UNIVERSITY OF KHARTOUM
FACULTY OF ECONOMIC AND SOCIAL STUDIES
DEPARTMENT OF ECONOMICS


BY

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A Dissertation for partial fulfilment of the M.Sc. requirements

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The writer is highly indebted to Dr. Siddig Umbadda, Head Department of Economics and academic supervisor, for his constructive criticism and his unlimited help. Inspite of his crowded time-table, he gives his assistance even at the expense of his leisure time.

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The writer is also grateful to the Government of Sudan for providing the necessary financing for this research.
ABSTRACT

This research analyses the factors which cause the balance of payment crisis and help them to persist in the economies of the developing countries in general and in the Sudan in particular.

Although these factors are (clearly) grouped into two "external" and "internal" groups which intermingle and the comparative weight and pressure of each group become hardly measurable. This fact is quite clear in the case of the foreign debt mismanagement factor. This factor is caused by both external and internal determinants. A strong foreign debt management is quite important because the inflow of foreign resources is quite essential as a short and medium term solution to the payment problems in the less developed countries (LDC). The strong management of foreign debts is effective when the authorities in the LDCs follow the following principles:

1. Knowing the debts
2. Knowing how much to borrow and
3. Practicing the optimum financing technique through these resources.

As for the case of the Sudan, this research tackles the causes and effects of the payment crisis in a detailed magnitude. It also gives space for the explanation of the causes and effects of the weak debt management
in the Sudan, with due consideration to the debt profile and debt structure during the preceding decade.

A two-case projection scenario is also included in this research to measure the expected Sudan payments gap for the decade (ahead).
علم السياسات تقع بالطبع تقليدًا إدارة الدوائر الخارجية وجزء من مداخلات السودانين العامتين بالخارج عن طريق القنوات الرسمية.

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لا يمكنني قراءة النص العربي المعطى. يوجد خطأ في اللغة العربية أو الصورة غير واضحة. يرجى تقديم نصاً محاطاً باللغة الإنجليزية.
INTRODUCTION

1.1 The aim of the study

This study aims at analysing the balance of payments and foreign debt management crises in the developing countries in general and in the Sudan in particular. It also points out the responsive reaction of these economies to such crises. It tries to explain (their explicitly or implicitly) that there are two main concepts that are concerned with these crises: The concept of (liquidity) and (the structural concept). Some analysts view that the economic crises in the LDCs are mainly due to solvency problems that are structurally inherent in the economies of the LDCs, such that they could only be treated through the global restructuring and adjusting of these economies. This view is mostly adopted by the developed countries (mainly the major creditors for the LDCs). The other concept is propagated by almost all the debtor's (the LDCs themselves) or the majority of them think that their economic crises result from external shocks that are outside their control. In this respect the liquidity side is stressed and foreign inflows are considered as the only way out of their economic dilemma. However, the two views are extremes and currently the two views come closer together and the general trend is a mix of the two. It is that adjustment and financing are inevitable to
reverse the adverse economic trends (that are mainly due to the B.O.P. maladjustments) in the developing countries. But the trade-off between the two concepts is still blurred.

In all cases, the deterioration in the level of liquidity and/or solvency brings with it an unfavourable payment's balance. It is evident from this research that payments crises and debt management problems have a feedback relationship and that is why they are simultaneously tackled in this research.

1.2 Data problems

It is largely because of the fact that there is a general inefficiency in the debt management system in the LDCs, that the data concerning foreign debt and balance of payments, are not handy and almost incomplete. LDCs lack concrete debt reporting systems. This is also true in the Sudan. Here the data on foreign debts come from different sources that is why in many cases they are contradictory. They need time and effort to be rearranged and reconciliated.

1.3 The outline of the study

In chapter one we discuss B.O.P. and foreign debt crises in the LDCs, their magnitudes, causes and consequences. We explain that there are external and internal factors that
are responsible for causing and/or adding to these crises. The two group of factors are shown to be greatly correlated. Among the internal causes, the debt management problems stand as a major component. If they are augmented by external causes they may result in a debt-trap dilemma (e.g. the lending policies which are governed by the domestic and external economic policies of the creditors.

In this chapter it is also pointed out, that the payments crisis and debt crisis could be chronic and a global recession is (more likely) if the probability of getting more of the concessional inflows to the LDCs becomes gloomy. This is especially true for the Agricultural-base LDCs.

In chapter two a detailed analysis of the B.O.P. and foreign debt crisis in the Sudan are exhibited in the form of magnitudes, causes and consequences. It is also explained that the same division of factors as those of other LDCs apply for the Sudan; especially during the past decade (1970-1980). The debt management problems and the ineffective domestic policies are the main domestic causes of B.O.P. deterioration. The consequences are also reflected in a fiscal gap (expenditure-revenue) and a saving-investment gap which could not be bridged from domestic resources alone; especially in the short and medium run.

Chapter three is about the public debt management in the Sudan. It explains the inaccuracy of the debt management system due to the fact that
there is no centralized debt reporting unit which is solely responsible for negotiating, reporting and analysing of the data concerning the Sudan foreign debts. The coordination and communication between the units concerned with foreign debts is weak. The analysis show that the main problem is the limited powers and limited scope of the Debt Management Unit (DMU) which is initiated in 1978 for the purpose of overall foreign debt management.

Due to that problem, the recent data on Sudan foreign debt reconciliation report (1983) with the help of Peat Marwick Firm (London) has been sponsored by the Bank of Sudan (BOS) under the Ministry of Finance. The BOS has its own foreign debt departments that have long experience in debt reporting and rescheduling arrangements. The BOS gets its data on foreign debts from the planning department (under the Ministry of Finance and Economic Planning) and not from the "DMU". However, even this latest reconciliation is incomplete and some of the negotiated commitments are reported or classified as "unknown". The weak debt management system almost stands in the way of getting much use of foreign debt relief negotiations (mainly in Paris Club protocols) because the amounts provided for rescheduling and/or refinancing are always underestimated. Besides, it lowers the creditworthiness of the Sudan in the eyes of its major creditors. Currently, there are genuine steps to promote the "DMU" and provide it with the necessary staff and equipments for data reporting and data processing with the help of international organizations (e.g. IDA). In this chapter it is
also depicted that the debt reporting system in the Sudan falls short of the three principles of foreign debt management, which are - knowing your debts - knowing how much to borrow and - optimum financing techniques or the projects. This shortage results in a deteriorated debt profile and a loose debt reporting and debt management systems.

In chapter four a projection of the payments gap is given for the decade ending 1994/95. These projections are based on two scenarios. The first one (the base case) is based on relatively conservative assumptions which include minor changes in the already existing economic policies (fiscal, monetary and foreign exchange policies). Hence, this scenario ends by an unsustainable payment imbalance through the end of the decade.

The second scenario (the optimum case) is based on an array of assumptions (all of which might not obtain) that are more effective and comprehensive in formulation and implementation; than those in the previous scenario. Hence they bring about more favourable results and at the end of the decade it is expected that the Sudan may have a positive payments balance if these assumptions hold.
CHAPTER 1

BALANCE OF PAYMENTS CRISIS IN THE LDCs; MAGNITUDES, CAUSES & CONSEQUENCES

1.1 *Introduction:*

The external shocks that faced the less developing countries (LDCs) during the last decade had different magnitudes and consequences upon the developing countries when considered individually, though this might largely be a difference in degree rather than in kind in the majority of cases.

To treat the effects of such crisis, these countries have used different economic tools. And in this respect also, it is true that every group of the developing countries incorporates a variety of individually significant cases. These differences stand out as a result of different economic, social and political settings and the degree of openness of these economies and their relationship with the international economic community.¹

Despite these differences, the developing countries were considered by foreign creditors as a homogeneous group when lending policies are
considered, in the world capital markets. This type of generalization surely discriminates against certain individual cases.

In the following discussion we shall consider the payments crisis in the developing countries in a general sense, thus we will concentrate on the general characteristics of all groups which give similar consequences. This is largely because, details for every individual case is hardly possible to get.

1.2 Payment Crisis in LDCs Magnitudes

Since the first oil price rise in 1973/74 almost all of the low income less developed countries (LDCs) have experienced a series of payment deficits. Table 1.1 shows that the volume of the deficit in the current account for all LDCs taken collectively has been increasing successively during the period between 1970 and 1980/82, except when the deficit level was partially offset by the positive balance achieved by the oil-exporting LDCs due to surplus gained after the second oil price like in 1979/80. Although this rise in oil prices had a favourable effect on the BOP of the oil-exporting LDCs group, but it hit hard upon the
group of the non-oil producing LDCs (NOLDCs) thus leading to a wide gap between the two groups.

