, have worked out a strategy for the revival of the Sudanese economy by proposing far-reaching economic policy changes. The strategy has four elements:

first, a change of sectoral and subsectoral policies towards more balance between industry and agriculture is proposed, so that agriculture (traditional as well as modern) can become a dynamic force in the revitalization of the economy. This approach rests on the assumption that the neglect of traditional agriculture during decades in Sudan has to be corrected very quickly now; the authors strongly recommend an agricultural demand-led policy to stimulate the growth of rural incomes and of productivity and to exploit the linkages between industry and agriculture by more local processing of agricultural products and by utilizing local industrial inputs and consumer goods in rural areas. All this requires that public investments are reoriented consequently towards the rural areas, especially towards traditional agriculture. This implies also a gradual change from the primary exports-led growth of the past what is required also because of the limited export chances and export benefits (in terms of spillover effects, results of diversification, level of prices, potential quality and quantity increases). Such a policy also necessitates reforms of the banking and the transport system, an improvement of storage and services facilities, and a supporting and complementing role of industry. Industrial

rehabilitation should therefore be oriented consequently towards these new priorities. More emphasis on agro-based industries and the production of wage goods for rural and urban markets is necessary. The bias in economic incentives against agriculture and against small and private industries has to be eliminated, so that more neutral incentives policies can support the creation of linkages between industry and agriculture;

second, the revival of the Sudanese economy depends on a new fiscal programme for the Sudan, based on a revenue-led strategy as proposed by the authors. This strategy incorporates also a restructuring of the public expenditures. As the tasks and the commitments for the public sector in Sudan in providing an appropriate social and economic infrastructure and in establishing a qualified, motivated and effective civil service are huge, complex and expensive, more than changes in the revenue and expenditure structure are necessary; new approaches towards a better coordination between institutions dealing with tax administration, budget preparation, expenditure allocation and monitoring are necessary. Proposed are changes of the tax structure and a broadening of the tax base, by exploiting the untapped tax potential of growing rural markets, by implementing far-reaching economic reforms and by bringing the underground economy under effective tax control without destroying their dynamic potential. Such a revenue-led fiscal policy reform has to be complemented by a strict public expenditure reduction policy. However, the share of the poor, of traditional agriculture and of the rural integrated development projects in public expenditures should increase so that the productive potential of the poor can be enhanced; the share of security- and defence-related expenditures should be cut drastically;

third, an effective credit policy oriented towards the productive sectors is proposed. Financial resources have to be reallocated in accordance with a policy designed to regain

balance between agriculture and industry, by allocating more credit to small traditional farmers, to small urban and rural industries and to the private sector. Innovative schemes have to be developed. This can be done by an insurance fund for small agricultural loans and by supporting all types of non-governmental organizations involved in productive sector activities. All this requires that the whole set-up of the banking system is changed. The encouragement of non-bank financial intermediation in Sudan will also be a help in this direction;

fourth, a coordinated policy towards the external sector of Sudan is proposed, by rehabilitating the export production potential of all productive sectors and by sustaining more coherent trade, debt and exchange rate policies. This also means that international cooperation has to be sought for a strategy to support the revitalization of productive sectors, what also requires that the credibility of economic reforms, e.g. of incentives and exchange rate policies, has to be very high. This could make the Sudan attractive again as regards remittances from SNWA (Sudanese Nationals Working Abroad) and various forms of credit and commodity aid. A debt reduction scheme is part of the package. Credibility rests primarily on the steadiness and the coherence of policies and politics.

All in all the six authors have proposed fundamental reforms for the productive sectors, for the institutions and for the policies dealing with fiscal and monetary affairs and the external sector of Sudan.

Dr. Peter Oesterdiekhoff, one of the lecturers in the training programme, has revised this paper very carefully for publication. I think that the study will be of interest to all those who work on economic policy alternatives for the Sudan. A basic assumption of the study is that no reform can really work if the civil war continues and if the security- and defence-

related public expenditures and uses of foreign funds are not reduced drastically.

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Needless to say that any shortages or errors are entirely our own responsibility.

The Sudanese Participants

1 INTRODUCTION

The Sudan's economy faces many imbalances and distortions which are manifested in a low per capita income, a high persistent inflation rate, and a negative real growth rate of the GDP. On the fiscal side, the revenues average merely 10% of the GDP, whereas the already suppressed public expenditures amount to 22%. The financial system is working without legally organized rates of return, a situation which has adversely affected the mobilization and allocation of savings. The import bill is twice the export proceeds, while the remittances of Sudanese nationals working abroad have experienced a drastic fall.

During the period 1981/82-1989/90, not only the economic performance was deteriorating, other factors also contributed to the worsening of the situation. Civil war in the South, political instability in the North, locusts and drought in the West, and flood in Central Sudan, all these factors hit the Sudan hard, exacerbating its exorbitant economic problems.

The aim of this study is to address the economic problems within the context of their socio-political complexities. Encircled by such an embarrassing environment it could rather seem to be inappropriate to deal with the economic side of the problem and ignore issues, as e.g. poverty and income distribution, associated with such an adverse set-up.

In fact, previous economic policies and programmes, with the exception of the Action Programm of 1987, tended to deal with the issue of stabilization and adjustment focusing on partial commitments. At the same time there was an overstress on public investment programmes without proper handling the short-run distortions. The shortcoming of this approach is that investment programmes failed and fiscal

and monetary imbalances further deteriorated. Alternatively, this study will concentrate on short-term stabilization measures as a necessary prerequisite for long-term growth and investment policies. No doubt, stabilization, if intended to depart radically from the previous trends, will definitely be accompanied by some short-term hardships. To alleviate such side-effects budgetary measures will be designed along targetted lines of action.

We will attempt to outline alternative policies to remedy the economic imbalances and problems based on the principles and considerations of an agricultural demand-led strategy (ADLI) (Adelman 1984) and an adjustment with a human face (Cornia 1987). The focus of our study is put on necessary changes in fiscal and monetary policies and a correlated balance of payments reform as advocated by Bacha (1978).

The study is divided into four chapters and a conclusion. The first chapter is a background and general survey of the real sector performance during the period under review with special emphasis on agricultural and industrial sectors. Chapters 2 and 3 constitute the major part of the study since they deal with the short-term fiscal and monetary performance assessment and include alternative policy recommendations for stabilization and reform. Chapter 4 is concerned with the repercussions of the real sector's, fiscal, and monetary imbalances on the external sector. The study finally ends up with a summary of our conclusions and recommendations.

2 ECONOMIC PLANNING AND DEVELOPMENT 1981/82 - 1988/89

2.1 A Brief Review of the Five and Six Year Plan

During the period of the Five Year Plan 1970-1975, the sectors which showed high growth rates were agriculture, construction, commerce and manufacturing, with construction recording the highest rate. A lower growth rate was registered in transport and communications, while electricity and water recorded the lowest growth rates of all sectors. There was a notably increasing emphasis on development of industries with a view to meet most of the domestic requirements through local production (compare Nimeiri 1976; MFEP 1977)

The largest share of planned investment, however, was directed to agriculture and irrigation. The directly productive sectors were planned to receive 55% of the public sector investment compared to 41% of the average annual investment during the preceding five years. Transport and communications were allocated relatively smaller shares of planned investment compared to the earlier period because the plan assigned primary importance to a greater utilization of the existing transport capacity.

In the amended Five Year Plan for the period 1975-1977 it was clear that the share of transport and communications sectors became much greater than originally provided. This marked shift was meant primarily to strengthen the physical infrastructure by removing bottlenecks in the movement of goods and people, and to provide a foundation for accelerated development in the future. Actual investments in industry and transport sectors were considerably larger during 1970-1975 than originally planned. Both of these sectors are capital-intensive and with the cost escalations in the later years of the plan higher investments became unavoidable. Also the emphasis on industrial development to

substitute major imports by domestic production as well as on the development of transport to remove bottlenecks caused rising capital costs over the plan-period effecting all sectors of the economy. There was a big jump in the development expenditures especially during 1974/75 which can be explained by a marked escalation of project costs, inclusion of new projects and extension of existing projects.

The original plan aimed at increasing the share of commodity production. This policy was acceptable for various reasons: Firstly, agriculture being the leading sector of the economy can be expected to exert the greatest push to the rate of growth of the economy; secondly, from a standard of living point of view emphasis on agriculture is recommendable regarding the increasing demand for food; lastly, increasing foreign exchange earnings can be derived through agricultural expansion.

The services sector has achieved its planned growth rate. The relatively high achievement rate registered by this sector can be attributed to the high growth rate (6-7%) in commerce and finance and partly to the fact that the plan itself stipulated a relatively low growth target for services. In general, however, a weak absorptive capacity prevailed during this period which can be attributed to (i) the shortage of main production inputs, (ii) the fact that some completed schemes have been operated with considerably low capacity for lack of raw materials, and (iii) that some schemes have never been completed because some of the necessary equipments never did arrive.

During the Six Year Plan-period (1977/78-1982/83), it was for these reasons a sufficient justification to pay more attention to the material balance at three levels, namely main production inputs, investment goods and consumption goods. During the plan-period and for a long time lateron, the economy has been suffering from under-capacity utiliza-

tion in agriculture and industries due to shortages of raw materials, machines or spare parts. Therefore, the optimum utilization of resources started by utilizing optimally those resources which were already under effective use. This strategic objective probably accounted for the huge sums allocated to the completion of projects transferred from the previous plan and to the consolidation of existing ones for improving their performance.

The agricultural sector commanded the biggest share in gross investments followed by the industrial sector, transport/communications and the services sector. However, although the agricultural sector had the highest percentage of investment funds (about 32%) yet its rate of growth was least compared to the other sectors (only 6.5%). The industrial sector received 25% of investment funds and its rate of growth was 9.2%. Transport and communications were allocated 24% and realized a growth rate of 7.5%.

The performance of the productive sectors had been deteriorating since the 1970s. The low productivity of agriculture, industry and other economic sectors was primarily caused by structural weaknesses of the economy. However, these weaknesses were manifested in the degraded infrastructure, deteriorating services, limited technological options, a high concentration of exports on few primary agricultural commodities, and a limited size and scope of the manufacturing sector (Table 1)

Physical infrastructural facilities and capital stocks built during the colonial and immediate post-independence era had decayed and disintegrated due to poor or completely lacking maintenance and renovation. Also services, especially education, public health, housing and social welfare, had rapidly deteriorated over the period.

2.2 Sectoral Performances in the 1980s

2.2.1 Agriculture

Agriculture has always been, and in the foreseeable future will be, the mainstay of the Sudanese economy. The irrigated area at present constitutes about 4 mil. feddan, produces about half of the crop output, and amounts to about half the value of exports. The main products are cotton, sorghum and sesame. The mechanized rainfed produces sorghum and sesame while the traditional subsector produces sesame, millet, gum arabic, forestry products and livestock.

This paper will focus on the decade of the 1980s which has witnessed major international transformations represented by two oil-shocks, a vast deterioration of the terms of trade, especially of agricultural primary products in relation to finished industrial commodities, a recession in the Western industrial economies, high rates of inflation and a heavy resort to stabilization and structural adjustment programmes. The Sudan ranging among the least developed countries has consequently been negatively affected by these international shocks.

Added to the non-conducive international effects, the early years of the 1980s, particularly 1982-1984, have also been characterized by the drought and the accompanying effect of desertification which were reflected in the low annual growth rate of agriculture (Table 2).

Table 1 GDP by Sector at Constant Factor Prices 1981/89 - Percentage Share of GDP

	1981/82	82/83	83/84	84/85	85/86	86/87	87/88 (prel.)	88/89 (est.)
Primary Production	39.5	35.2	32.6	29.0	35.6	34.8	30.8	36.1
Agriculture	39.4	35.1	32.6	29.0	35.6	34.7	30.7	36.0
Mining	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1
Secondary Production	14.0	15.0	15.4	16.3	15.2	15.2	15.8	14.6
Manufacturing	7.0	7.2	7.9	8.6	8.6	8.7	8.8	8.2
Construction	5.8	6.8	5.9	5.8	4.8	4.8	5.1	4.6
Public Utilities	1.2	1.1	1.6	1.9	1.8	1.8	1.9	1.8
Services	46.5	49.9	51.8	54.4	49.2	50.0	53.3	49.4
Transport & Storage	10.7	10.5	10.0	8.6	9.5	9.5	9.9	9.4
Commerce & Hotels	13.8	16.4	18.7	22.7	13.0	13.9	16.2	13.9
Financial & Real Estates	12.0	12.9	12.1	13.2	12.1	12.7	13.4	12.7
Government Services	8.5	8.5	9.4	8.2	12.8	11.6	11.9	11.6
Personal Services	1.5	1.6	1.6	1.7	1.8	1.8	1.9	1.8
GDP at Factor Price	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: World Bank 1990, pp. 94.

**Table 2 Agricultural GDP at Constant Factor Costs
(Annual Growth Rates)**

1982/83	-8.8%
1983/84	-4.6%
1984/85	-12.2%
1985/86	20.3%
1986/87	0.6%
1987/88*	-13.8%
1988/89**	27.0%

* preliminary

** estimates

The performance of the agricultural sector has also been very low as regards productivity measured by yield performance of selected main crops for which Sudan has comparative advantages. Table 3 gives a comparative account of yield performance for the Sudan and other major producer countries.