The rising trend in the level of the payment deficits of the LDCs continues up till the 1980s. We also find that, within the group of the LDCs, the Sub-Saharan African countries have reported the largest level of the deficit during the period covered by the research. Taken together, the current account deficit of these countries amounted to US$ 1.5 billion in 1970 and peaked to $8 billion in 1980 (including official transfer).2

It is also worth mentioning that in the period between the two oil price hikes (1973-1979) the average size of the payment deficit for the LDCs reached $5 billion dollars.3

Having pointed out the extent of the payment deficits in the developing countries we will show next, the causes behind the deterioration of BOP mainly in the group of oil-importing developing countries.

1.3 Causes of Payments Crisis in Oil-importing LDCs

1.3.1 External Causes

The external causes have the greatest weight.
in initiating and/or aggravating the size of the
deficit in the oil-importing developing countries
mainly during the 1970s and the early 1980s.

The most apparent factor of payments deterioration in the LDCs was the two oil price hikes (1973/74 and 1979/80). As a result of that, the price of petroleum products have also risen. These products are essential inputs for the industrial production in these countries. Hence, they constitute essential import items.
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>All developing countries</td>
<td>-12.0</td>
<td>-35.9</td>
<td>-31.3</td>
<td>-58.9</td>
<td>-118.5</td>
<td>-118.3</td>
</tr>
<tr>
<td>Low income:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asia</td>
<td>-0.7</td>
<td>-1.9</td>
<td>-5.4</td>
<td>-11.6</td>
<td>-6.6</td>
<td>-4.2</td>
</tr>
<tr>
<td>Africa</td>
<td>-0.6</td>
<td>-2.6</td>
<td>-3.0</td>
<td>-3.7</td>
<td>-5.5</td>
<td>-5.5</td>
</tr>
<tr>
<td>Middle income:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil-importers</td>
<td>-7.5</td>
<td>-21.0</td>
<td>-36.2</td>
<td>-56.2</td>
<td>-67.7</td>
<td>-58.8</td>
</tr>
<tr>
<td>Oil-exporters</td>
<td>+3.2</td>
<td>-9.6</td>
<td>+13.3</td>
<td>+12.6</td>
<td>-38.7</td>
<td>-49.8</td>
</tr>
</tbody>
</table>


*Estimated

Table 1.2 below depicts the extent of the increase in the value of petroleum imports for the LDCs especially after the two oil-price rises (in the years 1974 and 1980). During the same period the ratios of the total value of oil imports to the value of total imports have peaked in the years, 1974 and 1980 while keeping a moderate level of increase during the period 1974-1979.
It is also clear from this table that the ratios of the value of oil imports to the total exports value and the GDP show a generally increasing trend with apparent increase in 1974 and 1980.

### Table 1.2

**Comparative Measure of Petroleum Imports in Developing Countries 1973-1974 & 1978-80**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Oil Imports (US $ billion)</th>
<th>Ratio to other imports</th>
<th>Ratio to total exports %</th>
<th>Ratio to GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>8</td>
<td>12</td>
<td>13</td>
<td>1.5</td>
</tr>
<tr>
<td>1974</td>
<td>24</td>
<td>22</td>
<td>27</td>
<td>4</td>
</tr>
<tr>
<td>1978</td>
<td>26</td>
<td>16</td>
<td>19</td>
<td>3</td>
</tr>
<tr>
<td>1979</td>
<td>35</td>
<td>16</td>
<td>20</td>
<td>3.75</td>
</tr>
<tr>
<td>1980</td>
<td>51</td>
<td>20</td>
<td>25</td>
<td>5</td>
</tr>
</tbody>
</table>


Another significant external factor was the stagflation which occurred in the developed countries during the 1970s in contrast to the economic boom which they experienced in the 1960s.
As a result of such economic stagnation, the developed countries had resorted to deflationary measures which again reinforce stagnation and trade protectionism. Due to that, their demand for imports from the developing countries was dampened, especially with respect to the agricultural products. Thus, the purchasing power of oil-importing LDCs have deteriorated (with export receipts falling far below their import payments) reaching an average rate of 2.7% per annum during the period 1977-81.⁴

The third important exogenous cause which contributed to the deterioration of the BCP in the LDCs was the unfavourable terms of trade which was the outcome of the preceding two factors. An example could be taken from Subsahara African countries in 1982. This is clear in table 1.3 which provides the percentage change in the terms of trade to the low-income group as being quite unfavourable in 1982; while the middle-income oil-exporters maintained a positive trend in 1982 in the same year.
Table 1.3
Change in terms of trade in Sub-Saharan African Countries between 1980

<table>
<thead>
<tr>
<th>Country group</th>
<th>1980</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low income countries</td>
<td>-14.5</td>
</tr>
<tr>
<td>Low-income semi-arid</td>
<td>-2.6</td>
</tr>
<tr>
<td>Low-income other</td>
<td>-16.0</td>
</tr>
<tr>
<td>Middle-income oil-importers</td>
<td>-11.1</td>
</tr>
<tr>
<td>Middle-income oil-exporters</td>
<td>+1.8</td>
</tr>
<tr>
<td>Total</td>
<td>-4.7</td>
</tr>
</tbody>
</table>


It is important to notice that although the economic growth has gained some impetus in the 1980s in the industrial countries, the terms of trade in some of the LDCs (e.g. Sub-Saharan African Countries) are not promising during this period. This could be interpreted by the fact that exports of these countries were mainly primary commodities which have a relatively low income elasticity of demand, while on the other hand income elasticity of the LDCs for imports is relatively high. Consequently a steady increase of income in the
Industrial countries - due to the economic growth - may not bring about a large increase in the volume and hence the value of their imports from the LDCs. 5

1.3.2 Internal Causes

The endogenous causes are composed of two groups of factors: The structural (real) factors and the policy oriented factors.

The structural causes stem from the inherent nature of the exports provided by the LDCs. These are mainly agricultural primary products. The demand for such products in the world markets is relatively low as we have already mentioned. We also find that an individual developing country depends in the majority of cases, on one or two major exports. They lack the diversified exports' base which may secure them against sudden export shortfalls.

In table 1.4, it is clear that the percentage share of non-fuel exports in Sub-Saharan African countries alone, is more than seven times that of other countries in the world taken collectively; during the first half of the 1960s and beyond the 1970s.
Table 1.4
African Share of Non-fuel Exports
1960-65 and 1970-78

<table>
<thead>
<tr>
<th>Year</th>
<th>Share of world non-fuel export (%)</th>
<th>Share of African developing countries non-fuel exports (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>3.1</td>
<td>18.0</td>
</tr>
<tr>
<td>1965</td>
<td>2.7</td>
<td>18.0</td>
</tr>
<tr>
<td>1970</td>
<td>2.4</td>
<td>18.6</td>
</tr>
<tr>
<td>1976</td>
<td>1.2</td>
<td>9.2</td>
</tr>
</tbody>
</table>


Other structural causes are the social and political rigidities which constrain quick economic growth. For instance the saving-investment gap in three is exceptionally wide. It may not be possible to bridge it by domestic investment alone because of the risk aversion nature inherent in the domestic private sector.

It is also structurally difficult to mobilize local resources to a level sufficient to satisfy the required investment level. Added to that the less developing countries are highly consumers rather than savers. Both the
private and public sectors launch on increasing expenditure policies such that it is hard to restrain them during adjustment times.

To bridge the saving-investment gap and the external gap, the LDCs need external assistance in the form of both direct investment assistance and cash loans. Nevertheless, most of the foreign assistance in recent years comes in the form of commodity aid or foodstuffs mainly due to the sluggish domestic production of foodstuffs together with the relatively high population growth in the LDCs. This sluggish export performance has led to a severe short-fall, in foreign reserves of these countries. Hence if we consider the example of the Sub-Saharan African Countries again we find that in 1979, their own foreign exchange reserves were counted to cover only two months value of their imports especially of foodstuffs. In 1980 the situation became even worse and foreign exchange reserves ratio to imports fell even further.