The main problems faced by the agricultural sector can be summed up in the following:

- a) The banking system in Sudan concentrates greatly on short-term loans (12-18 months) and is mainly engaged in export/import trade. Due to uncertainties encountering the agricultural activities (pests, droughts) advances to agriculture constitute not more than 1% of the aggregate banking engagement. The Agricultural Bank of Sudan is the only source of institutionalized credit for the agricultural sector. The following are the most important activities of the Agricultural Bank of Sudan:
 - (i) to grant loans for agriculture and its subsidiary services,
 - (ii) to sell and purchase agricultural inputs and
 - (iii) to sell and purchase crops. The Bank also

Table 3 Recent Yield Performance of Selected Crops in Sudan and Other Countries (Kg/ha)

	1979	1980	1981	1982	Average
<u>Cotton Lint</u>					
Egypt ^a	878	963	1012	1045	976
USA ^a	-	1109	1252	1216	1192
Israel ^b	1335	1323	1352	1437	1362
Sudan ^b	820	684	618	1058	795
<u>Groundnuts^b</u>					
China	1366	1503	1431	-	1433
India	797	727	800	-	775
USA	2927	1849	2974	-	2583
Sudan	862	894	328	-	861
<u>Sorghum^b</u>					
USA	3423	3935	2903	4025	3572
India	708	699	673	719	700
China	2328	2412	2387	2500	2407
Sudan	274	363	746	897	570
<u>Wheat^b</u>					
Pakistan	1316	1488	1563	1640	1502
Egypt	3323	3177	3225	3162	3222
India	1480	1568	1436	1650	1534
Sudan	731	1257	736	1137	965

a irrigated

b irrigated and unirrigated

Source: World Bank (1983).

stresses that preference is given to small and medium farmers, that improved seeds, insecticides and fertilizers be supplied and producers be assisted with handling, storage, sells of crops, and extension services.

Though the Bank's act caters for short, medium and long-term lending, the share of the latter has always been insignificant. Irrigated agriculture received the lion's share in the Bank's activities, leaving only 6-7% of its finance for traditional agriculture. The Bank does not provide advances to the animal resource subsector although it spells that out in its charter.

- b) Even recently most of the action taken in the area of policy reform in the 1980s Recovery Programme (adjustment of the price structure, demand control, institutional reform and rehabilitation of the productive sector) focused only on the irrigated sector and greatly neglected the traditional rainfed one.
- c) Livestock is concentrated in the less accessible Eastern and Western Sudan. Characteristic features of this subsector are the pressure on open rainfed grazing lands, the low quality of animals, the deficiencies of veterinary services, and environmental hazards like drought and diseases.
- d) One of the strongest limitations to the development of traditional agriculture are the transportation costs for both inputs into and output out of the prohibitively remote areas, especially for animal and forestry products.
- e) Existing supportive institutions, particularly in the traditional rainfed agriculture, are highly deficient. Extension services are lacking in most of the rainfed agriculture. Cooperatives in rural areas are geared to

distribution and consumption rather than to production and supportive services such as transportation, storage, market information, procurement of agricultural machineries, marketing and other logistic facilities.

The agricultural problems are deeply rooted and complex. Colonial agriculture in Sudan was, similar to other colonies, engaged in a mono-cropping system producing exports, while a traditional sector aimed at meeting minimal basic needs of the rural areas. The first one later became the modern agricultural sector, nurtured and sustained by an irrigation system and a railway network to the harbour, while the other one was neglected, left to the wisdom and technics of the indigenous population and limited to self-sufficiency.

Since many attempts for raising production and productivity have been dealt with within the irrigated modern subsector, special emphasis is put here on rainfed traditional agriculture. This subsector has to play an important and critical role in the food sufficiency of the country, which is likely to increase in the future due to limitations on investment and the inability to horizontally expand in irrigated agriculture. It also contributes a great deal to the balance of payments as it accounts for 100% of export in sesame, gum arabic, melon seed and karkade, 75% of livestock and oil-seed exports and also for a great amount of sorghum exports. While playing a prime role in exports, it does consume a nearly negligible amount of imported inputs.

Nevertheless, an export-led strategy seems highly unlikely to offer Sudan great chances for development and growth in the coming decade. In the case of rainfed traditional agriculture it seems more appropriate to reverse the ongoing strategy of an export-led to an agricultural demand-led one. The ADLI-programme developed by Adelman (1984) offers

the Sudan a better option since the conditions stipulated by the programme are obviously applicable to this subsector:

- (i) it provides a surplus for investment in manufacturing,
- (ii) it is a source of labour and
- (iii) of food for other sectors, and
- (iv) it represents a potential of demand linkages.

In addition, the strategy stresses the raising of agricultural productivity, particularly of medium scale farmers as a means of achieving industrialization by expanding intermediate and final consumption demand. This may be a feasible structural transformation in the medium term. In the short run a more plausible approach for the development of the traditional rainfed agriculture is through integrated rural development, that means a package programme for the whole region. Development authorities offer greater chances of success than government departments (Republic of Sudan 1984). Being semi-autonomous, they have greater flexibility in financing the programmes by supplementing budgetary allocations with bank credits, cost recovery and external aid. They can also coordinate a variety of tasks which are essential ingredients of an integrated approach. Rural development can be established for each province encompassing provision of extension services, field testing of technologies, procurement of inputs, organization of settlement and resettlement, development of surface and ground water, provision of credits through the Agricultural Bank, banks and cooperatives, and marketing services.

The most urgent areas of reform are the following:

- The banking system had always favoured irrigated agriculture and even here the advances offered were not satisfactory to cover all agricultural stages. The most

important public investment reform would be the recognition of rainfed agriculture as part and parcel of the productive sectors of the national economy. The Bank of Sudan should, through the Agricultural Bank and in coordination with other national and international sources, offer a great deal of the required finance for the rainfed agriculture.

- As livestock accounts for 45% of the total agricultural GDP, this subsector should get special attention in future development programmes. Improvement of range conditions, pilot schemes for controlled grazing, and reseeding of pasture grasses should be the first steps of support. The main measures for the development of livestock production can be summed up in:
 - a) Improvement of nutrition through an organized feed industry based on sorghum and molasses. The most effective supplementary feeding would be the integration of livestock and crop production, so that forage crops would be produced in the vicinity of animals. Leguminous fodder crops should be introduced in the cropping pattern.
 - b) Improvement of range conditions and controlled raising.
 - c) Disease control can be catered for by the government in areas like research, extension, diagnosis, and provision of drugs and vaccines.
 - d) Improvement of herds by replacement of the genetic stock through breeding and selection.

- Transportation had been and still is one of the most important hindrances of agricultural production in the traditional sector. The existing programme of interregional trunk roads and intraregional feeder roads should be implemented to remove this constraint. Efforts to improve the performance of the Sudan Railways should be

intensified. The supply of fuels to transporters to remote areas should be improved.

- As regards institution building, each province will have its development authority which will dwell on integrated rural development programmes involving planning, technical, social as well as other aspects. Institutions such as marketing boards, cooperatives, farmers unions, banks, housing and technology disbursement agencies will be fully represented in this provincial authorities.

2.2.2 Industry

Since the early 1980s the manufacturing sector's performance has improved slightly. Its contribution to the GDP increased from 7.0% in 1981/82 to 7.9% in 1983/84, a further increase was recorded to reach approximately 8.8% during the years 1984/85-1988/89. Nevertheless, even this share remained far below the level in 1971 when the manufacturing sector contributed 13.2% to the GDP.

The sector is dominated by light consumer goods. In 1983/84 food processing, beverages and tobacco manufacture accounted for 57% of the value added as compared with 46% in 1979/80.

Sugar

Capacity utilization in sugar production has increased from 37% in 1982/83 to 74% in 1986/87. In February 1986, the government revived the sugar marketing cooperation, but the pricing system had undergone a significant change. A margin was allowed between consumer and producer prices, with consumer prices being subsidized, while producer prices were tied to the medium import price to secure some profit for the producers (World Bank 1990; UNIDO 1989).

Cement

There are two cement manufacturing plants, MASPIO Cement factory and Rabak factory. The output of MASPIO factory dropped sharply in 1983/84, and in 1987/88 it was still some 10% lower than the 1982/83 level. The production level of Rabak factory remained fairly constant during the 1980s. In 1987/88, MASPIO produced about 135,000 tons and Rabak 85,000 tons. The output of both had consistently fallen short of the demand. In 1987/88 they supplied only 19% of total consumption, the remainder was met by import.

Chemicals, Plastics and Pharmaceuticals

According to the 1981/82 industrial survey there were 118 enterprises engaged in the production of the above mentioned commodities of which 49 were enterprises employing more than 25 people. Most of these enterprises were heavily dependent on imported chemicals and intermediate goods. However, the shortages of foreign exchange and the capacity of the local market were the main constraints of the growth of these industries.

Engineering Products

The weakness of the engineering branch constitutes a gap in the structure of the manufacturing industry. The industrial survey of 1981/82 recorded that there were 854 enterprises engaged in engineering and the manufacturing of metal products. But most of them were small workshops engaged in the production of simple tools and spare parts using traditional technology. The modern large scale sector enterprises' activities were restricted to assembly production. But still there is a considerable potential to expand this production.

The Manufacturing of Edible Oil

This is one of the oldest manufacturing activities in the country. But fluctuations in the supply of raw materials have been one of the main constraints facing all the enter-

prises engaged in this sector. In 1985, the output of groundnuts and sesame as well as of cotton seeds has declined.

Textiles

The spinning and weaving capacity remained constant since 1983 and between 1981 and 1986. The output of spun yarn fell by 19.8% and woven fabrics by 41.3%. In 1985, the textile branch generated revenues of approximately LS 400 mil. on total fixed assets of LS 2,500 mil. The government responded to this poor state of profitability by setting prices for raw cotton inputs below their export prices.

Tanning and Leather Products

More than 70% of hides exported are unprocessed. The estimated local supply of hides and skins is more than 1.2 mil. and more than 7.5 mil. respectively, but the processing capacity is far below this amount and the actual production is still lower.

In 1987 the value of manufactured and processed exports amounted to 9.6% of total exports. The major share was earned from exports of cotton cake and refined sugar. However, the expansion of production in these fields may not be economically justified because of the low world prices of cotton and sugar. Other potential exports, such as cotton yarn and processed leather did not generate significant export revenues due to their high prices and low quality. This state is also a result of a considerable degree of tariff protection afforded to many domestic industries. It has encouraged inefficiency and adversely effected investments in basic and intermediate goods industries (ILO 1987).

The poor performance of the industrial sector during the period 1981/82-1988/89 was due to inconsistent policies and the neglect of the need and potential to create linkages

within industry as well as to other sectors. Thus, despite all the agro-industrial investments, there was no agricultural machinery industry to support productivity increases in agriculture or to relieve the modern agricultural sector of its dependence on imported inputs. Similarly, there were only weak backward linkages to agriculture reflecting the high import dependence of industry. Industrial processing of agricultural products absorbed only about 10% of total agricultural output while most raw materials were exported in unprocessed form. The production of mass consumption goods was restricted and industrial and agricultural structures did not support each other. Intermediate goods industries were poorly developed. They all suffered from power and transport bottlenecks, lack of spare parts, funds and poor management.

Industry has become increasingly import-dependent and vulnerable to foreign exchange scarcity. Industrial policy through the Investment Act has allowed very low tariffs on imported raw materials and granted a high degree of effective protection. Thus, capital-intensive and import-dependent structures have been encouraged. Assembly-type industries were stimulated not only in non-agricultural processing but also to some extent in the production of clothing and foot-wear. All this resulted in an industrial structure dependent on foreign inputs and on the grace and assistance of the political and administrative authorities. It is clear that industrial policy did not succeed in establishing a viable industrial base and in promoting efficiency and decentralization of industry.

A successful strategy for industrial rehabilitation must build on a realistic assessment of overall and relative potentials and limitations. The adoption of industrial policies should be geared to the demand of a mass market, particularly the production of wage goods and the exploitation of the huge production and linkage potentials of the agri-

cultural sector. This requires a redirection of policies. A reorientation of the public investment programme towards traditional rainfed agriculture and the viable parts of mechanized and irrigated farming is urgent as well as a parallel reorientation of industry towards the production of wage goods, inputs, equipment and maintenance needs within industry itself and in other domestic sectors.

To transform the existing industrial sector and expand its output in an efficient way, industrial policies must be revised. They should lay more emphasis on agro-based industries that make effective use of the local raw materials and create forward and backward linkages. Protection and other concessions should be initially applied to these industries to encourage local and foreign private investors, and should be withdrawn when these mature and become viable.

The industrial sector may specialize in commodities which meet the domestic demand and export the surplus. In this manner more diversification of exports can be achieved and the local needs for essential industrial products will be satisfied. Moreover, imports will be reduced and foreign exchange be gained through the export of industrial surpluses. On the other hand, industries heavily dependent on foreign inputs and assembly industries with no comparative advantage must be phased out within a specified span of time. This could be done by eliminating protection and other concessions. Besides, subsidized exchange rates could be applied temporarily to critical intermediate inputs that cannot be produced during the reform period and are used in the production of essential consumer goods, e.g. chemicals for food processing and dyes for cloths and leather. This will result in the control of inflation (cost push) and if it is done in a rationalized manner its impact may not be that adverse on the resource gap.

More emphasis should be applied to the development of small scale and cottage industries, particularly in rural areas. This will develop more productive sectors with gainful employment opportunities and larger markets for goods and services in agricultural and rural areas. Moreover, personal incomes will increase, the rural economy would head towards modernization and the standard of living and well-being of the rural population would improve.

In order to link input industries to agricultural and industrial demand a specific programme needs to be prepared. The Industrial Bank of Sudan should give more emphasis to industries providing local inputs. Other bodies like the Industrial Research and Consultancy Center could render their support in this area. A more fundamental approach towards industrial sector rehabilitation is required than merely increased allocation of licences and foreign exchange for the import of equipment, spare parts, and other inputs. Even if foreign exchange were available, major changes in the structure of industry would still be needed to raise industrial capacity and output. The high importance of food and clothing in the basket of wage goods suggests higher emphasis on basic needs provision which should now be strengthened in the overall strategy for employment and development.

The fact that industries are overprotected through restrictions on imports and at the same time underprotected due to the high incidence of smuggling, reflects basic inconsistencies in industrial policies resulting in high costs in terms of efficiency and capacity utilization. Trade and industrial policy reform is needed to shift the traders' excess profits to producers. This would require the reduction of excess protection and changes both in the import duties and the licence and pricing system.

Incentives to invest in industry are largely determined by the policy framework in respect of price and protection. Consideration should be given to preferential input prices for small industries. Credit policy can be made an important means to achieve industrial recovery. The Sudanese Savings Bank and the Industrial Bank could provide credit for small industries and workshops. The Islamic banking system has the capacity and potential to support entrepreneurship and development in a manner consistent with efficiency and profitability. Industrial enterprises should be encouraged to approach research institutions for advice on technology selection and locational choices, and these institutions should increase their capacity to provide relevant advice.

To develop the industrial sector certain prerequisites must exist. Communication and transport facilities, electrical power and water resources must be developed. Private investment must be encouraged to enter the transport sector. Also the subsectors of the social services should not be passed by.

The Sudan, to carry out the above mentioned reforms and attain self-sustained development, needs to be supported by substantial and timely international and regional assistance for financing the import requirements of such a programme.

2.3 Stabilization and Adjustment Programmes

The past Three Year Investment Programmes increasingly reflected the drive towards recovery and rehabilitation. The Second Three Year Public Investment Programme (1980/81-1982/83) was the first to adopt the new strategy, but funds were allocated exclusively towards irrigated agriculture. The Third Public Investment Programme mentioned among other

goals the necessity to design a strategy for rainfed agriculture. The Fifth Three Year Investment Programme (1984/85-1986/87) aimed at the rehabilitation of projects, the improvement of incentive systems, production relations and pricing policies to ensure better returns to producers and optimum supply of inputs.

In May 1986, the government embarked on the preparation of the Four Year Salvation, Recovery and Development Programme 1988/89-1991/92. In view of the urgency of the situation and the fact that the programme was not going to be finalized before 1988, the government worked out a Programme of Action in 1987/88 to stop the progressive deterioration of the economy. This programme aimed at achieving sustained economic growth and reducing the rate of inflation and the balance of payments deficits. It embodied all the principle policy instruments of the usual adjustment programmes. The programme was not fully implemented.

The economy's performance before and during the stabilization period (1978/79-1983/84) was not encouraging. While the production of cotton increased by 53%, the output of all other main crops declined during the same period. But it is difficult to relate the decline in agricultural production to policy measures because it is subject to many other factors. The industrial sector, being highly import dependent, suffered severely under the stabilization programme's measures while the size of the service sector further increased.

**3 REFORMING THE FISCAL SYSTEM:
TOWARDS A REVENUE-LED STRATEGY**

**3.1 Characteristics of Fiscal Policy Planning and
Implementation**

Despite the changes in policies and institutions dealing with fiscal issues certain features can be identified as persistent draw-backs in eight areas:

The first is related to the disruptive nature of the overall economic policy process which negatively influenced the sustainability of the fiscal policy. The political changes were frequent to the extent that at certain instances the technical staff was sometimes confused about what were the official policies to be implemented. The second point is the traditionality of the budget preparation procedures which usually produced the annual budget directives on the basis of the previous year's figures without reflecting changes in the policy lines. The third feature is the lack of an historical perspective. In fact, the budget proposals were discussed and the estimates prepared with a minimum, and sometimes the absence, of historical performance records. And therefore little attention is paid to the absorptive capacity and the efficiency of implementing units. This point leads to the fourth characteristic which is the arbitrary approach followed in the budget preparation, e.g. the lack of functional categorization of expenditures with the amounts of various assignments not closely audited for a number of years. This leads to the fifth point, the difficulty to relate budget figures to macro-economic targets of fiscal reform programmes.

Sixth, the lack of coordination, particularly in the implementation stage, is another factor to defy any reform attempt. Consequently, the monitoring and follow-up will be lagging behind the fiscal flows performance. The seventh

feature of the fiscal policy is the negative impact of continuous overpolitization of fiscal policy decisions, mainly on the expenditure side. Finally, the eighth characteristic is the interest group responsiveness of the fiscal policies. In the past, regional and trade union pressures resulted in some major internal balance distortions - the salaries rise in 1985/6 for doctors, engineers, and university teachers are just one example.

Besides these obstacles, fiscal policies generally lack the macro-economic medium and long-term perspective. Little attention is paid to social and human repercussions of revenue and expenditure policies when new taxes are levied and expenditures reduced without due consideration of social effects. These institutional problems might seem simple, procedural and easy to reform. But measured in their real day to day impact they sum up to pervasive problems. In fact, these are the major deeply rooted and to some extent structural constraints of the present fiscal policy preparation and implementation set-up. Furthermore, these obstacles are associated with, and a manifestation of, the competition on resources and benefits between social and regional groups, the balance of which is one of the central concerns of fiscal policy. Since the previous policies were adversely affected by this set-up, it seems appropriate to argue that removing these institutional obstacles should be targetted simultaneously with the implementation of any structural adjustment programme.

3.2 The Overall Deficit

Although the major policy concern of annual budgeting is limited to the reduction of internal deficits it seems that the direct result of this approach is precisely the contrary outcome, since no real positive impact was accomplished in the internal balance control during the 1980s.

Both in terms of the magnitude and the structure of finance of the internal deficit the period 1981/82 to 1989/90 witnessed a considerable deterioration. As is clear from Tables 4 and 5, the overall deficit has increased from LS 597 mil. in 1981/82 to LS 9,959 mil. in 1988/89 and is projected to be lowered to LS 7,958 mil. in 1989/90.

The structure of financing as shown in Table 4 and 5 reveals two major distortions. The first is the heavy dependence on foreign sources (to more than 70%), mainly on commodity aid. Second, as for the domestic finance of the deficit, it is mainly met by virtually total reliance on inflationary borrowing from the Central Bank which contributed on the average more than 90% to the domestic deficit finance.

3.2.1 Revenue Performance

The government continuously applied policies and measures to improve the revenue performance with the aim to meet increasing expenditures and to contain inflationary pressures. These efforts include fiscal and monetary policies in the area of the exchange rate regime and price control system, and other policy measures like the advanced payment method enhancing the efficiency of the tax department, rehabilitation and privatization of parastatals.

Table 6 shows the central government's revenues during the period under consideration. Indirect taxes tend to constitute the dominant share of total revenue. Their percentage share has varied from year to year on a level above 60% until 1989/90 when they fall to 54%. Indirect taxes are composed mainly of import and export taxes and excise duties. Because of their direct effect on production costs and on

(... text continues on page 36)

Table 4 Deficit Expansion and Financing, (1981/82-1989/90), in LS Millions

	81/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89	89/90
Overall Deficit	597.0	563.6	1,035.4	2,310.0	2,706.9	3,373.1	5,551.3	9,959.0	7,958.0
External Financing	564.0	490.0	829.0	1,690.7	1,907.5	1,813.1	3,752.2	5,035.1	2,182.5
in %	94.0	87.0	80.0	73.0	70.0	53.0	67.0	56.0	27.0
Domestic Financing	33.0	73.6	206.4	619.3	799.4	1,560.0	1,799.1	4,791.0	5,775.9
Borrowing from the Bank of Sudan	33.0	43.6	196.4	619.3	799.4	1,495.0	1,709.1	4,791.0	5,587.0
in %	100.0	59.0	95.0	100.0	100.0	96.0	95.0	100.0	95.0

Source: World Bank 1990 and own calculations - 89/90 MEEP estimates

Table 5a Central Government Operations, 1981/82-1988/89, in LSD millions

	81/82	82/83	83/84	84/85	85/86	86/87	87/88 (rev)	88/89 (est)
Total Revenue	895.1	1,272.0	1,474.4	1,485.5	2,010.4	2,742.1	4,016.9	6,306.0
Tax Revenue	745.7	1,080.5	1,246.8	1,285.2	1,805.9	1,777.0	2,979.0	4,913.0
Non-Tax Revenue	149.4	191.5	227.6	200.3	204.5	965.1	1,037.9	1,393.0
Total Expenditure	1,492.1	1,835.6	2,509.8	3,795.5	4,717.3	6,115.2	9,568.2	16,265.0
Current Expenditure*	1,145.4	1,390.2	1,966.5	3,278.7	4,278.7	4,913.3	7,974.1	14,110.0
Capital Expenditure	314.8	414.0	463.3	471.8	369.1	1,179.9	1,568.1	1,923.0
Equity Expenditure	31.9	31.4	80.0	45.0	69.5	22.0	26.0	7.0
Net Lending	..	..	..	..	..	..	..	225.0
Current Account Balance*	-250.3	-118.2	-492.1	-1,793.2	-2,268.3	-2,171.2	-3,957.2	-7,804.0
Overall Balance*	-597.0	-563.6	-1,035.4	-2,310.0	-2,706.9	-3,373.1	-5,551.3	-9,959.0
Financing:	597.0	563.6	1,035.4	2,310.0	2,706.9	3,373.1	5,551.3	9,826.1
External	564.0	490.0	829.0	1,690.7	1,907.5	1,813.1	3,752.2	5,035.1
Cash and Commodity Aid	..	..	450.0	648.7	841.9	713.0	1,286.2	1,490.0
Project Aid	184.8	210.0	204.0	221.0	371.0	508.6	807.3	1,111.0
Debt Relief	..	..	503.0	648.9	681.8	277.8	..	..
Amortization	..	..	-524.0	-666.9	-950.2	-517.8	-219.4	-202.9
Falling Due	..	..	704.6	926.7	1,651.1	986.3	1,856.0	2,940.0
Change in Arrears	..	..	180.6	259.8	700.9	468.5	1,636.6	2,737.1
Change in Interest Arrear	..	..	196.0	839.0	963.0	831.5	1,878.1	2,637.0
Domestic	33.0	73.6	206.4	619.3	799.4	1,560.0	1,799.1	4,791.0
Bank	33.0	43.6	196.4	619.3	799.4	1,495.0	1,709.1	4,791.0
Non-Bank	..	30.0	10.0	..	..	65.0	90.0	..
Memorandum Items:								
Current Account Balance (Cash)	-250.3	-118.2	-296.1	-954.2	-1,305.3	-1,339.7	-2,079.1	-5,167.0
Overall Balance (Cash Basis)	-597.0	-563.6	-839.4	-1,471.0	-1,743.9	-2,541.6	-3,673.2	-7,322.0

* Prior to 1983/84, data on foreign interest represent actual cash payments. From 1983/84, data are on a commitment basis.

Source: Ministry of Finance and Economic Planning, and IMF

Table 5b Central Government Operations, 1981/82-1988/89, as a % of GDPMP

	81/82	82/83	83/84	84/85	85/86	86/87	87/88 (rev)	88/89 (est)
Total Revenue	12.7	13.3	12.5	9.7	8.7	9.2	10.0	8.6
Tax Revenue	10.6	11.3	10.6	8.4	7.8	5.9	7.4	6.7
Non-Tax Revenue	2.1	2.0	1.9	1.3	0.9	3.2	2.6	1.9
Total Expenditure	21.2	19.1	21.3	24.7	20.4	20.5	23.7	22.2
Current Expenditure*	16.3	14.5	16.7	21.3	18.5	16.4	19.8	19.2
Capital Expenditure	4.5	4.3	3.9	3.1	1.6	3.9	3.9	3.0
Equity Expenditure	0.5	0.3	0.7	0.3	0.3	0.1	0.1	0.0
Net Lending	..	..	..	..	..	..	..	0.0
Current Account Balance*	-3.6	-1.2	-4.2	-11.7	-9.8	-7.3	-9.8	-10.6
Overall Balance*	-8.5	-5.9	-8.8	-15.0	-11.7	-11.3	-13.8	-13.6
Financing:	8.5	5.9	8.8	15.0	11.7	11.3	13.8	13.6
External	8.0	5.1	7.0	11.0	8.3	6.1	9.3	7.4
Cash and Commodity Aid	..	..	3.8	4.2	3.6	2.4	3.2	2.0
Project Aid	2.6	2.2	1.7	1.4	1.6	1.7	2.0	1.9
Debt Relief	..	..	4.3	4.2	3.0	0.9	..	..
Amortization	..	..	-4.4	-4.3	-4.1	-1.7	-0.5	-0.1
Falling Due	..	..	6.0	6.0	7.2	3.3	4.6	3.8
Change in Arrears	..	..	1.5	1.7	3.0	1.6	4.1	3.7
Change in Interest Arrear	..	..	1.7	5.5	4.2	2.8	4.7	3.6
Domestic	0.5	0.8	1.7	4.0	3.5	5.2	4.5	6.2
Bank	0.5	0.5	1.7	4.0	3.5	5.0	4.2	6.2
Non-Bank	..	0.3	0.1	..	..	0.2	0.2	..
Memorandum Items:								
Current Account Balance (Cash)	-3.6	-1.2	-2.5	-6.2	-5.7	-4.5	-5.2	-7.0
Overall Balance (Cash Basis)	-8.5	-5.9	-7.1	-9.6	-7.6	-8.5	-9.1	-10.0

* For 1982/83, data on foreign interest represent actual cash payments. Since 1983/84, data are on a commitment basis.