In spite of the rising need for imports of different kinds, the export performance of the LDCs is rather sluggish. Table 1.5 shows that
the rate of growth of exports for all developing countries had a lower rate of growth during the period between 1973-80 than what had been during 1965-73.

| Country group        | 1965-73 | 1973-80 | Value 1980 (project- (US$) (project- (US$) (proje-
<table>
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<th></th>
<th>tions)</th>
<th>tions)</th>
<th>ctions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All developing</td>
<td>8.2</td>
<td>4.2</td>
<td>512</td>
<td>6.8</td>
<td></td>
</tr>
<tr>
<td>countries</td>
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<tr>
<td>Low income:</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Asia</td>
<td>7.3</td>
<td>9.9</td>
<td>36</td>
<td>7.2</td>
<td></td>
</tr>
<tr>
<td>Africa</td>
<td>6.7</td>
<td>0.3</td>
<td>12</td>
<td>4.2</td>
<td></td>
</tr>
<tr>
<td>Middle income:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil-importers</td>
<td>9.6</td>
<td>8.1</td>
<td>272</td>
<td>8.8</td>
<td></td>
</tr>
<tr>
<td>Oil-exporters</td>
<td>7.4</td>
<td>-0.6</td>
<td>192</td>
<td>3.2</td>
<td></td>
</tr>
<tr>
<td>High income oil-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>exporters</td>
<td>9.9</td>
<td>0.8</td>
<td>192</td>
<td>1.2</td>
<td></td>
</tr>
<tr>
<td>Industrial market</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economies</td>
<td>8.8</td>
<td>5.5</td>
<td>1,513</td>
<td>4.8</td>
<td></td>
</tr>
<tr>
<td>World (includes East</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>European market</td>
<td>8.7</td>
<td>4.9</td>
<td>2,394</td>
<td>5.1</td>
<td></td>
</tr>
<tr>
<td>economies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

It is also clear from table 1.5 that inspite of the stunted growth rate of exports of the middle-income oil-exporting group during the period 1973-80, the total value of its export receipts exceeds that of the low-income African countries which had a higher export growth rate during the same period. This may be attributed the surplus formed out of the oil price rise, which benefited the oil-exporting countries during that period.

Although there was an improvement in the export growth rate during the period mentioned, still the Sub-Saharan African countries suffer from a large base of subsistence economies. And now with the spread of the desertification phenomena, more of the agricultural sector is thrown back into subsistence.

The structural factors are quite persistent such that they constrain the process of economic restructuring or even stand in the way of quick response of the export performance let alone allowing for export diversification.

If we consider the policy oriented causes, we find that they played a great role in
aggravating and/or prolonging the existence of the payments crisis in the LDCs.

We find that for instance, the trade and exchange rate policies in these countries were formulated in such a way that they discriminate against the agricultural sector (e.g. export taxes) and overprotected the industrial sector.\(^\text{11}\) The bias against agriculture is also represented in the absence, or the insufficiency of incentives given to farmers or in the distorted pricing policies concerning the agricultural products with similarly insufficient policies of cost-recovery.\(^\text{12}\) These policy setbacks were especially evident during the 1970s.

Most of the economic plans in the LDCs were over ambitious and depend upon highly sophisticated technologies. These plans, in the majority of cases were formulated to serve political ends. In such cases, the authorities do not only import machinery but also bring expatriates for routine maintenance and repairs.\(^\text{13}\) This brings about a misuse of external resources and widens the external gap.
terms of borrowing. This leads to the mismanagement of debts which always results in bad debt profile and higher debt service ratios. This is made even worse by the high interest rates (almost volatile upwards) short maturities and the sluggish export performance. The middle-income LDCs, because they have easier access to commercial borrowing, become vulnerable to having high debt service. This is mainly because of shorter maturities and higher interest rates (and the capital depreciation elements which is put during inflation periods also add to the repayment burden) which characterize the terms of commercial borrowing.

Table 1.6 shows that the debt service ratio of the low-income LDCs is higher than that of the middle-income countries only by 0.4% and 0.3% in 1974 and 1977 respectively while in 1978 the debt service ratio of the middle-income group is even higher than the low-income group by 1.9%. This also shows the indulgence of the latter group into more borrowing due to its stronger level of credit worthiness and hence favourable access to international capital markets. Nevertheless, the LDCs depend highly upon traditional sources of finance (e.g. the
Table 1.6
Debt service ratio to exports of the LDCs by group (1974, 1977 & 1978)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>LDCs, debt service/exports:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Low-income countries</td>
<td>10.9</td>
<td>13.3</td>
<td>15.2</td>
</tr>
<tr>
<td>2. Middle-income countries</td>
<td>10.5</td>
<td>13.0</td>
<td>17.1</td>
</tr>
</tbody>
</table>


IMF) in treating their external deficits. Such institutions like the IMF offer conditional and slowly disbursed inflows. Other sources which are available to certain groups of the LDCs is the private financing which is highly costly but quickly disbursed.

It is found that the ratio of interest to all the debt service obligations of all the developing countries has reached 40% after the first oil price hike in 1973/74, inspite of the fact that during the mentioned period, some
developing countries have benefited from the drop in the exchange rates of most of the dollar values especially in 1977/78.\textsuperscript{15}

If we consider the short term conditional borrowing (especially from the IMF) for 3OP support in the developing countries, we find that it is too restrictive to most of them. It's adjustment conditions involve hard measures that bring about social and economic hardships. The adjustment packages in the majority of cases include conditions for reducing the standard of living to a level beyond what is thought possible or reasonable from social, economic and even political views.\textsuperscript{16}

The Fund's lending policies for the developing countries, stress upon the need to finance the internal gap from the domestic resources while the external gap may be narrowed by repurchasing from the Fund.\textsuperscript{17} It is quite evident that such state of things may not bring about the required balance both internally and externally because of the inherent structural rigidities which are difficult to remove unless by long term policies.
The developing countries need treatment of both long-term solvency (which includes the strengthening of their debt service capacity (DSC) problem and short-term liquidity problem which requires quickly disbursed highly concessional foreign inflows.

That is why the IMF "Export Facility" falls short of the urgent needs of the developing countries which suffer from unexpected export shortfalls. Such facility is subject to a slow process of evaluation and disbursement by the Fund while timely disbursement is a prerequisite for treating urgent shortfalls. Some developing countries think that the "Export Facility" should be considered as grant rather than to be compensated later by export gains. They also think that the "oil facility" is biased and insufficient (based on quota restrictions) and bears high interest rates. The developing countries view is that the oil crisis is a completely external shock for their economies, such that it is illogical that they pay for it. 18

Other multilateral institutions like the World Bank offer long term financing but on
less concessional terms with a lower degree of grant element,¹⁹ (this will be discussed further in Chapter III).

The scope of bilateral aid may be wider if such countries like the United States put its tendency of resorting to bilateral lending policies (rather than lending through multilateral institutions) into practice. Such tendency may be followed by major creditors to safeguard for the direct supervision of the use of their resources in the debtor countries. Besides, it gives them opportunities to make such loans available for countries which show political affiliations to the creditor governments. While this sort of loans will be uneasy to get due to its political bias, it also limit the capital base of the multilateral institution, if large contributors like U.S.A. changed to bilateral aid policies. So future prospects of the availability of foreign resources for the developing countries will be rather gloomy.

It is also true that, if IDA (International Development Association) capital resources come to be affected by such bilateral orientation, developing countries will be
loosing a highly concessional development type of financing. This is because IDA loans contain the highest grant element than other resources for similar purposes. 20

There is an uneven distribution (and sometimes in equitable) of aid flows to the LDCs especially in bilateral aid. For example in 1978 "DAC" group of creditors distributed about 52% of their bilateral aid to Middle-income countries while low-income developing countries were given only 38% of the amount. 21 Besides, we find that out of the total bilateral aid to the developing countries 1979, which amounted to $17 billion, an amount equal to $11 billion had been distributed to the Middle-income countries. 22 This may partly be attributed to the political bias mentioned before, although "ODA" loans may act to break this bias because the majority of it goes to the LIDCs (low-income less developing countries).

This uneven distribution of bilateral loans from the donor side leads to improper financing techniques in the developing countries; most probably introducing commercial loans in this structure due to insufficient
bilateral loans which are more soft.