Table 6a Central Government Revenues, 1981/82 - 1988/89 in USD million

	81/82	82/83	83/84	84/85	85/86	86/87	87/88 (rev)	88/89 (est)
Taxes on Income and Profits	143.8	203.1	258.9	300.5	351.6	460.2	615.0	882.0
Personal Income Tax	51.5	56.3	48.4	26.3	25.7	69.1	100.0	111.0
Sudanese Abroad	6.4	14.0	21.0	40.4	51.3	45.0	83.0	61.0
Business Profits	79.5	122.7	178.0	226.7	262.9	261.8	344.0	560.0
Other	6.4	10.1	11.5	7.1	11.7	84.3	88.0	150.0
Taxes on Goods and Services	152.5	191.2	258.3	160.8	281.1	277.3	414.0	1,163.0
Consumption Tax	-.-	-.-	-.-	108.0	-.-	-.-	-.-	-.-
Excise Duties ¹	60.9	88.9	112.1	52.8	281.1	277.3	414.0	1,163.0
Development Tax	27.5	35.9	47.4	-.-	-.-	-.-	-.-	-.-
Stabilization Fund Excise	60.5	59.5	91.8	-.-	-.-	-.-	-.-	-.-
Tax on Services	3.6	6.9	7.0	-.-	-.-	-.-	-.-	-.-
Taxes on International Trade	445.4	680.0	722.1	796.0	1,137.0	1,027.5	1,921.0	2,826.0
Import Duties	348.9	536.6	549.7	744.1	1,103.4	966.1	1,661.0	2,322.0
Export Duties	31.2	22.0	23.8	19.1	33.6	61.4	76.0	91.0
Defence Tax	65.3	121.4	148.6	32.8	-.-	-.-	184.0	413.0
Other Taxes²	4.0	6.2	7.5	27.9	36.2	12.0	29.0	42.0
Tax Revenue	745.7	1,080.5	1,246.8	1,285.2	1,805.9	1,777.0	2,979.0	4,913.0

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	81/82	82/83	83/84	84/85	85/86	86/87	87/88 (rev)	88/89 (est)
Total Non-Tax Revenue	149.4	191.5	227.6	200.3	204.5	965.1	1,037.9	1,393.0
Public Enterprise								
Profits, etc	32.9	47.3	68.0	33.4	20.0	155.0	174.0	171.0
Land Sales	0.7	10.3	3.3	4.6	9.8	10.0	-	21.0
Fees and Charges	75.9	102.2	107.0	94.9	123.6	171.0	240.0	311.0
Pension Contributions	24.4	31.0	43.0	39.2	27.9	105.0	176.7	290.0
Price Difference	-	-	-	-	-	496.0	428.2	495.0
Loan Repayment	-	-	-	-	-	6.6	6.0	28.0
Miscellaneous ³	15.5	0.7	6.3	28.2	23.2	21.5	13.0	77.0
Total Revenue	895.1	1,272.0	1,474.4	1,485.5	2,010.4	2,742.1	4,016.9	6,306.0

Source: Ministry of Finance and Economic Planning, and IMF

1 Includes consumption and reconstruction taxes from 1984/85 onwards

2 Includes sales tax, stamp duty and air ticket tax

3 Includes Zakat and other miscellaneous items

Table 6b Central Government Revenues, 1981/82 - 1988/89 as a % of GDP

	81/82	82/83	83/84	84/85	85/86	86/87	87/88 (rev)	88/89 (est)
Taxes on Income and Profits	2.0	2.1	2.2	2.0	1.5	1.5	1.5	1.2
Personal Income Tax	0.7	0.6	0.4	0.2	0.1	0.2	0.2	0.2
Sudanese Abroad	0.1	0.1	0.2	0.3	0.2	0.2	0.2	0.1
Business Profits	1.1	1.3	1.5	1.5	1.1	0.9	0.9	0.8
Other	0.1	0.1	0.1	0.0	0.1	0.3	0.2	0.2
Taxes on Goods and Services	2.2	2.0	2.2	1.0	1.2	0.9	1.0	1.6
Consumption Tax	--	--	--	0.7	--	--	--	--
Excise Duties ¹	0.9	0.9	0.9	0.3	1.2	0.9	1.0	1.6
Development Tax	0.4	0.4	0.4	--	--	--	--	--
Stabilization Fund Excise	0.9	0.6	0.8	--	--	--	--	--
Tax on Services	0.1	0.1	0.1	--	--	--	--	--
Taxes on International Trade	6.3	7.1	6.1	5.2	4.9	3.4	4.8	3.8
Import Duties	5.0	5.6	4.7	4.8	4.8	3.2	4.1	3.2
Export Duties	0.4	0.2	0.2	0.1	0.1	0.2	0.2	0.1
Defence Tax	0.9	1.3	1.3	0.2	--	--	0.5	0.6
Other Taxes ²	0.1	0.1	0.1	0.2	0.2	0.0	0.1	0.1
Tax Revenue	10.6	11.3	10.6	8.4	7.8	5.9	7.4	6.7

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	81/82	82/83	83/84	84/85	85/86	86/87	87/88 (rev)	88/89 (est)
Total Non-Tax Revenue	2.1	2.0	1.9	1.3	0.9	3.2	2.6	0.0
Public Enterprise								
Profits, etc	0.5	0.5	0.6	0.2	0.1	0.5	0.4	0.0
Land Sales	0.0	0.1	0.0	0.0	0.0	0.0	-	0.0
Fees and Charges	1.1	1.1	0.9	0.6	0.5	0.6	0.6	0.0
Pension Contributions	0.3	0.3	0.4	0.3	0.1	0.4	0.4	0.0
Price Difference	-	-	-	-	-	1.7	1.1	0.0
Loan Repayment	-	-	-	-	-	0.0	0.0	0.0
Miscellaneous ³	0.2	0.0	0.1	0.2	0.1	0.1	0.0	0.0
Total Revenue	12.7	13.3	12.5	9.7	8.7	9.2	10.0	6.7

Source: Ministry of Finance and Economic Planning, and IMF

1 Includes consumption and reconstruction taxes from 1984/85 onwards

2 Includes sales tax, stamp duty and air ticket tax

3 Includes Zakat and other miscellaneous items

Table 6c Central Government Revenues, 1981/82 - 1988/89 as a % of Total Revenue

	81/82	82/83	83/84	84/85	85/86	86/87	87/88 (rev)	88/89 (est)
Taxes on Income and Profits	16.1	16.0	17.6	20.2	17.5	16.8	15.3	14.0
Personal Income Tax	5.8	4.4	3.3	1.8	1.3	2.5	2.5	1.8
Sudanese Abroad	0.7	1.1	1.4	2.7	2.6	1.6	2.1	1.0
Business Profits	8.9	9.6	12.1	15.3	13.1	9.5	8.6	8.9
Other	0.7	0.8	0.8	0.5	0.6	3.1	2.2	2.4
Taxes on Goods and Services	17.0	15.0	17.5	10.8	14.0	10.1	10.3	18.4
Consumption Tax	--	--	--	7.3	--	--	--	--
Excise Duties ¹	6.8	7.0	7.6	3.6	14.0	10.1	10.3	18.4
Development Tax	3.1	2.8	3.2	--	--	--	--	--
Stabilization Fund Excise	6.8	4.7	6.2	--	--	--	--	--
Tax on Services	0.4	0.5	0.5	--	--	--	--	--
Taxes on International Trade	49.8	53.5	49.0	53.6	56.6	37.5	47.8	44.8
Import Duties	39.0	42.2	37.3	50.1	54.9	35.2	41.4	36.8
Export Duties	3.5	1.7	1.6	1.3	1.7	2.2	1.9	1.4
Defence Tax	7.3	9.5	10.1	2.2	--	--	4.6	6.5
Other Taxes ²	0.4	0.5	0.5	1.9	1.8	0.4	0.7	0.7
Tax Revenue	83.3	84.9	84.6	86.5	89.8	64.8	74.2	77.9

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81/82 82/83 83/84 84/85 85/86 86/87 87/88 88/89
(rev) (est)

	81/82	82/83	83/84	84/85	85/86	86/87	87/88 (rev)	88/89 (est)
Total Non-Tax Revenue	16.7	15.1	15.4	13.5	10.2	35.2	25.8	22.1
Public Enterprise								
Profits, etc	3.7	3.7	4.6	2.2	1.0	5.7	4.3	2.7
Land Sales	0.1	0.8	0.2	0.3	0.5	0.4	--	0.3
Fees and Charges	8.5	8.0	7.3	6.4	6.1	6.2	6.0	4.9
Pension Contributions	2.7	2.4	2.9	2.6	1.4	3.8	4.4	4.6
Price Difference	--	--	--	--	--	18.1	10.7	7.8
Loan Repayment	--	--	--	--	--	0.2	0.1	0.4
Miscellaneous ³	1.7	0.1	0.4	1.9	1.2	0.8	0.3	1.2
Total Revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source Ministry of Finance and Economic Planning, and IMF

1 Includes consumption and reconstruction taxes from 1984/85 onwards

2 Includes sales tax, stamp duty and air ticket tax

3 Includes Zakat and other miscellaneous items

basic consumer goods prices import taxes were targetted to be at the level of merely 3%. Their share in the GDP has decreased from 5.0% in 1981/82 to 3.2% in the period 1986/87-1988/89. This decrease is attributed mainly to import compression which resulted in lower proceeds of import duties.

Export taxes were targetted to be eliminated by the year 1988/89 with the aim to improve the incentive structure for exports. Again, Table 6 shows that the export tax level was not changed during the period, and it maintains a level of around 0.1% of the GDP, which implies that nothing has been achieved to realize the removal of export taxes. Excise duties, on the other hand, were expected to increase from 1.2% of GDP, the average ten-year level, to 1.3% in 1988/89. The expected increase was based on the assumption that an increase in the output of the manufacturing sector would take place. However, regarding the stagnation of excise duties and the poor performance of the industrial sector, this objective is not likely to be realized.

As regards direct tax revenues, the government has pledged to spend major efforts for overhauling the tax structure. The Four Year Programme 1987/88-1990/91 targetted an increase of the share of direct taxes in the GDP from 1.5% in 1986/87 to 3.0% by 1990/91. Yet, after three years of experience, the data show that their share has not changed. The contribution to the total revenue explains the situation more clearly. It stood at a level of 16% during the period 1980/81 to 1986/87 and decreased further to 15% and 14% in 1988/89 and 1989/90, respectively. The small share of direct taxes to both total revenue and GDP is in contradiction to the objective of realizing a better income distribution, since large segments of profit makers can shirk taxes. Hence, the tax system of the Sudan is considered inefficient, regressive and reflecting distortions in the tax structure (Fadlalla 1986, 144). This tax system implies

that the tax burden is transferred to low income groups while the high income group does not participate proportionally. Moreover, it was argued that this preferential treatment of the higher income group does not seem to stimulate investment as might have been expected (ibid., 196).

The business profit tax, the major component of direct tax revenues, contributed to the total revenues with 8-9%. With the exception of the fiscal years of 1983-1985, when "Zakat" tax replaced the conventional tax system, no change in its structure took place. During 1983-1985, special efforts were made on this item and its share increased temporarily at the expense of other items (see Table 6b).

Personal income tax also decreased in relation to total revenues throughout the period under review. Its share decreased from 5.8% in 1981/82 to 2.5% in the years 1986-88 and further to 1.8% in 1988/89. This trend is mainly attributed to changes in the personal income tax regulation. The government increased the level of minimum tax exemption and excluded employees with more than 25 years of service from taxation. Since the bulk of personal income tax payers falls in this category, the average contribution decreased sharply.

Concerning non-tax revenues, a deterioration in real terms has been recorded. However, they tend to recover during the last three years. The proportional contribution of non-tax revenue to total revenues was at a level of 16% in 1981/82 and reached 10% in 1985/86. From 1986/87 their share increased to 35.2% but again fall to 21% by 1988/89. The main items comprising non-tax revenue are profits and surpluses from public cooperations, fees and charges for government goods and services. Although emphasis has been put on rehabilitation of parastatals, their management been commercialized, and credit facilities from both the central government budget and the banking system been provided, non or

only little progress has been achieved in realizing a surplus or generating incomes to the central government (see Table 6).

Fees and charges performance also decreased from 8.5% of total revenues in 1981/82 to only 4.6% in 1988/89. It has been argued that fees and charges have been fixed for a long time and not been revised regularly to reflect the inflation rate or cost recovery (World Bank 1990, 15).

There are many factors hampering a better performance of central government revenues. Some of these factors have their origin in structural rigidities of the economy, others could be categorized as administrative deficiency. First, one adverse factor is the narrow base of tax structure in which the trade tax is overwhelmingly dominant. Thus, any compression on import tends to jeopardize the flow of revenue. A second factor is the poor contribution of the business profit tax. Many businesses do not submit a detailed record of their account and in most cases are subject to arbitrary valuation resulting in low payments. Thirdly, price control and overvaluation of the Sudanese Pound, under which the tax base is calculated according to official prices do not reflect real market prices. Besides, because of price distortions, significant transactions are conducted in the underground economy and hence not reported to the tax authorities.

Fourthly, the poor tax administration jeopardizes both the level of efficiency and the coverage of tax efforts. It was reported that out of 80,000 import trading licences issued in Khartoum Province only 25,000 had taxation records (MFEP 1987). Fifthly, the poor performance of the parastatal sector and, finally, disruptive tax policies also contributed a lot to the poor tax records. In this context one could recall the experience with the substitution of Zakat tax for the conventional income tax and the elimination and

readoption of excise duties on a number of products. Other factors, such as the inadequacy of the rental tax and the taxes on agriculture are also important factors. Weak coordination between the tax and the custom departments is also considered a factor defying better tax performance.

The government undertakes corrective measures to increase revenues during the year 1989/90. These measures include in the area of direct taxes amendment in stamp duties by increasing its coverage and rates, extension in sales tax coverage and adoption of advance collection; for indirect taxes the measures include increases in custom duties on imported cigarettes and in excise duties on domestically produced cigarettes and soft drinks; on non-tax sources of revenue an increase in the rates of some fees and charges took place. These amendments together bring about an increase in total government revenue by LS 3,000 mil. The actual projection of total domestic revenue for the year 1989/90 amounted to LS 9,174 mil. (MFEP 1990).

This large increase in revenue proceeds as compared to the last year shows that the problem of the tax system is primarily the lack of efficiency. Unless this administrative and institutional deficiency be solved, any intention to reform the price and exchange rate system will not bring material results.

3.2.2 Public Expenditures

Public expenditure, if considered and dealt with in an integrated framework can serve far-reaching objectives in coordination with other fiscal policy tools. The macro-economic importance of public expenditures is recognized by a wide range of theoretical positions related to income, growth, and employment, which are central issues for underdeveloped countries. Stabilization and reform policies are

highly interrelated with the economic role of the state which is financially manifested in public expenditure policies.

The impact of these policies is directly related to inflation, consumption, saving and public investment. But the most important concern for underdeveloped countries is the impact public expenditure policies exert on human and social conditions in their economies, since standard adjustment policies involve relatively severe demand management measures and public expenditure reductions which might affect public services and the general standard of living.

The focus on human and welfare considerations is important because it has been noticed that structural adjustment programmes by the reduction of public spending on social services such as education, health, sanitation, and water supply "adversely affect the well-being of the majority of the population in the adjusting countries" (ECA 1989, 20). Besides the social aspects and concerns, public expenditure reforms have to deal with a broad set of questions referring to the appropriate size of the government budget, to the appropriate balance between capital and recurrent spending, and the allocation between sectors and resource uses. In general terms, "the minimum that can be expected is that the consistency of the public expenditure programme with other macro-economic variables should be checked in a national accounting framework, and an assessment should be made of alternatives in the context of such a framework" (van Arkadie 1984). It is within these lines that public expenditure policies in the Sudan during the 1980s will be assessed. Despite the declared policies of public spending reduction, the data of 1981/82 to 1989/90 reveal an increasing reverse trend. This de facto expansionist approach is accompanied by structural expenditure shifts towards current expenditure as compared to capital expenditure. And within the current budget non-productive components (de-

fense and transfers to regions mainly for administration) were increasingly consuming major shares. These adverse trends can be traced out from the following summary of Tables 7 and 8.

In fact, within the total expenditure increase from LS 1,492 mil. in 1981/82 to LS 17,132 mil. in 1989/90, current expenditures expanded from LS 1,145 mil. to LS 12,706 mil., whereas the development expenditures registered a rather moderate increase from LS 314 mil. to LS 2,385 mil. during the same period. In addition to that, the foreign finance (project aid) constituted a sizeable portion of the development budget. Another important element in the budgetary expansion between the years 1981/82 to 1989/90 is the notable growth of the extra-budgetary expenditure, both identified and unidentified, which mainly covers defense and compensation for exchange rate losses. The extra-budgetary expenditure increased from LS 255 mil. to LS 21,000 mil. within the period under consideration.

3.2.2.1 Current Expenditures

The structure of current expenditures during the 1980s confirms the dominance of defense, transfers to regions and institutions, and wages and salaries over the major social services (see Table 9). This assessment supports the assumption that public expenditure in Sudan is to a greater extent a function of political and not economic decision. The predominance of only weakly accountable transfers and extra-budgetary items during the late 1980s developed into a full-fledge grant and hand-out economy, as maintained by a well informed economist¹.

(... text continues on page 46)

¹ The notion of grant economy was mentioned by the Minister of Finance in 1989.

Table 7 Public Expenditure Structure 1981/82 - 1989/90 in LS Millions

	81/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89	89/90
Total Expenditure	1,492.1	1,835.6	2,589.8	3,795.5	4,717.3	6,115.2	9,568.2	16,265.0	17,132.5
Current Expenditure	1,145.4	1,390.2	1,966.5	3,278.7	4,278.7	4,913.3	7,974.1	14,110.0	12,706.9
Extra budgetary Expenditure	255.0	265.7	416.0	707.5	635.0	336.4	362.8	2,017.0	2,000.0
Development Expenditure	314.8	414.0	463.3	471.8	369.1	1,179.9	1,568.1	1,923.0	2,385.6

Source: World Bank 1990 (Country Report); 1989/90 MFEP estimates

Table 8a Central Government Expenditures, 1981/82-1988/89 as a % of GDP

	81/82	82/83	83/84	84/85	85/86	86/87	87/88 (rev)	88/89 (est)
Total Current Expenditure	16.3	14.5	16.7	21.3	18.5	16.4	19.8	19.2
Budgeted Current Expenditure	--	--	13.1	16.7	15.8	15.3	18.9	16.3
Wages and Salaries	--	--	--	--	--	--	1.0	1.5
Transfers to Regions	4.2	3.1	2.7	2.3	2.4	3.4	2.4	2.3
Goods and Services	--	--	5.7	5.4	3.8	5.3	5.1	3.7
Interest Payments *	0.9	1.3	2.9	6.1	5.0	3.6	5.5	3.6
Transfers to Institutions	1.3	1.1	1.1	0.9	0.7	--	2.9	4.3
Other	1.8	2.0	--	--	--	--	2.1	0.8
Extrabudgetary Expenditures	3.6	2.8	3.5	4.6	2.8	1.1	0.9	2.9
Capital Expenditures	4.5	4.3	3.9	3.1	1.6	3.9	3.9	3.0
Project Aid Financed	2.6	2.2	1.7	1.4	0.7	1.6	1.8	1.9
Locally Financed	1.8	2.1	2.2	1.6	0.9	2.4	2.1	1.1
Equity Expenditure	0.5	0.3	0.7	0.3	0.3	0.1	0.1	0.0
Net Lending								0.3
Total Expenditures	21.2	19.1	21.3	24.7	20.4	20.5	23.7	22.5

Source: World Bank 1990, p. 122

* For 1982/83, data represent actual cash payments. Since 1983/84, data are on a commitment basis.

Table 8b Central Government Expenditures, 1981/82-1988/89 as a % of Total Expenditures

	81/82	82/83	83/84	84/85	85/86	86/87	87/88 (rev)	88/89 (est)
Total Current Expenditure	76.8	75.7	78.4	86.4	90.7	80.3	83.3	85.1
Budgeted Current Expenditure	--	--	61.8	67.7	77.2	74.8	79.5	72.2
Wages and Salaries	--	--	--	--	--	--	4.3	1,377.8
Transfers to Regions	19.9	16.4	12.8	9.5	11.8	16.4	10.0	10.0
Goods and Services	--	--	26.8	21.7	18.6	25.9	21.3	16.5
Interest Payments*	4.0	6.9	13.9	24.7	24.6	17.4	23.0	16.2
Transfers to Institutions	6.0	5.8	4.9	3.8	3.4	--	12.0	10.1
Other	8.6	10.3	--	--	--	--	8.9	3.6
Extrabudgetary Expenditures	17.1	14.5	16.6	18.6	13.5	5.5	3.8	12.9
Capital Expenditures	21.1	22.6	18.5	12.4	7.8	19.3	16.4	13.5
Project Aid Financed	12.4	11.4	8.1	5.8	3.5	7.7	7.5	8.5
Locally Financed	8.7	11.1	10.3	6.6	4.3	11.6	8.8	4.9
Equity Expenditure	2.1	1.7	3.2	1.2	1.5	0.4	0.3	0.0
Net Lending								1.4
Total Expenditures	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: World Bank 1990, p. 121

* For 1982/83, data represent actual cash payments. Since 1983/84, data are on a commitment basis.

Table 9 Major Components of Current Expenditures 1981/82-1989/90 in LS Millions

	81/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89	89/90
Total Current Expenditures	1,145.4	1,390.2	1,966.5	3,278.7	4,278.7	4,913.3	7,974.1	14,110.0	14,210.5
Wages and Salaries	110.3	125.1	181.8	296.3	382.3	405.2	415.0	1,135.0	915.8
Transfers to Regions	296.7	300.8	322.0	360.5	557.1	1,003.3	958.0	1,661.0	1,797.6
Transfers to Institutions	89.4	105.6	124.1	142.9	160.0	380.5	1,148.9	3,161.0	3,727.9
Education	13.8	20.6	21.5	37.5	40.0	56.8	55.6	68.0	74.9
Health	14.9	29.6	39.0	37.5	40.0	48.2	56.3	62.7	80.5
Defense	113.9	164.0	300.0	492.0	473.1	n.a	n.a	n.a	3,610.0
Extra budgetary (mainly defense)	255.0	265.7	416.0	707.5	635.0	336.4	362.8	2,017.0	2,000.0*

* Exchange rate losses compensation

Source: World Bank 1990 and own calculations based on 1989/90 MFEP estimates)

Since the political influence over expending decisions is effective at different levels, the technical staff has to face a two-fold difficulty: first, when preparing the budget, it has to struggle against political demands for presenting publicly "acceptable" figures, and second, after the budget approval, legitimate and illegitimate requirements surface periodically and are in many instances partially or fully met at the expense of reform efforts.

Additionally, public expenditures reveal a continuation of the government's persistent bias towards urban expenditures and inefficient regional (which is not necessarily rural) allocation. If we add to that the administratively unchecked expansion, the development of the grant economy supported by public funds, and the obligatory defense bill due to the civil war in the South, than it seems rather difficult to think of any magnitude of public expenditure reform without a bold and highly committed approach. The main precondition of such a reform is the clear political vision and the decisive stand to undertake the burdensome exercise of enforcing major but carefully targetted shifts and reductions in public expenditure. The main objective of such a programme would be to change the whole course of the presently ill-coordinated institutions of economic management and depart significantly from the adopted partial adjustment strategies.

3.2.2.2 Development Expenditures

In terms of public expenditure considerations, the development expenditures constitute a healthy and constructive avenue for channelling public savings and for laying the infrastructural foundations of private investments. The main objective of development expenditure is to relieve the structural obstacles and bottlenecks and to pave the way for transforming the economy.

During the 1980s, development expenditures were reduced and their growth was kept at a moderate level as a result of the 1978 agreement. But since this slow-down was not accompanied by a similar check on current expenditures, the outcome was more inflationary pressures and more distortions which negatively affected incomes, living standard, employment and growth in general.

As early as 1982 planning deficiencies in development expenditure procedures were cited out, such as budgeting without knowledge of resource availability, lack of information on existing commitments, deficient project costing, and inclusion of unplanned priorities into the budget (MFEP 1982). Yet, despite different efforts done to improve the situation, little result was achieved.

Development expenditures also faced disbursement difficulties, since approved funds are usually subject to delays due to liquidity bottlenecks. Furthermore, development funds are reduced by indirect cuts when recurrent items are smuggled through development budgets and successfully escape the procedural scrutiny.

The actual performance of the development budget shows a bias towards foreign financed sectors. This bias is manifested in the increasing share of the agricultural and industrial sector vis-à-vis the share of the transport, communication and services sectors. Regional development receives a sizeable share, yet it is doubtful whether the funds were effectively used, since there are many strong indications that they were channelled by regional authorities to current expenditure budgets.

3.3 Policies and Measures: The Low Institutional Level of Coordination

The period 1981/82 to 1989/90 witnessed significant policy actions which were directly related to the fiscal performance of the economy. To start with, 1978 Sudan reached a stand-by arrangement (extended in 1979) with the IMF which resulted in major public expenditure (mainly development expenditure) reductions. This agreement with the IMF affected both the investment and fiscal policies up to 1985, since the different public investment and reform programmes were more or less designed within a broad stabilization framework.

The introduction of the Regional Government Act in 1980 resulted in the establishment of a continuous fiscal dependency of the regions on central budget transfers. The Islamization policies in 1983 partially resulted in a revenue drop through the introduction of the "Zakat" which was abolished three years later. The year 1983 was also the year of the outbreak of the civil war in the South as a result of the regionalization dispute. The effect of the war on public expenditures was and still is detrimental.

A more comprehensive approach towards relating fiscal policies to other economic variables was a major theme in the National Economic Conference in 1986. This approach was further developed in the preparation and compilation of the Four Year Economic Programme 1987/88-1990/91. Along the same lines, the Programme for Action was formulated in 1987. In 1989 a new more short-term orientated approach was followed in the Economic Salvation Programme which was commented by the National Conference for Economic Salvation. The recommendations of this conference constitute the basis for a new programme which is under preparation.

A common feature which is shared by all these programmes is the generalized approach towards the fiscal problem. Now and then it is promised to increase the revenues and to improve the tax structure together with repeated stresses on the importance of public expenditure control and rationalization. Consequently, the institutional prerequisites are neglected and the specific and practical issues are left behind. The result was that the internal distortions continued to increase and expand until the economy reached the current crisis situation.

The institutions involved in revenue policies are the Taxation and Custom Duties Departments, the Ministry of Commerce, regional governments and local councils.

In fact, in the present setting policy coordination between these units is lacking. It is therefore imperative to establish close coordination links if efficient tax effort is to be achieved and if the massive underground economy is to be brought under official tax control.

As for the development and current budget preparation, the main government institutions concerned are the Finance Wing and the Planning Wing of the Ministry of Finance and Economic Planning. Other units are also involved, such as some parastatals, central ministries, and the regional administration of finance. The present level of coordination is confined to the Higher Committee for the Annual Budget which does not have full representation of the concerned units. Within this committee the final financial balance of the budget and the budget statements are discussed. A more medium and broad based institutional forum is required to discuss in detail the macro-economic consistency of the budget.

In the implementation, monitoring and follow-up stage, the units involved are the Ministry of Finance and Economic

Planning, the Bank of Sudan and the Auditor General. A more comprehensive monitoring and follow-up system is needed and emphasis should be given to the important accountability role held by the Auditor General.

3.4 Outlines of a Revenue-led Strategy for the Sudan

The revenue-led strategy proposed in this section rests on the recognition of some important factors constituting the basis of and the necessary prerequisite for an articulate reform process. The most important factor is the change required to create a new institutional atmosphere by linking the proposed programme with a long run perspective, namely the agricultural demand-led strategy as outlined in the first chapter, complemented by the monetary policy alternative and the balance of payments adjustment approach as proposed in the following chapters.

To start with, the fiscal problems can be summarized in the amounting deficit resulting from the relative slow growth of the revenue. The tax structure reveals another distortion since the tax revenue, as opposed to the non-tax revenue, constitutes the major component out of which the direct taxes amount to more than 65% during the period 1981/82-1989/90. The expenditure side also has its own problems indicated by the relative increase of current expenditures which are dominated by non-productive items, mainly wages and salaries, transfers to regions, defense and extra-budgetary expenditures which are directed mainly to defense.

The body of the revenue-led fiscal reform programme is composed of three main parts. First and most important are changes of the institutional base, second the revenue policies, and third the expenditure policies. A new institutional set-up congruent with the proposed strategy requires

an increase in the level of coordination by creating at basic and medium levels permanent budget preparation and monitoring committees. The role of these committees will be to follow up day to day developments and changes during the programme period.

During the preparation stage the regional and trade unions' interest groups have to be represented within a suitable form for consultation and better understanding the short and long-run implications of fiscal policy measures and the economic and social costs related to the reform. The Bank of Sudan and the Auditor General which are not represented in the present budget discussion and approval process, have to be represented at the different stages and levels of the budget preparation. The present ad hoc and arbitrary scrutiny methods should be replaced by more precised and reform-related criteria. This can be accomplished by abandoning the departmental budget classification and by adopting a functional categorization of budgeting. By so doing it will be more easy to identify the reform items which can support the long-run growth, and cater for the social and human-related items.