The above fact is shown in table 1.7. We find that during the period 1970-80 the rate of increase of "ODA" is slow and even shows a negative rate of increase during the period 1980-82 while in the same period, official non-concessional loans show a relatively higher rate of increase; next to that comes the rate of increase of private loans which include commercial banks loans. During the period 1980-82 official non-concessional loans showed the highest rate of increase while private loans showed a negative rate of increase, but this rate was (higher) than that of "ODA". The direct investments have the highest rate of growth during 1980-82.

Table 1.7
Structure of developing countries' financing ($), annual rate of change
1970-82

<table>
<thead>
<tr>
<th>Source</th>
<th>1970-80</th>
<th>1980-82</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net capital flows:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Official development</td>
<td>20.4</td>
<td>2.2</td>
</tr>
<tr>
<td>Assistance</td>
<td>17.9</td>
<td>-1.3</td>
</tr>
<tr>
<td>b. Official non-concessional</td>
<td>24.5</td>
<td>5.5</td>
</tr>
<tr>
<td>c. Private loans</td>
<td>22.3</td>
<td>-0.1</td>
</tr>
<tr>
<td>d. Private direct investment</td>
<td>18.6</td>
<td>12.3</td>
</tr>
</tbody>
</table>

* Figures for 1982 are estimated.
The low-income developing countries depend highly on "ODA" in their foreign exchange requirements. The level of assistance provided from "ODA" on the other hand depends on the level of economic growth in the donor countries. So we find that during the 1970s up till the early 1980s there was only a steady growth of "ODA" loans to the developing countries mainly the low-income groups. To that extent, it is thought doubtful that the level of "ODA" loans for the developing countries may increase in the coming years.\textsuperscript{23}

If we consider the side of the private sources of financing, we find that they are either loans from governments and international organizations or from commercial banks.

The developing countries usually resort to private source of financing when "ODA" financing is insufficient. This is especially true during the past decade; (1970-80) and in the case of middle-income LDCs.

Table 1.8 shows that the value of private financing amounted to US$28.3 billion for oil-exporting middle-income group in 1982, that
is, about 45% of their total inflows; while "ODA" level was 20% of the total. In the same year low-income developing countries gained only 2% of the level of private financing and 80% of "ODA". We also find that most of the bilateral "ODA" goes to the middle-income developing countries while multilateral "ODA" is mainly distributed to low-income developing countries.

Table 1.8
The share of the the developing countries in different sources of financing (%) in 1982

<table>
<thead>
<tr>
<th>Donor group</th>
<th>Non-con-</th>
<th>Private</th>
<th>Con-</th>
<th>Direct</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ODA</td>
<td></td>
<td>ass-</td>
<td>invest.</td>
<td>Assis-</td>
</tr>
<tr>
<td>Middle-income:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil exporters</td>
<td>45</td>
<td>20</td>
<td>15</td>
<td>20</td>
<td>100</td>
</tr>
<tr>
<td>Low-income countries</td>
<td>2</td>
<td>80</td>
<td>13</td>
<td>5</td>
<td>100</td>
</tr>
<tr>
<td>Middle-income oil-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>exporters total $</td>
<td>28.3b</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low-income countries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>total $</td>
<td>10.7b</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Among the latter group in itself, the multilateral "ODA" is also unevenly distributed for instance in 1980, these loans constituted more than 40% of local investment in low-income African countries and 20% of their imports while in other populous South Asian countries it amounted for only 5% of gross local investment.\textsuperscript{24}

Commercial banks lending is provided on non-concessional terms. They offer high interest rates and short-maturities for the risk of uncertain economic growth in the LDCs and the risk of over exposure of the banks. Because of this uncertainty and risk, smaller commercial banks become reluctant to lend in recent years.\textsuperscript{25}

On the whole, the private commercial lending have tended to raise the debt service ratio of the developing countries. Table 1.9 shows that the debt service ratio of the LDCs has increased from 13.5% in 1970 to 20.7% in 1982. And because of the concentrated structure of foreign loans, the Latin American countries (major debtors) have the highest
debt service ratio through the years stated in the table. They are followed by oil-importers, middle income countries and then the oil-exporters, middle income group. Among the low-income group, African countries have the highest debt service ratio than the Asian countries in the same period.

The middle-income group of developing countries have suffered from the highly costly commercial bank’s loans which were governed by “LIBOR” (London interbank offer rate) that changes every six months. In these countries, the share of the loans which have maturities ranging from one to six years has risen from 8.1% of total Eurocurrency credits to LDCs in 1973 to 74.8% of the total amount of loans in 1975. In the same period the rate of increase of the loans with maturities of more than ten years has fallen from 36.2% in 1973 to 1.7% in 1975.26
### Table 1.9
Debt service ratio to all developing countries 1970 & 1980/82 (%)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>All developing counties</td>
<td>13.5</td>
<td>13.6</td>
<td>16.3</td>
<td>20.7</td>
</tr>
<tr>
<td>Low-income:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asia</td>
<td>13.3</td>
<td>7.9</td>
<td>8.4</td>
<td>10.1</td>
</tr>
<tr>
<td>Africa</td>
<td>6.5</td>
<td>8.8</td>
<td>11.6</td>
<td>28.3</td>
</tr>
<tr>
<td>Middle-income:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil-importers</td>
<td>14.0</td>
<td>14.9</td>
<td>18.0</td>
<td>23.0</td>
</tr>
<tr>
<td>East Asia</td>
<td>6.7</td>
<td>7.0</td>
<td>7.6</td>
<td>8.6</td>
</tr>
<tr>
<td>Latin America</td>
<td>13.0</td>
<td>33.3</td>
<td>39.6</td>
<td>53.2</td>
</tr>
<tr>
<td>Oil-exporters</td>
<td>13.9</td>
<td>13.0</td>
<td>15.7</td>
<td>19.1</td>
</tr>
</tbody>
</table>


* Estimated.

In most cases the developing countries use the short term commercial loans to finance the long-term projects which do not give quick payoff. This causes difficulties in foreign debt repayments. Although commercial financing is said to be free of conditionalities but:
in the majority of cases, the banks require certain conditions (similar to those of the Fund) to be satisfied by the debtor country, when it is already drawing from the Fund.27

It is also true that a borrower country will not have access to commercial banks’ financing facilities unless it achieves certain levels of creditworthiness, (these levels are evaluated in terms of certain measures like: better development prospects, richness in economic resources, high level of international reserves, a diversified exports base to safeguard for a highly stable and maintainable export receipts) is in itself a conditionality term.28

As a result of the sectoral imbalances and the meagre financial resources certain difficulties occurred. Taken collectively, the LDCs experienced certain consequences which differ in degree rather than in kind. The following section will tackle this aspect.

1.4 Consequences

The causes of payments crisis and the high deficit records in the developing coun-
ries have given birth to certain consequences which are mainly governed by the liquidity and solvency problems. Among these consequences, the following are important to mention:

As a result of both the internal and external shocks, we find that the developing countries which follow open-trade policies have been seriously affected by external shocks than those which follow inward-oriented policies. Nevertheless, the economic performance of the former group come to be relatively better than the latter. This is partly because of their access to foreign financing which helps smoothing and shortening of their adjustment process.29

As a result of a deteriorated payments conditions, the LDCs resorted to external financing due to their meagre foreign exchange reserves. This is either to support their payments or finance their structural adjustments. Due to this process of borrowing from international markets, the LDCs become important markets for the exports of the industrial countries.30 In such cases both groups became closely affected by the economic
conditions of the other group.

The growing rate of borrowing from the private and commercial sources (especially by the middle income LDCs) due to the pressing need for financial resources mainly during the 1970s have caused a deteriorating debt profile in the LDCs and burdened their economies with accumulated arrears.