As for the revenue policies, the initial reform step will be to increase the time and energies devoted to revenue discussion by giving each revenue source due attention. Such a procedure should substitute for the present brief and overall discussion of revenue estimates which is superseded by the concern for expenditures. The long run revenue reform objective would be to change the tax structure by increasing the relative contribution of the non-tax elements, and to increase the direct tax effort. All in all, the targetted high levels of coverage should be attained, and every potential tax revenue source has to be seriously and extensively discussed and considered.

This shift towards revenue-led fiscal strategy needs a clear and comprehensive programme to modernize and upgrade the direct tax record and collection method, and it requires a broadening of the tax base to cover a substantial share of the commercial transactions and economic activities. An example in this respect is the need for a more efficient treatment of the agricultural sector by expanding the coverage and improving the tax rate. It is important for this and other tax and non-tax purposes, to enhance the coordination between the tax department, the local councils, the land registration offices, the Ministry of Commerce, the Bank of Sudan and other relevant government institutions.

Non-tax revenue efforts can be improved by a removal of price distortions and a more realistic exchange rate regime. Besides the effect of these policies on bringing the massive underground economy under tax control, such policies will boost the parastatals' surplus. This price reform has to be accompanied both by a removal of the preferential treatment of public cooperations and companies which should work on a commercial basis, and by the adoption of cost recovery rates for those government goods and services which are not directly related to the provision of basic services to the poor and vulnerable groups.

The public expenditure policy proposed within this strategy is based on the necessity of following a strict and tough reduction approach. Major budget cuts in current expenditures and a reallocation of the development budget have to be decided and explained to the public in general and to the different interest groups in particular. The major areas of reduction are the transfers to regions, the extra-budgetary expenses, the defense expenses (through a peaceful solution of the civil war), and the replacement of the present overall and direct subsidies system by more targeted subsidies.

The social impact of this exercise can be dealt with in a positive and productive approach whereby the poor and most affected segments of the society will be provided with support in terms of productive assets, employment, and basic services. The share of traditional agriculture and integrated rural development projects in development expenses should be increased. This could be done without delaying these projects in expectation of support from foreign finance agencies. The reallocation and shift of development expenditures along this "reform items approach" in fact constitutes the gist of the linking bridge between short-term fiscal reform considerations and the long-run growth perspective of the structural adjustment programme as proposed in this paper.

4 MONETARY POLICY REFORM

4.1 Past Performance (1981/82 - 1989/90)

4.1.1 Coordination Between Fiscal, Monetary, and Credit Policies

The coordination between these policy areas is essential for establishing a disciplined financial system by which financial resources can be mobilized and efficiently allocated in productive sectors. In the Sudan, however, fiscal, monetary, and credit policies are in disarray and lack the least degree of coordination.

Since the establishment of the Bank of Sudan (BoS), the law which organizes its functions has been changed several times whereby the BoS lost each time another part of its autonomy and came under the ever stronger control and surveillance of fiscal policy makers. In 1988, Article 57 "A", which regulates the government's borrowing from the BoS, was altered by the Minister of Finance without the consent or even consultation of the BoS. The new amendment legitimized the ceiling of government borrowing to 20% of its domestic revenue for financing the overall deficit. Consequently, the persistent inflation was exacerbated to astronomical rates, impairing the mobilization of savings and hence the volume of investments. The result was highly problematic, for the system was working without positive real rates of return on financial assets and real charges on loans since the mid of the 1980s. Another point of weakness is the government's reluctance to repay its cumulative debt to the BoS which amounted to LS 22,000 mil. at the end of the fiscal year 1988/89 (for the growth of claims on the government see Table 10).

The lack of coordination is indicated by the fact that the BoS is rarely represented in the budget formulation committee, from the stage of budget preparation up to the stage

Table 10 Consolidated Balance Sheet of the Bank of Sudan, 1983-89, in LS millions

	June 1983	June 1984	June 1985	June 1986	June 1987	June 1988	June 1989
Assets							
Foreign assets	1,993.1	2,408.6	3,318.8	5,081.4	7,454.7	9,823.9	14,854.3
Net claims on central Government	57.8	22.4	28.1	64.3	117.5	49.6	200.1
Claims on 15 major public enterprises	1,485.7	1,695.6	2,441.8	3,609.6	5,379.2	7,408.7	11,819.5
Claims on commercial banks	397.8	495.0	640.3	1,188.8	1,714.6	2,099.4	2,479.7
Claims on specialized banks	21.2	144.0	142.0	139.4	164.1	182.6	216.4
	30.6	51.6	66.6	79.3	79.3	83.6	138.6
Liabilities							
Reserve money ^{1,540.3}	1,993.1	2,408.6	3,318.8	5,081.4	7,454.7	9,823.9	14,854.3
Currency outside banks	2,050.7	3,023.6	4,808.4	6,507.5	7,972.7	12,332.1	
Cash in banks	926.3	1,170.2	1,451.5	2,300.1	3,182.3	4,274.0	7,482.1
Deposits of commercial banks	47.7	54.3	85.4	109.4	149.0	235.9	387.7
Other current deposits	465.6	725.2	1,245.4	2,001.2	2,481.9	2,640.3	3,567.7
	100.7	101.0	241.3	397.7	694.3	822.5	894.6
Quasi-monetary deposits	7.4	24.4	67.4	59.2	103.1	161.4	166.0
Foreign liabilities	2,836.3	2,829.8	4,584.4	4,884.3	5,625.1	11,135.4	11,876.0
Revaluation accounts	-1,532.3	-1,532.3	-3,044.2	-3,339.9	-3,511.9	-8,126.9	-7,902.7
Blocked deposits	-566.3	-575.8	-743.0	-743.0	-743.0	-743.0	-743.0
Capital accounts	63.9	42.4	2.4	36.5	129.9	47.1	195.0
Other items (net)	-356.2	-430.6	-571.8	-624.1	-656.0	-622.8	-1,069.1

Source: Bank of Sudan and World Bank 1990

when it is becoming a law. On the other hand, every August the credit policy is discussed and the Ministry of Finance is not represented in the discussion meetings. Practically, the government uses to draw a large share of credit available to finance its deficit and to allocate the bulk of the remainder to the inefficient parastatals, leaving only a tiny amount to the private sector, without recognition of the credit policy guidelines.

4.1.2 Development of the Banking System

During the last three decades the banking system experienced crucial changes which affected its primary function of financial intermediation. These developments led to instability and confusion in financial policies to the extent that some monetary variables and tools (e.g. interest rates) are unpredictable and non-controllable. In the early 1970s, banks were confiscated and nationalized. There had been charges of pursuing "arm chair" policies which meant maximization by allocating scarce financial resources to local trade rather than securing long-term finance for development. In fact, up to date, banks are heavily involved in financing local trade and speculation. In September 1974, the government adopted liberalization measures. Joint ventures and foreign banks were allowed to start business in Sudan. These banks were expected to channel foreign exchange as an essential component of investments and to alleviate balance of payments problems.

The most significant development was the Islamization of the banking system. Islamic banks emerged in Sudan in 1978 when the Faisal Islamic Bank commenced its operations. They operate within the context of the economic principles of the Islamic Sharia Code. The main Islamic economic principle is the prohibition of interest rates in all forms of transactions. In December 1984, the government issued a de-

cree by which Islamization for the whole banking system was implemented. Interest rates were abolished and the four Islamic alternatives known as Musharaka, Murabha, Mudharba and Kard Hassan were introduced.

With the exception of the Sudanese Islamic Bank's success story, in general, the banking system both before and after Islamization was heavily involved in allocating capital to short-term rather than to medium or long-term credits. By such activities, the commercial banks increased the money supply through the multiplier effect and enhanced inflationary pressures.

4.1.3 Institutional Framework

The BoS was established as the government's central bank in 1960. Its main objectives are to regulate monetary and credit policies so as to patronize a balanced economic development, maintain the stability of the national currency, perform the function of an adviser to the government, and act as the lender of last resort. The banking system comprises 23 commercial banks and 3 specialized banks. The 23 commercial banks can be categorized into five domestic state-owned banks, 6 wholly foreign owned banks, 6 Islamic banks, and 6 joint venture banks. Commercial banks' branches are geographically uneven distributed. 33% are situated in the national capital, another 19% in the Central Region. A low concentration of branches is characteristic of the Northern, Darfur, and Kordofan regions, their share is 9%, 7%, and 6%, respectively. Since these last three regions are the centers of agricultural traditional production, such mal-distribution manifests the bias in credit allocation towards the modern sector, regardless of the basic role of the traditional sector in the country's economic development. Commercial banks' deposits increased at an average annual rate of about 37.2% from LS 604.1 mil. in

1980 to LS 10,421 mil. in 1989. According to the report of the ministerial committee for a revision of the banking system policies of April 1990 the banks' lending to the private sector expanded from LS 502.9 mil. in 1980 to LS 5,549.9 mil. in 1989, i.e. at an annual average rate of 30.6%. More than 70% of the banks' lending for the private sector is allocated, both in a direct and indirect way, to the trade sector. The ratio of advances to deposits deteriorated to around 51.4% by 1989 while the optimal ratio should be around 60% to 65%. The deterioration was caused by the imposition of credit ceilings by the BoS (BoS, Annual Report 1989).

The Agricultural Bank of Sudan (ABS) is by far the largest among the specialized banks. It was established in 1959 with an authorized share capital of LS 30 mil. (Shaaeldin and Brown 1988). Its capital was raised twice, to LS 50 mil. in 1987 and to LS 100 mil. in January 1990. The objectives of the ABS are securing credit to agricultural producers, stabilizing the sorghum prices and operating a buffer-stock of sorghum as agent of the government. The ABS is openly criticized for its heavy involvement in the last two areas and for its bias towards the mechanized and irrigated subsectors. For instance, during the period 1982-1988, the ABS distributed its agricultural lending as follows: 68% to the mechanized rain-fed subsector, 26% to the irrigated and only 6% to the traditional subsector (BoS 1989).

The activities of the Industrial Bank are considered to be very small due to the meager inflow of foreign exchange. However, in 1987, the bank expanded its operation backed by loans from the African Development Fund.

The Sudanese Estate Bank is largely non-functional. The bank's capital is very small and depleted by non-performing real estate loans. The bank is now under reorganization

with the aim to make it work properly on the basis of increased capital.

In addition to the formal institutional system an informal system does exist, which is largely represented by "shail". Under "shail" finance is provided as working capital to small farmers available both in cash and kind from money-lenders, large farmers, friends and relatives. The system secures finance for small borrowers who lack access to the organized financial markets. It is difficult to find reliable data about the costs of borrowing, its magnitude and availability. However, various studies indicate interest rates of up to and even more than 500%.

4.1.4 Savings

The Sudanese economy was characterized over the past decade by declining rates of domestic savings. They fell remarkably from 13% of the GDP in 1976 to 1% in 1981. From 1982 to 1988, the savings rate was amply oscillating with an average around 3.6%. Estimates for 1989 show that the rate has dropped to 2.2% (World Bank 1990). A recent BoS-study on rates of return of 13 Sudanese banks (joint venture banks, Islamic banks, and foreign banks) for the period 1986-1988 concluded that the real rate of return to savers worsened on average, from 26.58% in 1986 to 46.15% in 1988. As the rate of inflation increases in the Sudan, private sector savings are moving to speculative activities rather than to the productive activities through the banking system.

Remittances from Sudanese National Working Abroad (SNWA) seem to have acted as a significant factor in raising the level of national savings above the level of domestic savings. Recently, the government adopted financial policies which are counter-productive in this respect, like exchange

rate overvaluation and price and trade controls which led to a substantial fall in the amount of remittances.

4.1.5 Inflation

Though there are no reliable data concerning price indices, inflation rate estimates converge at around 80% by the end of 1989 (IMF estimates). Interrelated reasons leading to this complicated situation can be highlighted as follows:

- The negative growth in GDP was accompanied by large government borrowing from BoS which was estimated by budget authorities at around LS 6,000 mil. Moreover, in Sudan, according to the two-way relationship between inflation and government deficit, inflation was regarded both as a result and a cause of the government deficit. As a result money supply expanded in an uncontrolled manner from LS 2,697.5 mil. in June 1983 to LS 17,996.2 mil. in 1989 (Table 11).
- Another indicative factor, the M_2 /GDP ratio, has declined from 33.7% in 1985 to 24.5% in 1989 (Table 11). This substantial fall indicates that there is a steady increase in the income velocity of money.