On the other hand, the low income developing countries have to depend more on "ODA" because of their limited access to commercial financing. But "ODA" grew to be insufficient to finance their current account deficit and hence, they suffered a low level of economic growth. As a consequence they relied more upon traditional sources of financing which offer relatively conditional terms (e.g. unreasonable and sometimes unrealistic adjustment packages like those of the Fund). However, the sources of private financing become uncertain even to those countries which have access to them. The majority of loans from these sources have been offered to a limited number of developing
countries, which leads to a sharp rise in their debt service obligations. This is so in the case of Latin American group.31

We find that most of the developing countries have responded to their temporary payment's crisis by severe import-restrictions which may continue for a long time and hence affect their economic development in an adverse fashion. This caused a further deterioration in their current account deficits. Hence we find that, in their early adjustment period, the oil-importing developing countries have experienced a rise in their account deficits from 2.3% of their GNP in 1970 to 5.1% in 1975 and from 2.3% in 1978 to 3.9% in 1980.32

Economic adjustment to external or internal shocks is not only confined to low-income developing countries. Those countries which are able to finance higher deficit levels and sustain rapid economic growth, also have to restructure their economies so as to maintain higher levels of creditworthiness.33

The low-income developing countries (primary producers) come to have limited
options even in the medium term because of the insufficient financial resources and the less responsive export sector. They suffer from the lack of managerial talents which limit their efficiency and their import-substitution sectors.\textsuperscript{34}

- The middle-income primary producers (either agricultural or mineral-based) have indulged on foreign financing which reached almost 70% of their external shocks in the period between the two oil price hikes that results in a heavy debt obligation burden. They mostly rely on foreign exchange-intensive type of industrial projects. In fact these countries have followed certain type of adjustments\textsuperscript{35} which are represented in the following:-

- Following an outward orientation trend together with the diversification of their agricultural base, e.g. Ivory Coast and Tunisia.

- Those which follow an inward-oriented path in an agriculturally based economy; e.g. Kenya. They have little resource to foreign financing but a reasonable level of domestic savings.
- Others which choose a slower economic growth without economic reform. These are the mineral based economies which are forced to cut down their growth rates and hence suffer from lower levels of GNP.

- Other mineral-based economies resort to structural adjustments with protectionism measures, e.g. Chile. These countries undergo devaluation measures both fiscal and monetary. They gained an increase in their saving and investment levels and gained efficiency in capital use.

- Some developing countries have reaped the benefits of windfall gains from volatile commodity prices of their exports in the boom times e.g. Morocco and Senegal.

On the whole those developing countries which diversified and promoted their exports sectors have sustained adjustment with economic growth. But many others have suffered from limited options, either to accept slower economic growth or resort to external financing (e.g. some mineral-base LDCs). But some kinds of external financing have acted to hamper the debt management
capacity of many LDCs. Their share of export-tied credits have become greater in recent years. Hence the ratio of free-useable credits is reduced and debt is tied to certain uses while LDCs need more flexible financing to satisfy their economic priorities. 37

In fact the BOP problems and high deficit records of the LDCs have posed many questions about the appropriate solutions to these problems. Although there is no specific solution to be used exclusively for one country rather than the other, but certain suggestions were put forward which concern mainly the financial side. Among these solutions or suggestions is that the multilateral aid could be made sufficiently available for development purposes in the LDCs. That the distribution of the IMF resources to the LDCs could be based on their actual liquidity requirements rather than on the "quota" system. In such way those countries could avoid financing their development projects through unfavourable commercial resources. 38

Recently a decision is taken by the CPB's group to increase their financial assistance
to the LDCs. They suggested that 3.7% of their GDP should be distributed for the LDCs financial needs. It is recommended that a large part of these loans must be on concessional basis. They are composed of BOP subsidy accounts beside the sale of oil to the LDCs under easy nonconditional terms.

Such approaches of increasing aid for the LDCs if they get to be fulfilled, will highly serve the financial needs of the developing countries especially if they are accompanied by genuine structural adjustments of the economies of the third world developing countries. Taking into consideration that both short-term and long-term financial needs are made available to serve long-term development requirements, beside the short term liquidity needs.

1.5 Conclusions

The developing countries still suffer from continuous payment disequilibria. The dichotomy between the liquidity and solvency solutions and between corrective and financing solutions have reached nowhere in solving the
economic problems of these countries. Thus the two aspects should be simultaneously satisfied.

Treating the deficit problems from the liquidity side alone, is to disregard long-term and structural solutions. It is not only a need for external inflows but of how to strengthen the absorptive capacity of the country and consequently strengthen its DSC (debt servicing capacity). However persistent liquidity problems may result in solvency problems as in the case of a continuous shortfall in export receipts.

Thus, instant flow of soft loans to meet unprojected shortfalls in LDCs payments is necessary. Generous and concessional loans is all that is needed to fill the gaps in the payment sector of the LDCs. That is, developed countries must not fear the growing indebtedness of the LDCs but must otherwise bother about the way in which these countries may be developed. The LDCs on the other hand have to try hard to restructure their economies and develop their export sectors so as to improve their creditworthiness as far as possible in such away be able to borrow and repay their
debt service obligations. However this is possible only if there is genuine help from the international community.

The solutions for payments and debts crisis in the developing countries depend very much upon the cooperation and coordination among members of the international community (mainly debtors and donors) because of the inevitable interdependence of the economies of the developed and underdeveloped countries. The international community must give due concern to the economic problems of the developing countries. The international trade organizations-like GATT—have to make it possible to protect the LDCs from retaliatory actions when they try to protect their infant import-substitution industries or try to promote their exports and stabilize their export receipts. Because in their early stages of development LDCs, depend heavily upon imports from industrial countries while their exports to these countries represent only minor percentage of the imports of the industrial countries. Hence, mutual or equal treatment in the international tariff laws for the developed and the LDCs would be unfair.
CHAPTER II
BALANCE OF PAYMENTS CRISIS IN THE SUDAN
MAGNITUDES, CAUSES AND EFFECTS

2.1 General:

In the preceding chapter, we have already discussed the payments crises in the developing countries taken collectively. We have considered the period during the 1970s and early 1980s. These analyses have been taken as a general perspective which paved the way for a similar treatment of such problems in the Sudan but with more depth this time. The nature of these crises looked very much alike both in the Sudan and in other developing countries.

In the past decade (1970-80), there was a continuous imbalance in the Sudan's payments sector. We find that a mix of factors (internal and external) have played an interwoven role in initiating and aggravating these crises. Nonetheless, the external factors have the predominance over the other factors. Their effect was strong and prolonged; such that the authorities have to take timely measures to restore the economic balance. Generally, when
a country is faced with payments' crisis, two alternative options are open to it. These options are:

(a) The country may take no action and rely upon financing its payment deficit completely from its owned-reserves or from international inflows, and/or

(b) follow corrective measures including structural adjustment of the economy.

In the Sudan, because of the shortage of foreign owned-reserves and of the severity of the deflationary measures if the second option is purely implemented, a blend of the two options have to be followed. However, neither of the two policy measures have been successfully formulated or carried out. This will be discussed later in this chapter.

As the line of demarcation between the two policy options mentioned above, is blurred, both are inevitable for a global restructuring of the Sudanese economy. It is also because we find that corrective measures are long-term ones while the liquidity measures are of short-
term nature. In the following section we will begin by analysing the magnitudes of payments crisis in the Sudan.

2.2 The Extent of Payments Crisis:

This magnitude is apparently manifested in the size of the current account gap, which mainly depicts the buoyancy of the macroeconomic parameters to the process of economic restructuring (e.g. in the import-export sectors). Hence in the following section we will show the magnitude of the trade gap during the past decade (1970-80).

2.2.1 The Balance of Trade:

Like all developing countries, the Sudan has experienced a deteriorated trade balance over the past decade; save for an individual year: (e.g. 1972/73).

Table 2.1 shows the extent of the trade balance during the period, 1970-81. In 1972 there was a slight increase of export receipts over import payments. That was partly attributed to the increase of international cotton prices in that year, coupled with a slight
<table>
<thead>
<tr>
<th>Year</th>
<th>Exports and re-exports (£, Million)</th>
<th>Rate of** Imports change of exports (%)</th>
<th>Rate of** Visible balance change of imports (%)</th>
<th>Relative value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>102.2</td>
<td>-</td>
<td>-6.1</td>
<td>94.4</td>
</tr>
<tr>
<td>1971</td>
<td>115.2</td>
<td>12.7</td>
<td>14.1</td>
<td>93.2</td>
</tr>
<tr>
<td>1972</td>
<td>125.5</td>
<td>8.9</td>
<td>-0.4</td>
<td>102.0</td>
</tr>
<tr>
<td>1973</td>
<td>144.1</td>
<td>14.8</td>
<td>35.6</td>
<td>86.4</td>
</tr>
<tr>
<td>1974</td>
<td>153.4</td>
<td>6.5</td>
<td>47.5</td>
<td>62.3</td>
</tr>
<tr>
<td>1975</td>
<td>149.5</td>
<td>-2.5</td>
<td>41.5</td>
<td>42.9</td>
</tr>
<tr>
<td>1976</td>
<td>231.1</td>
<td>34.5</td>
<td>2.2</td>
<td>56.5</td>
</tr>
<tr>
<td>1977</td>
<td>224.2</td>
<td>11.5</td>
<td>-154.8</td>
<td>59.2</td>
</tr>
<tr>
<td>1978</td>
<td>183.2</td>
<td>-18.3</td>
<td>-191.0</td>
<td>49.0</td>
</tr>
<tr>
<td>1979</td>
<td>251.7</td>
<td>38.5</td>
<td>43.5</td>
<td>47.2</td>
</tr>
<tr>
<td>1980</td>
<td>297.0</td>
<td>17.1</td>
<td>59.2</td>
<td>34.7</td>
</tr>
<tr>
<td>1981</td>
<td>284.5</td>
<td>-4.2</td>
<td>633.9</td>
<td>31.0</td>
</tr>
</tbody>
</table>


* Includes "nil value" imports.

** Own calculation in absolute terms.
increase in cotton production. After that the balance shows a continuous deterioration till it reached its peak in 1981. The large trade gap in 1981 also coincided with a decline in cotton exports by 39% from the levels achieved in 1971/72.

In fact the changes in the quantity or the prices of cotton exports, have great weight on the overall level of export receipts. Prior to 1979, the rate of growth of imports was steady, after that, the addition of the "nil value" imports has inflated the imports totals. The "nil value" imports include the following:

1) Imports for direct private foreign investment firms.

2) Commodity aid which consists of goods and services imported by foreign agencies against loans and grants which do not pass through the central bank of the Sudan.

3) They also included commodities purchased through foreign currency from the free market outside the control of the central bank of the Sudan.
In the above table the data for the relative value show a fluctuating trend
\[ \text{Relative value} = \frac{\text{Value of exports}}{\text{Value of imports}} \]. The highest figure was recorded in 1972 when there was a relative trade balance. While the relative value was lowest in 1981, which coincided with the largest trade gap.

2.2.2 The Invisible Balance:

This balance shows a rising positive trend since 1978. A major source of revenue for this balance comes from the Expatriate Sudanese Workers' Remittances. The successive increase in the volume of these remittances was mainly because of the increasing number of Sudanese migrants to Saudi-Arabia and the Gulf countries. The increase was not due to an increase in the amount remitted per individual expatriate as it was due to the increase in the total number of expatriates. However, the exact number of Sudanese expatriates is unavailable. Official estimates show it to be around 330,000 in 1981 while other estimates provided a range of 300,000 to 500,000. Nevertheless, the general idea is that the number of expatriates is under estimated due to the lack of effective controls.
on emigration in the Sudan. Due to that and many other reasons (e.g. political and policy-oriented) the level of remittances per migrant is even less than half the amount saved by an individual migrant (Average annual savings by migrant is equal to $549.6 while the average annual amount estimated to be remitted by an individual migrant is equal to $176.0). If we consider the totals we find that the average total annual savings by all expatriates is estimated to be about $1.98 million (taking the lower limits), the average total remittances per annum were equal to $634,000 (excluding expatriate income tax revenue).\(^5\)

The policies formulated to attract expatriate savings will be discussed later in this chapter.

Table 2.2 illustrates the magnitude of the invisibles' gap. This shows a positive trend since 1978. Thus, on the whole we find that the deteriorated trade balance was partly offset by the invisible balance. It is difficult to give exact figures about the trend of the deficit as a percentage of the GDP. This is because of the fact that the data on
foreign trade were provided by the department of statistics on calendar year basis while those on the GDP were given under the fiscal year basis.

From the magnitudes of the payments gap we turn to discuss the causes of these crisis.

2.3 Causes of Payment Crisis:

As we have mentioned in this chapter and elsewhere in the preceding chapter the payments crisis stem from a variety of internal and external factors. But the two-type factors are not mutually exclusive. This is clearly detected in the case of the intermingling between the structural causes as the agricultural rigidities and the terms of trade. The slow response of the export sector to the external shocks may lead to deteriorated terms of trade for the developing country which depends on exporting primary agri-products. But for convenience we will discuss each of these factors separately.
<table>
<thead>
<tr>
<th>Year</th>
<th>Invisible gap</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971</td>
<td>-11.1</td>
<td>-</td>
</tr>
<tr>
<td>1972</td>
<td>-15.9</td>
<td>-43.2</td>
</tr>
<tr>
<td>1973</td>
<td>-21.1</td>
<td>-52.7</td>
</tr>
<tr>
<td>1974</td>
<td>-35.0</td>
<td>-65.9</td>
</tr>
<tr>
<td>1975</td>
<td>-28.2</td>
<td>-19.4</td>
</tr>
<tr>
<td>1976</td>
<td>-34.6</td>
<td>-</td>
</tr>
<tr>
<td>1977</td>
<td>-19.7</td>
<td>-43.1</td>
</tr>
<tr>
<td>1978</td>
<td>30.6</td>
<td>255.3</td>
</tr>
<tr>
<td>1979</td>
<td>46.8</td>
<td>52.9</td>
</tr>
<tr>
<td>1980</td>
<td>135.3</td>
<td>189.1</td>
</tr>
<tr>
<td>1981</td>
<td>159.9</td>
<td>18.2</td>
</tr>
<tr>
<td>1982</td>
<td>182.8</td>
<td>14.3</td>
</tr>
</tbody>
</table>

**Source:** Compiled from Bank of Sudan Annual Reports: 1971-1982.
2.3.1 Exogenous factors:

The two oil price hikes (1973/74 and 1979/80) have marked an era of payments deterio-
aggravated by the increased cost of production of exported goods due to the increases in the prices of inputs.

### Table 2.3
Exports and Imports Indices and Terms of Trade (1970-80)

(1970 = 100)

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports quantity index</th>
<th>Exports unit value index</th>
<th>Imports quantity index</th>
<th>Imports unit value index</th>
<th>Net terms of trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1971</td>
<td>111.6</td>
<td>100.9</td>
<td>105.7</td>
<td>115.5</td>
<td>90.5</td>
</tr>
<tr>
<td>1972</td>
<td>112.7</td>
<td>107.9</td>
<td>94.9</td>
<td>114.6</td>
<td>94.2</td>
</tr>
<tr>
<td>1973</td>
<td>111.8</td>
<td>127.4</td>
<td>109.8</td>
<td>140.6</td>
<td>90.6</td>
</tr>
<tr>
<td>1974</td>
<td>65.1</td>
<td>214.6</td>
<td>100.4</td>
<td>228.2</td>
<td>94.0</td>
</tr>
<tr>
<td>1975</td>
<td>78.1</td>
<td>179.3</td>
<td>115.8</td>
<td>280.9</td>
<td>63.8</td>
</tr>
<tr>
<td>1976</td>
<td>102.9</td>
<td>175.4</td>
<td>124.9</td>
<td>279.5</td>
<td>62.7</td>
</tr>
<tr>
<td>1977</td>
<td>77.7</td>
<td>221.3</td>
<td>117.1</td>
<td>277.8</td>
<td>79.7</td>
</tr>
<tr>
<td>1978</td>
<td>69.3</td>
<td>252.2</td>
<td>108.9</td>
<td>327.3</td>
<td>77.1</td>
</tr>
<tr>
<td>1979</td>
<td>75.8</td>
<td>312.9</td>
<td>119.6</td>
<td>386.1</td>
<td>81.0</td>
</tr>
<tr>
<td>1980</td>
<td>78.4</td>
<td>363.3</td>
<td>146.5</td>
<td>504.6</td>
<td>72.0</td>
</tr>
</tbody>
</table>

Source: Ibid. Dept. of Statistics.
On the other hand the import quantity index has likewise showed an unfavourable trend. This index was affected by factors chief among them was the scarcity of foreign exchange, uncertainty of investment policies and hence a sluggish export performance.