4.2 Policies for Reform

4.2.1 Saving and Lending Rates

Savings cannot be mobilized under a system dominated by high and persistent inflation on top of low nominal interest rates since low or even negative real interest rates make the holding of financial assets unrewarding. Under such conditions, commercial banks have little incentive for attracting deposits. To alter this situation, the government should stop its policies of financial repression and gradually launch a liberalization programme. Under Islamic principles, the compensatory rate system, introduced in

Table 11 Monetary Survey, 1983-1989 (LS Millions)

	June 1983	June 1984	June 1985	June 1986	June 1987	June 1988	June 1989
Net Foreign Assets	-2,497.9	-2,416.8	-3,569.9	-4,067.6	-4,897.7	-9,855.1	-10,154.2
Bank of Sudan	-2,778.5	-2,807.4	-4,556.3	-4,820.0	-5,507.6	-11,085.9	-11,675.9
Commercial Banks	280.6	390.6	986.4	752.4	609.9	1,230.8	1,521.7
Net Domestic Assets	3,096.8	3,570.4	5,263.3	7,126.0	10,094.3	13,296.6	20,000.5
Claims on Government	1,552.4	1,748.7	2,368.1	3,167.4	4,662.4	6,371.2	11,162.3
Claims in 15 Major Public Enterprises	397.8	495.0	640.3	1,188.8	1,714.6	2,099.4	2,479.7
Claims on Private Sector	1,271.2	1,509.1	1,802.0	2,035.4	2,255.3	2,860.4	4,080.6
Commodity Operations	--	--	25.9	282.1	1,246.0	1,488.4	1,469.7
Claims on Specialized Banks	30.6	51.6	66.6	79.3	79.3	83.6	138.6
Other Items	-155.2	-234.0	360.4	373.0	136.7	393.6	669.6
Counterpart to Adjustments in NFA	2,098.6	2,108.1	3,487.2	3,782.9	3,954.9	8,374.1	8,149.9
Blocked Deposits	566.3	575.8	743.0	743.0	743.0	743.0	743.0
Revaluation Accounts ¹ ,532.3	1,532.3	2,744.2	3,039.9	3,211.9	7,631.1	7,406.9	
Total Assets	2,697.5	3,261.7	5,180.6	6,841.3	9,151.5	11,815.6	17,996.2
Total Liabilities	2,697.5	3,261.7	5,180.6	6,841.3	9,151.5	11,815.6	17,996.2
Money and Quasi-Money (M2)	2,040.7	2,451.5	3,305.7	4,972.4	7,129.9	9,164.2	15,002.1
Money (M1)	926.3	1,170.2	1,451.5	2,300.1	3,182.3	4,274.0	9,094.1
Currency Outside Banks	1,114.4	1,281.3	1,854.2	2,672.3	3,947.6	4,890.2	5,908.0
Demand Deposits	656.8	810.2	1,874.9	1,868.9	2,021.6	2,651.4	2,994.1
Quasi-Money							
Memorandum items:							
Nominal GDPMP (LS)	9,591.9	11,806.6	15,357.2	23,070.0	29,887.0	40,291.0	73,565.0
Nominal Growth of GDPMP	36.2	23.1	30.1	50.2	29.5	34.8	82.6
Real Growth of GDPMP	2.1	-12.5	1.8	9.7	1.1	-1.9	7.4
Nominal Growth of M1	39.2	20.1	34.8	50.4	43.4	28.5	63.7
Nominal Growth of M2	31.5	20.9	58.8	32.1	33.8	29.1	52.3
Nominal Growth of Quasi-Money	50.3	26.3	24.0	58.5	38.4	34.3	112.8
M1 as % of GDPMP	21.3	20.8	21.5	21.6	23.9	22.7	20.4
M2 as % of GDPMP	28.1	27.6	33.7	29.7	30.6	29.3	24.5
Velocity	3.6	3.6	3.0	3.4	3.3	3.4	4.1
Rate of Inflation (CPI)	13.4	21.5	28.2	45.5	33.2	22.8	37.9

Source: Bank of Sudan and World Bank 1990

1987 and frozen recently, should be revitalized on a flexible and market-oriented basis.

Overvaluation of the exchange rate, import and price controls are the driving force behind the failure to attract SNWA remittances. These policies provide a favourable climate for smuggling which creates an urgent demand for remittances outside the official channel. To attract the SNWA remittances, the government should adopt bold measures in the area of exchange rate and import and price controls.

Fiscal measures, as proposed in Chapter 3, are expected to lessen the government's deficit and to assist in containing the inflation. Additionally, the government should reduce the stock of excess liquidity in the banking system by the issuance of government bonds at market related rates.

4.2.2 Towards an Effective Credit Policy

Every August the BoS uses to discuss its credit policy and issues detailed guidelines in which credit ceilings are fixed for each individual bank. It also announces maximum and minimum limits for lending to specific sectors, and imposes trade restrictions on certain goods. In 1987, the BoS issued new credit directives in which the commercial banks were required to secure credit for exportables, working capital and medium and long term lending at a minimum of 80% of the lending limit allocated to each bank.

In practice, commercial banks use to violate the credit guidelines and concentrate their activities on local trade. For instance, the tiny amounts of the commercial banks' lending to the agricultural sector are not in conformity with the agricultural sector's significant role in the country's economic development.

The following proposals are the basis of effective credit policy in which financial resources should be reallocated in accordance with the agricultural-led strategy focusing on the traditional subsector. The requirements implied by this approach for the financial systems are:

- The government should finance its deficit without resorting to borrowing from the BoS, thus leaving a larger scope for satisfying credit needs of the private sector.
- A specific agricultural credit policy should be adopted and incorporated into the prescribed private sector's credit guidelines.
- New ABS-branches should be opened in remote rural areas to secure finance to small traditional farmers.
- An insurance fund for agricultural loans should be established as practiced in various other countries. This fund would minimize the risks of commercial banks and encourage lending to agriculture.
- Government should increase the capital of the ABS so as to meet the growing demand of finance by farmers.
- Non-governmental organizations like cooperatives and self-financing associations should be encouraged to put to use their savings and efforts.
- Marketing boards incorporating groups of small farmers should be created. Besides their support in marketing the farmers' produce, they can become important links to the organized financial markets.

Concerning the institutional set-up required to make these policies effective, the following proposals describe the minimum of needed changes:

- 1) The law of the BoS should be revised and amended in a way that secures the Central Bank a degree of autonomy and strengthens its control over commercial banks.
- 2) As owner of the state-owned banks, the BoS has been charged with preferential treatment of these banks. The BoS lost "moral persuasion" as one of its most effec-

tive tools for influencing commercial banks. To gain the status of neutrality, the BoS must sell its shares to the public.

- 3) In the absence of liberal financial markets, informal institutions should be encouraged and developed.
- 4) The encouragement of non-bank-institutions would lay strong foundations for proper and effective financial intermediation.

5 THE EXTERNAL SECTOR

Sudan's external sector has been facing great difficulties during the 1980s. Among the many factors contributing to the worsening situation, inadequate export performance is the most important one. The erosion of competitiveness of Sudanese exports is related both to the supply and the demand side. The terms of trade deteriorated as a consequence of an increasing use of substitutes for primary commodities and import restrictions on the world markets. Production activities have been hampered by biased incentives favouring non-tradables, lack of inputs and spare parts. Low yields and outputs ushered in the collapse of production in rain-fed areas resulting from the severe drought and desertification since 1982/83.

Various economic policies failed to attract the remittances of Sudanese National Working Abroad (SNWA) through the formal financial system, giving ample scope for capital flight financed by black market remittances. Sudan is facing a severe debt service burden as debts incurred in the early and mid-seventies fell due with a debt service ratio of up to 40% of total export proceeds.

5.1 Exchange Rate

Since independence 1956 up to 1978, the official exchange rate remained fixed at LS 0.35/\$. The rate was devalued by 15% in June 1978, 25% in September 1979, 80% in November 1981, 44% in November 1982, 92% in February 1985, and 80% in October 1987. However, these devaluations of the nominal exchange rate failed to increase real incentives for exports. In an attempt to lessen the adverse effects, the government intermittently introduced multiple exchange rates, but low and unfavourable rates were applied to the

major export produces, particularly cotton and gum arabic. Thus, the exporters provided cheap foreign exchange to the benefit of importers, in other words, exports were heavily taxed, directly and indirectly.

By the multiple exchange rate system the government preserved access to cheap foreign exchange for financing its own needs in the area of debt service, inputs and capital equipments to compensate for the public corporation losses. Through cheap imported consumer goods the government also maintained support for the regime among urban consumers and trade unions. Exporters tried to escape overvalued exchange rates by smuggling out their goods. As a result of all that, scarcity of foreign exchange in official markets hindered production processes. In an attempt to correct this situation, the government launched some control by introducing intermediate foreign exchange rates for special categories of transactions, shifted commodities from one category to another, subsidized some exports and tried to freeze the free exchange rate. As domestic inflation grew, the market price of foreign exchange increased and forced the government to adjust the rate in a drastic and sudden move.

The government attempts to control the rate of exchange and to capture the supply for the official economy but in fact, demand of foreign exchange continues to exceed supply and the controls of imports lead to black market either through official channels such as the suitcase import trade or non-officially through smuggling goods across the borders.

A study on exchange rate adjustment was undertaken which put the focus on the export side assuming that imports could be controlled by compression. The costs of production and the international prices for each commodity were calculated and a weighted average exchange rate sufficient to clear out all tradeable goods was obtained. That conclusion

was the base for the exchange rate adjustment of October 1987 which resulted in a unified rate at LS 4.5/\$. However, this measure was not effective due to the increased trend of inflation caused by the governments resort to deficit financing.

The Sudanese authorities again established a two tier-system of exchange with the official rate of LS 4.5/\$ and the market rate at LS 12.3/\$. The main purpose of the market rate was to attract remittances of SNWA and to promote the marketing of Sudanese exports except cotton, gum arabic and livestock which were valued at the official rate.

In any healthy economy the exchange rate should realistically reflect the relative scarcity of foreign exchange and a depreciation be fully passed through to domestic prices. To protect the welfare of the vulnerable groups the authorities can apply meso-policies based on priorities which vary from one country to another. With respect to the Sudan, it is preferable to establish a unified rate under an adjustable peg accompanied by external finance to facilitate a removal of distortions, to establish linkages between domestic sectors and to cater for the social costs of stabilization.

5.2 Balance of Payments

Sudan's balance of payments position is characterized by persistent disequilibria due to the poor and weak export performance as well as to inadequate aggregate demand management. The annual current account deficit fluctuated approximately around a level of \$ 900 mil. with a peak at \$ 1,300 mil. in 1981/82 (Table 12). During the five consecutive fiscal years the deficit showed a slight improvement, but started to rise again to \$ 999.3 mil. in 1987/88 and to 1,220 mil. in 1988/89. The temporary improvement in the

Table 12 Balance of Payments 1981/82-1988/89 in US-\$ millions

	81/82	82/83	83/84	84/85	85/86	86/87	87/88 (prel.)	88/89 (est.)
Exports	432.0	581.0	722.2	595.4	497.4	481.6	485.9	550.3
Non-Factor Services	23.0	175.0	333.0	245.0	136.0	176.4	161.0	236.0
Imports	1,754.0	1,534.4	1,370.4	1,114.5	1,055.1	832.3	1,223.2	1,224.0
Non-Factor Services	339.0	270.0	270.0	280.0	283.0	300.0	233.0	336.0
Resource Balance	-1,347.0	-983.3	-698.2	-594.4	-635.7	-430.7	-795.3	-809.7
Non-Factor Income	-293.0	-317.0	-468.0	-478.0	-556.0	-522.0	-649.0	-703.0
Receipts	15.0	10.0	10.0	15.0	20.0	10.0	00.0	3.0
Payments	308.0	327.0	478.0	493.0	576.0	532.0	649.0	706.0
Current Private Transfers	350.0	415.0	395.0	430.0	350.0	250.0	445.0	297.0
Current Account Balance	-1,290.0	-885.3	-771.2	-642.1	-841.7	-702.7	-999.3	-1,215.7
Official Transfers	173.5	462.0	309.0	288.0	412.0	280.0	369.0	271.0
Loan Disbursements	685.0	219.0	152.0	163.0	177.0	159.0	234.0	324.0
Payment Due & Amortization	694.0	546.0	542.0	485.0	654.0	391.0	464.0	653.0
Error and Omissions	-417.0	-121.3	-51.8	-188.9	-145.3	-191.3	-193.0	-36.0
Overall Balance	-1,542.5	-629.0	-904.0	865.0	1,052.0	-846.0	-1,053.0	-1,309.0
Change in Net Reserve	326.5	-108.0	7.0	100.0	-13.0	220.0	280.0	177.0
Debt Relief	1,216.0	737.0	949.0	257.0	270.0	110.0	13.0	0.0
Net Change in Arrears	0.0	0.0	-52.0	508.0	795.0	516.0	760.0	1,132.0

Source: Bank of Sudan

current account deficit resulted from import reduction rather than an increase in the export earnings. During the 1980s, official transfers have partly offset the negative factors, but the growth of debt service obligations led to repeated debt reschedulings and the accumulation of external arrears. Official transfers in form of cash, commodity and project aid peaked in 1982/83 at \$ 426 mil. and fell to \$ 271 mil. by 1988/89 (Table 12).

The balance of payments disequilibrium is a reflection of the overvalued exchange rate, of the underpriced output of public corporations, of subsidized prices for consumer goods, of a low saving and a high inflation rate caused by money expansion. This means that the aggregate demand is in excess of domestic production. In spite of government measures to induce increases in supply, particularly in agricultural sectors, the lack of foreign exchange to import inputs in due time affected production adversely. Although partial economic reforms have been implemented supposed to create incentives, adjust relative prices and control the expansion of the aggregate demand, they have not improved the situation of the balance of payments but rather hampered economic growth.

5.2.1 Exports

Agricultural commodities continue to be the main bulk of the Sudanese exports. Performance of primary product exports during the 1980s faced many problems such as the continuous distortions in internal pricing and exchange rate policies and the unstable government export policy. Also external factors like the adverse terms of trade development, pest infestation in irrigated areas and the severe drought played a major role in retarding and impairing export earnings in certain years.

The export of cotton declined by an average of 0.4% a year over the last 14 years. The main reasons behind this decline are pest infestation, difficulties with the supply of water, the deficiencies of marketing institutions, shortages in labour supply as well as over-supply on the world market of the medium staple variety due to the entry of China which changed from a buyer to one of the main exporters.

Table 13 shows that the exports of cotton in bales and dollar-value fluctuated heavily from one year to another. The highest export receipts were recorded in 1983/84 reflecting the abolishment of the joint account system and the decision to pay the farmers immediately upon delivery of their harvest to the ginneries.

Table 13 Cotton Exports 1981/82 - 1988/89

Fiscal Year	Cotton (000 bales)	Value in \$ mil.
1981/82	260.1	69.2
1982/83	691.4	175.0
1983/84	1,198.0	333.0
1984/85	846.2	245.0
1985/86	585.5	136.0
1986/87	1,206.0	161.4
1987/88	685.0	161.0
1988/89	800.0	236.0

Cotton export performance was undermined by the weak performance of parastatal monopolies in charge of irrigation and export marketing. For instance, it was, besides other adverse factors, poor canal maintenance which brought production down to less than 70% in 1985/86. The Cotton Public Corporation keeps stocks to be sold when

prices are high. In 1986 the corporation decided to sell off her stocks at prices which were only almost half the targetted level. Sudan could realize a 15% increase in cotton prices by upgrading the quality through early picking and ginning. But it was estimated that by August 1989, up to 30% of the previous year's crop was still unginning.

Exports of gum arabic, the second largest export item, have been highly fluctuating due mainly to high domestic costs resulting from increases in the producer prices which have to be paid in order to reduce smuggling. In spite of high export prices demanded in foreign currency, the overvalued exchange rate did not compensate domestic costs. The marketing strategy affects negatively the relative advantage of Sudan on gum arabic markets, so that other producer countries such as Nigeria and Senegal reap the benefit on international markets through flexible prices, while some Sudanese customers turn to substitutes. In 1986-1988 the Gum Arabic Company exported 19,500 tons and found itself holding a big stock.