During the early 1970s, the international commodity prices were relatively favourable for the primary products. The Sudan would have largely benefited from that, had it not been for the unmatched volumes of imports and exports. It is for that imbalance, that the authorities could not reap the benefits of the relative increase in export prices during the period 1972-78. Inspite of the fact that recently the growth rate of major Sudanese exports was negative (cotton -25%, groundnuts -30%, sorghum -20%), this trend is expected to be reversed due to the export promotion programme (1980-1990) and the agricultural rehabilitation programmes in the early 1980s. It is also expected that local oil production will reach the estimated targets. That the expected import-substitutions of many commodities, will satisfy the local markets and even leave a margin for exports.9
Table 2.3 also shows that the import unit value index undergoes a continuous rise.

- The second important external factor was the global recession especially in the economies of the industrial countries. The recession in the 1970s have reversed the economic boom of the 1960s. As a result of the economic depression, the industrial countries have resorted to deflationary and protectionist measures so as to support their economic balances. Due to that the Sudan has faced a slackening and unsteady demand for its exports and increase in its import prices.

- Another external factor which acted to strain the export sector in the Sudan is the shortage in the foreign exchange which is necessary to rehabilitate the agricultural sector. This is mainly because of the insufficient foreign assistance during the 1970s. Compared to the level of investment as a result we find that during the period between the mid-seventies and early eighties the Sudan cotton production has been slack. Cotton receipts have great weight in the overall trade balance.
A decrease in cotton exports receipts may cause a short-fall in the general trade balance.
2.3.2 *Domestic Causes of Payment Crisis*:

These may be grouped into two: the policy-oriented causes and the structural causes.

- Among the policy-oriented measures were those which discriminate against cotton production mainly during the second half of the seventies. At that time an export tax was levied on cotton exports. As a result farmers in the irrigated sub-sector shifted to produce other non-cotton export crops in the irrigated sub-sector. The resulting decrease in cotton exports was fortunately offset by the rise in cotton prices at the same period, mainly in 1976-1978 and its increase in cotton receipts have brought about a favourable increase in the trade balance.¹¹

The Sudan could have made use of such "windfall" gains in cotton prices if there was an increase in cotton production and the exports during those years (because increases in cotton exports volumes would not make cotton price fall because the Sudan is not a price-maker in cotton).
It should also be stated that, despite the availability of substitutes, the international prices for cotton showed a steady mild increases during the past decade. Because the Sudan has a comparative advantage in cotton production, an increasing effort to improve its production policy will be of much use.

Table 2.4 shows the smooth rise in cotton unit value (one bale equals four hundred and twenty pounds weight) during, 1970-80. There was a successive increase in the unit price, save for some individual years (1975-76).

**Table 2.4**

<table>
<thead>
<tr>
<th>Year</th>
<th>Price (LS)</th>
<th>Year</th>
<th>Price (LS)</th>
<th>Year</th>
<th>Price (LS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>52.5</td>
<td>1974</td>
<td>107.8</td>
<td>1978</td>
<td>131.1</td>
</tr>
<tr>
<td>1971</td>
<td>54.1</td>
<td>1975</td>
<td>89.8</td>
<td>1979</td>
<td>157.0</td>
</tr>
<tr>
<td>1972</td>
<td>56.4</td>
<td>1976</td>
<td>99.6</td>
<td>1980</td>
<td>189.9</td>
</tr>
<tr>
<td>1973</td>
<td>68.7</td>
<td>1977</td>
<td>129.7</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

However, the increase in export volumes in non-cotton products and the increase in their prices during the same period did not compensate for the decline in cotton exports volumes and hence its receipts. The situation was also aggravated by certain abrupt policies in 1971 to diversify the Sudan's export products without preconsideration of the inherent agricultural rigidities and the level of the comparative advantages of all alternatives. Consequently in the same agricultural season cotton production has shown a sharp decline compared to the production in the preceding season. The decision to diversify needs a comparative study of opportunity costs and a cost benefit analysis of all alternatives. It needs time and effort to pave the way for such changes in the composition of the Sudanese exports.

During the 1970s the overall economic policy was rather biased against agriculture. The evidence is that during that period the authorities concentrated on industrial investment while we find that even in the Agricultural Rehabilitation Programme (ARP) and the Export Action Programme (EAP) there was weak
realization of the potential of new agricultural projects. The concentration was on the ongoing projects and in particular the main project in the irrigated sub-sector. Another neglect of a fully fledged policy of getting agriculture moving was presented in the insufficient incentives for farmers and the incomplete cost recovery systems specially for the Agricultural exports producers. This is not to disregard the complete neglect of treating the bottlenecks which face the rainfed areas whether mechanized or traditional. While on the other hand the authorities have given almost care for the import substitution sector by duty exemption and by catering for the domestic oil production as a giant industrial potentiality.\textsuperscript{12}

The structural factors are also paramount. They include infrastructural and technical factors. To name only some of them: the transport bottlenecks, delayed procedures for payments to farmers, inefficient marketing systems (which sometimes lead to the stocking of cotton by producers and exporters alike) low seed qualities and traditional cropping methods. These are partly affected by the
inavailability of foreign exchange. All these factors have resulted in low productivity in agriculture and a stunted import substitution sector which depends mainly on agricultural products as its inputs.\(^1\)

- Inherent agricultural rigidities in the agriculture teach system, in 1970s, also acted as obstacles to change. Farmers were not given sufficient incentives to produce more by their individual efforts. This is quite important because a large part of the agriculture sector in the Sudan depends on manual efforts.

- The other structural factor is the recent drought and desertification phenomena. It affected the agricultural production especially in the rainfed areas, which provide the economy with many export crops like, groundnuts, sorghum, sesame, rainfed cotton and livestock.

These factors have lead to an increasing volume of imports without being matched by supply promotion efforts. We find that the export performance - mainly during the 1970s - has been very weak and hence export receipts declined from being equal to 17% of GDP in
1972/73 to around 8% of GDP in 1977/78.\textsuperscript{14} (GDP had not recorded an exceptional increase during that period). This situation has resulted in wide B.O.P. gap. The internal gap also GREW wider during the past decade. The saving-investment gap and the expenditure-revenue gap are not mutually exclusive. The mobilization of domestic resources is not successful. The result is a heavy reliance on external assistance to bridge those gaps. It is estimated that over the past decade the ratio of domestic savings to the GDP was only equal to 8% in average. The volume of domestic savings is also small compared to the volume of investments carried out during that period and even far below most of the saving GDP ratio of most of the developing countries (which is equal to 15% in 1978).\textsuperscript{15}

The private sector in the Sudan is structurally rigid. Its role in mobilizing investment capacities in the 1970s was quite insignificant. Private investors were risk-aversers. However there were insufficient and ineffective government policies to guide and mobilize the private sector.
If we want to consider the fiscal gap we find that the government expenditure was far below revenue levels during the period concerned. It is provided that the growth rate of the average government revenue was 16% p.a. on the past decade. While expenditure growth rate was almost 24% p.a. 16

The domestic sources of revenue are not effectively mobilized. There is overwhelming reliance upon the indirect taxes. These taxes are in most cases regressive and generally inequitable.

Table 2.5 below shows that, revenue from the direct taxes represent only 9% of total tax revenue in 1970/71 and shows a very mild increase in 1979/80 when that rate rises to 10% providing an increase of 7% over a whole decade. On the other hand indirect tax revenue represents 65% of the whole amount of revenue in 1970/71 and 72% in 1979/80. It shows an increase of 7% over that decade.

It is worth to mention that even the non-tax revenue over the same period has exceeded direct tax revenue in absolute amounts and in
Import/export values
1970-1981 (visibles)

Fig. 2.4

items which are treated under the specific tax
prices were favourably steady and the import
recorded that in the early 1970s when commodity
rule amounted to 15% of total imports volume, their tax revenue was only 5% of total import-tax revenue. However, the elasticity of all indirect taxes is low if compared with the direct income taxes and business profit taxes.

Table 2.5  
Composition of the Growth of Revenue  
(1970/71 - 1979/80) in the Sudan

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>LS(M)</td>
<td>% of</td>
<td>LS(M)</td>
<td>% of</td>
</tr>
<tr>
<td>Direct taxes</td>
<td>15.1</td>
<td>9</td>
<td>54.9</td>
<td>10</td>
</tr>
<tr>
<td>Indirect taxes</td>
<td>106.6</td>
<td>65</td>
<td>401</td>
<td>73</td>
</tr>
<tr>
<td>1) Taxes on international trade</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. on imports</td>
<td>59.4</td>
<td>40</td>
<td>244.9</td>
<td>44</td>
</tr>
<tr>
<td>b. on exports</td>
<td>51.3</td>
<td>35</td>
<td>222.0</td>
<td>40</td>
</tr>
<tr>
<td>2) Taxes on domestic trade</td>
<td>8.1</td>
<td>5</td>
<td>22.9</td>
<td>4</td>
</tr>
<tr>
<td>Non tax revenue</td>
<td>42.8</td>
<td>26</td>
<td>104.1</td>
<td>19</td>
</tr>
</tbody>
</table>


The reports provided by the taxation department show that the revenue from the
business -profit tax has the highest level in the group of direct taxes; whose elasticity is greater than one. 77 So, large revenues may be capped if the present tax-system is developed.