A similar situation prevails in livestock exports as abrupt policy changes undermined Sudan's reputation as reliable supplier and hence eroded its export markets in spite of the fact that it has large potentialities.

After consecutive years of drought an excellent dura crop was produced in 1985. Instead of giving exporters a better foreign exchange rate and to encourage cultivation and exports, the main efforts of the authorities were directed to stock-piling. Later "back-to-back" deals were issued as new policy, but the profits of these deals were made mainly from the domestic sale of imports whose actual prices reflected the accelerating domestic inflation. Back-to-back-dealers hoarded dura which changed from a surplus crop

Table 14 Sudan Export at Current Prices (fob) 1981/82-1988/89 in US-\$ millions

	81/82	82/83	83/84	84/85	85/86	86/87	87/88 (prel.)	88/89 (est.)
Cotton	69.4	174.6	333.3	245.1	136.0	176.4	161.1	236.2
Long-Staple	48.4	112.8	191.2	154.2	88.1	78.3	93.6	108.7
Medium-Staple	21.0	61.8	142.1	90.9	47.9	78.1	67.5	127.5
Groundnuts	69.8	38.1	44.6	15.0	6.7	5.0	26.4	21.6
Seed	48.1	16.7	15.4	11.1	4.9	2.0	3.4	15.3
Oil	10.2	6.5	14.2	3.6	--	--	14.0	--
Cake	11.5	14.9	15.0	0.3	1.8	3.0	9.0	6.3
Dura	64.5	87.4	31.1	--	0.5	31.3	53.9	75.4
Gum Arabic	43.2	47.5	61.9	41.6	27.3	100.0	59.9	75.4
Livestock	99.7	128.8	133.2	197.3	237.5	73.6	69.5	90.2
Sheep and Lamb	95.6	117.1	108.9	134.9	103.5	66.6	66.3	77.0
Cattle	3.5	2.7	7.0	5.3	3.6	--	--	--
Camels and Goats	0.6	8.8	17.3	57.1	130.4	7.0	1.2	13.2
Sesame	46.4	54.4	67.4	45.0	35.1	28.3	42.6	42.6
Seed	41.8	50.6	63.7	42.3	34.3	24.3	34.2	37.0
Oil	0.3	3.2	2.4	1.6	--	--	--	--
Cake	4.3	0.6	1.3	1.1	0.8	4.0	8.4	5.6
Other	39.0	50.5	50.7	51.4	54.3	67.0	73.0	56.7
Hibiscus	2.9	3.2	3.3	1.7	2.7	10.9	6.6	8.0
Yarn	--	1.5	4.2	3.8	5.1	2.9	2.1	0.6
Melon Seed	11.9	15.2	9.8	9.9	20.0	14.2	16.7	21.0
Hide and Skin	7.4	10.8	12.3	14.2	12.3	10.9	13.1	1.1
Other Marginals	18.8	19.8	21.1	21.8	14.2	28.1	34.5	26.0
Total	432.0	581.1	722.2	595.4	495.4	481.6	485.9	550.3

Source: Bank of Sudan

to a shortage one before the government placed a ban on dura exports to maintain domestic food supply.

In general, domestic sales on Sudanese exportables were simply more profitable than sales abroad.

The figures of Table 14 show a continuous decline of export receipts since 1983/84 except for a very small increase in 1987/88 for which only preliminary figures are available. The value of export earnings continued to be about half the import bill for several years. Sudan's economic reform programme should concentrate on rebuilding the incentive system in order to increase the quantity and quality of exportable agricultural commodities.

5.2.2 Imports

The minimum targetted imports for reasonable economic development is calculated at 5.1% of the GDP amounting to \$ 1,200 mil. The schedule below reveals total actual imports including government as well as private imports (Table 15).

Table 15 Import Values in US-\$ mil.

Fiscal Year	Total Imports	Government	Private
1982/83	1,534	389	1,145
1983/84	1,370	275	1,095
1984/85	1,114	482	632
1985/86	1,055	564	590
1986/87	832	260	522
1987/88	1,223	410	813
1988/89	1,224	577	647

The trend of total imports was declining and during the years 1985/86 and 1986/87 the record was below the bare minimum target. In 1988/89 government imports were increased by 40% as compared to the previous year whereas private imports declined by the same amount. Due to foreign exchange scarcities private imports are expected to decrease relatively in the short term compared to government imports. Foreign exchange constraints also caused a sharp decline of intermediate and capital goods imports impairing the input supply for production, public transport, basic consumption and basic health. With regard to sugar and wheat, the import demand did not decline in response to trade restrictions, but rather to higher domestic production in the previous years (Table 16).

Poor exports throughout the 1980s implied less availability of foreign currency for imports of the manufacturing sector. To alleviate ensuing difficulties, the "own resources" scheme was transitorily adopted from August 1987 to the end of June 1989. This scheme enabled any Sudanese owning foreign currency inside Sudan, to import a wide variety of inputs and consumer goods. The scheme financed about \$ 595 mil. of imports from August 1987 until the end of June 1988, and \$ 630 mil. from July 1988 up to the end of June 1989. These imports represent about half the total import bill and about 65% of these were allocated for inputs. Prospective importers without foreign exchange sources under this scheme could purchase from the parallel market. In October 1988, the government introduced a commercial exchange rate and declared the parallel market legal. The government required that all foreign exchange transactions for financing "own resource" become the main source of finance of inputs and spare parts. The new policy did not bear much effect since private foreign exchange could still be used for imports. In June 1989, the authorities made the holding and trading of foreign exchange illegal.

Table 16 Sudan Merchandize Imports at Current Prices (cif) 1981/82 - 1988/89 in US-\$ millions

	81/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89 (est.)
Food								
Wheat	371.2	253.8	195.8	187.8	19.5	135.4	165.4	105.2
Flour	67.9	40.1	24.3	14.4	0.4	5.0	72.8	35.9
Wheat	59.7	31.6	75.7	58.5	96.9	80.1	25.6	78.2
Sugar	158.4	53.3	35.8	34.0	20.7	9.5	15.2	5.3
Tea	25.7	27.8	26.4	21.8	29.5	5.4	13.0	15.9
Coffee	4.6	5.0	4.8	10.3	5.9	1.2	3.0	21.6
Dairy Products	18.4	41.2	5.7	12.2	13.2	10.2	15.0	13.1
Animals and Vegetables	5.8	9.7	7.2	6.3	3.9	2.3	1.0	7.1
Other Food	30.7	44.9	15.7	30.0	20.0	21.7	20.0	28.1
Beverages and Tobacco								
	23.5	23.8	23.7	4.4	4.8	4.4	7.0	9.1
Crude Materials								
Petroleum	368.8	344.4	358.7	289.6	273.2	190.8	248.8	233.2
Other	339.0	332.8	351.0	285.8	265.5	184.1	211.8	204.2
	29.8	11.8	5.7	3.8	7.7	6.5	37.0	29.0
Chemicals								
Pharmaceuticals	139.6	172.3	166.7	191.9	199.5	151.9	210.0	181.9
Fertilizers	20.0	39.6	31.6	21.5	38.0	43.0	45.0	37.1
Insecticides and Herbicides	20.0	30.8	29.0	33.4	48.2	28.1	56.0	54.2
Others	33.7	51.8	53.3	97.0	74.4	45.5	74.0	60.3
	65.9	50.3	52.8	40.0	39.0	35.3	35.0	30.3
Textiles								
	58.3	43.5	30.1	15.6	15.2	17.3	24.0	21.9
Manufactured Goods								
	294.5	266.6	260.7	187.3	163.9	145.5	247.0	194.0
Machinery and Equipment								
	273.1	263.3	193.8	162.7	108.1	85.6	177.0	180.0
Transport Equipments								
Automobiles	277.0	166.9	143.3	75.2	100.1	101.6	144.0	210.0
Trucks	87.9	32.7	37.3	15.8	20.4	34.8	42.0	42.0
Spare Parts	70.4	63.7	42.5	23.1	32.2	29.5	28.0	85.0
Others	55.2	38.9	33.1	18.4	19.4	17.5	31.0	44.0
	33.5	31.6	30.4	17.9	28.1	20.0	43.0	39.0
Total	1,754.0	1,534.4	1,370.4	1,114.5	1,055.1	832.3	1,223.2	1,135.3

Source: Bank of Sudan

5.2.3 Remittances

According to the secretary for SNWA in Khartoum, the number of SNWA is about 350,000 yielding an estimated potential of remittances of about \$ 3,600 mil. p.a. This estimate amounts to almost five times the export earnings and 2,5 times the import bill in 1988/89. However, taking illegal immigration into account, the ILO estimates a number of 1.6 mil. SNWA, hence the potential remittances will be much greater.

Various government policies were designed to attract SNWA's remittances through the formal financial system, such as the sale of land below market prices and privileges to import cars free of custom duties. But due to structural imbalances in the economy and speculative transactions in foreign exchange on the parallel market, the effect of these incentives were eroded. In the current account balance (Table 12) private transfers showed an increasing trend between 1981/82 up to 1985/86 with an average amount of about \$ 400 mil., but later on fell drastically to \$ 250 mil. by 1986/87. After adoption of the "own resource" scheme, an increase took place during the years 1987/88 with the value of transfers amounting to \$ 445 mil.. In 1988/89 the total amount of transfers recorded a drop indicating that the trend of private transfers is fluctuating in spite of various government policies of attraction.

5.2.4 External Debts (Table 17)

During the early 1980s the inability to honour the debt service obligations and mounting arrears reduced the Sudan's access to foreign finance. Table 12 illustrates that foreign aid finances a part of the country's current

account. The average inflow during 1981/82 up to 1987/88 was about \$ 360 mil. which represents 72% of the volume of export earnings. The peak inflow was recorded at \$ 462 mil. in 1982/83 and the lowest amount at \$ 271 mil. in 1988/89. The project disbursement item showed an average amount of \$ 200 mil. p.a. from 1981/82 up to 1987/88 followed by an increase to \$ 324 mil. in 1988/89. The bulk of the aid inflow was grants but future aid inflow will depend on the implementation of a macro-economic framework reflecting sound economic policies to improve the imbalances.

Table 17

Year	Total Debt (US-\$ mil.)
1983	7,670.8
1984	8,612.9
1985	9,128.1
1986	9,808.1
1987	11,515.7
1988	11,853.0

Source: Ministry of Finance and National Economic Planning

Total external debt is projected to rise to about \$ 13,600 mil. by the end of June 1990. This substantial increase is due to arrears which rose from \$ 1,500 mil. in 1985 to a projected amount of \$ 8,500 mil. by the end of June 1990. Owing to the lack of foreign currency, Sudan pays only a small amount to its creditors. Sudan is also unable to meet the commercial banks' obligations as well as high priority medium and long-term obligations. Thus, Sudan became ineligible for the use of IMF resources since 1984 because of its arrears on past credits. These arrears have now accumulated to more than \$ 1,000 mil., but vis-à-vis the IBRD and IDA Sudan is not in default.

Sudan's external debts are estimated at almost 1,500% of the export value by the end of 1990. The per capita debt is \$ 500 which is higher than the average per capita debt in Sub-Saharan Africa amounting to \$ 296. Any macro-economic framework of Sudan will not be effective unless the question of debt service arrears be made manageable. But since a management of debts is not feasible for lack of hard currency, the international community's cooperation is a prerequisite involving some reduction of the debt stock through forgiveness and buy-back at deep discount, long-term rescheduling with small rates of interest and concessional loans and grants to strengthen economic reform efforts.

Economic reform in Sudan should concentrate on production increases, particularly in agriculture, through stronger incentives such as e.g. increasing producer prices. Meanwhile, Sudan should adopt meso-policies to protect vulnerable groups throughout the period of economic reform. Sudan should make use of the international cooperation to attract more commodity aid, and allocate most of this aid to inputs of production, since a higher output and a better quality of agricultural produce would enable the Sudan to increase exports and to correct the trade account.

6 SUMMARY AND CONCLUSIONS

Agriculture is the most important sector with regard to its contribution to the GDP, employment, and export proceeds. This vital sector is faced by deeply rooted and structural problems related to its low productivity, dependence on exports, and the inadequacy of finance made available by the banking system, neglect of the livestock subsector and deficiency of existing supportive institutions.

Policy measures and recommendations should focus on changing the strategy from an export-led to one which centers on the agricultural sector. Policy measures for securing livelihood of the poor and vulnerable groups should be based on the following principles:

- investing in the households' human capital through nutrition, health and education programmes;
- increasing the household's productive assets to which the poor can get access in order to strengthen their income-generating capacities;
- promoting wage employment, particularly for urban and non-farm rural workers in the non-tradables sector;
- empowering the poor to expand their economic and social participation through community based projects and other schemes that allow greater control over their own destinies.

A disciplined financial system as proposed by the revenue-led strategy, and an innovative monetary reform will create a conducive atmosphere for the agricultural demand-led strategy by relaxation and redirection of resources to the traditional subsector. This can be achieved by (i) flexible deposit and lending mechanism to procure credits to this vital sector, (ii) by a sizeable share of development expenditures to be allocated to the removal of infrastruc-

ral bottlenecks in rural areas using community labour, and (iii) by the containment of inflation through anti-inflationary fiscal policies which will ensure that the producers' benefits from an adjusted exchange rate will not be eroded.

On these lines fundamental reforms should be undertaken on both the fiscal and monetary side, whereby major institutional reforms should be adopted simultaneously with drastic shifts and reductions in public expenditures and the introduction of new policies in the banking and credit system. The liberalization of prices, a flexible exchange rate, and the lifting of import controls would improve the trade balance and encourage the inflow of SNWA remittances.

The belief that trees grow from their own roots means that the Sudanese people's full-fledged commitment and involvement is required. However, in case of serious efforts of implementation, the international community has certain obligations towards providing the necessary assistance which could temporarily relieve the economy from the burden of adverse repercussions of short-term stabilization measures.

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