In its present form the "Zakkat and taxation" department is short of sufficient and efficient staff. It is quite important to cover a wide tax base and to make perfect assessment and collection of taxes. Now that tax evasion and tax avoidance are not uncommon.*

If we consider the expenditure side, we find that the growth rate of expenditures between the years 1970/71-1979-80 was 15% p.a. on average money terms compared to an average rate of increase of 12% p.a. for the revenues during the same period.

It was not only that there was excessiveness in the government spending but there was also of misuse of these scarce resources. Most of that went to nonproduction items like defence and administrative purposes.

Table 2.6 shows the above fact. Wages and

* Own experience in the Department of Taxation (1972-1979).
<table>
<thead>
<tr>
<th>Categories</th>
<th>1970/71</th>
<th>% of total</th>
<th>1979/80</th>
<th>% of total</th>
<th>Annual rate of growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Services</td>
<td>18.3</td>
<td>13</td>
<td>32.3</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Social Services</td>
<td>25.6</td>
<td>18</td>
<td>50.8</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>Defence &amp; Security (Chap. 1)</td>
<td>46.3</td>
<td>33</td>
<td>102.0</td>
<td>17</td>
<td>10</td>
</tr>
<tr>
<td>General Administration (Chap. 7)</td>
<td>26.4</td>
<td>19</td>
<td>163.6</td>
<td>27</td>
<td>29</td>
</tr>
<tr>
<td>Local Government Transfers</td>
<td>17.6</td>
<td>13</td>
<td>207.5</td>
<td>35</td>
<td>29</td>
</tr>
<tr>
<td>Interest Payments</td>
<td>5.9</td>
<td>4</td>
<td>42.2</td>
<td>7</td>
<td>26</td>
</tr>
<tr>
<td>Total</td>
<td>140.5</td>
<td>100</td>
<td>598.4</td>
<td>100</td>
<td>19</td>
</tr>
</tbody>
</table>


Salaries (in chapter 1 of the central budget) has the greatest amount drawn from the central budget. The regional government administrative expenditure also make a heavy burden on the central government budget. As it is clear from the above table, the expenditures on social services are 5% more than those on economic services. Such skewed distribution of the central government expenditures may lead to delays and losses of returns that are necessary for financial uses.
The insufficiency of saving to finance the level of investment needed or to rehabilitate the existing projects has left a wide gap to be financed jointly through foreign assistance and domestic resources available. The bridging of this gap has started during the late 1970s and early 1980s in the form of programme type of financing. That effort was manifested in the three years public investment programme (TVPIP) to be updated and rolled over (1980/81-1982/83 as a second phase). Then the Export Action Programme (EAP) 1980-90 and the Agriculture Rehabilitation Programme in the early 1980s. (Details of these programmes will be given later in this chapter). The saving-investment gap is not completely bridged because of the insufficiency of financing resources. For instance the "PIP" does not adequately incorporate key investment projects (e.g. petroleum and sugarc industries). To do that will imply reducing the funds available for other fields of investment. Besides, the preliminary amount

*Foreign financing of the central government budget in terms of grants increased for a level of 3.7 m (LS equivalent) in 1977/78 to 79.0 m (LS equivalent) in 1980/81 revised budget. While the foreign loans to finance that budget during the same period have jumped from 46.0 m (LS equivalent) to 321.0 m (LS equivalent) as it is stated in "Sudan Program Assistance Approval Document (PAAD)-commodity import program FY 1983) 650- k-604- USAID/Sudan - Nov. 30/1992, p. 23.
(60% of the total) which was left to be satisfied by local resources had to be reduced to 41% and the difference was to be covered from external resources. This is due to shortages in the local currency counterpart. For such urgent need of foreign resources, the Sudanese authorities are sometimes obliged to borrow from commercial banks and suppliers credits to meet fiscal and B.O.P. needs. These sources though give quick disbursement but on very hard terms, which add to the problem of mismanagement of external debt in the Sudan. If we consider the external debt management from the internal side we find that the inefficient recording system of foreign debt may lead creditors to be more doubtful about the Sudan credit worthiness. The Sudan credit worthiness may also be impaired by delays of debt repayments which are mainly due to the absence of timely recovering of the cost of implementing investment projects due to the time lags between the implementation of these projects and the drawing of resources for their finance. This shows that borrowing policies for project financing are not based on a preconceived feasible study for such projects.
or their financing techniques.

On the other hand the shortcomings of the exchange rate policies have discouraged the flow of the expatriate remittances through the official channels. One of these shortfalls is the successive devaluation of the Sudanese pound since 1979. This and the previously existing policy of the "Nil value" imports have acted to encourage the private currency markets mainly the black market. This market offers quite attractive rates of exchange. Through this market the Sudanese expatriates prefer to channel their savings rather than through official channels which offers attractive official rates.

The methods used to attract expatriate remittances were represented in land sales and exemptions from custom duties up to certain levels. However, these policies were suspended (e.g. the duty exemption policies were discontinuous and were suspended in June, 1980). Until May 1985 there was no clear policy to attract the expatriate remittances. Even the minor changes in the exchange rate policy brought about in February 1985* failed to

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These are incorporated in the "Foreign Exchange Regulation Act 1979 amended Feb/1985", by the Bank of Sudan.
attract more of expatriate transfers. The exceptionally high dollar rates put especially for dealing with remittances, was far below that of the illegal market rates. Other measure taken for tapping expatriate savings are: e.g. the expatriate income tax which was implemented in 1980/81. The expatriates are grouped into two: workers and professionals; for the purpose of tax assessment. The tax authorities consider the job identified in the expatriate's passport. The expatriate has to pay in hard currency; an amount equivalent to a lump sum amount assessed in Sudanese pounds. Later the amount tax comes to be originally in hard currency because of the deteriorating value of the Sudanese pound. The identification of expatriate jobs in such a way may not bear the whole truth because an expatriate may carry a different job as to the passport than what he or she actually occupies (especially the non-professionals). An individual expatriate may also have more than one income generating job and be taxed only for one job. Married women escape tax if they are included to the passports of their husbands, although the majority of them have jobs abroad.

* These are incorporated in the "Foreign Exchange Regulation Act 1979 amended Feb/1985" by the Bank of Sudan.
Nonetheless, there is an increasing trend of expatriate income tax revenue, we find that the tax collected in 1980/81 was equal to US $6,914,454, and it increased to US $34,145,227, just after changing the system of assessment.\* This shows that there is a potential for increasing expatriates' income tax revenue if there is an efficient system of taxation.

On the other hand, expatriates may be reluctant to channel large amounts of their savings through official channels because of fear of revealing their incomes for the taxation authorities. Hence, a highly attractive policy measures are needed to make expatriates remit their savings and make them less hesitant to channel their savings through official institutions for fear of taxing them. All these analysis show the pitfalls in the internal policy measures and structural causes which have lead to the deteriorations in the B.O.P. and the internal economic conditions in the Sudan. In the next section we will consider the outcome of such crisis and such policies.

\* Own calculations based on reconciled information from the "Zakkat" & Taxation Dept. with the Bank of Sudan.
2.4 Consequences:

We have already discussed the factors which acted together to initiate and extend the payments crisis in the Sudan. The internal causes are composed of the structural and policy oriented causes. The joint effect of all factors have resulted in positive and negative consequences; which are the result of responsive actions taken to counteract the effect of all shocks. This is what we will discuss below.

2.4.1 External or foreign exchange policy-measures:

The overall external policy measures were set to stimulate the production of tradable goods (especially exports). In the early 1980s, the export tax was either reduced or eliminated from most of the export commodities. At that time it was also thought appropriate to unify the exchange rate (to a relatively devaluated rate). It was also decided that the resulting inflationary effects due to that devaluation, should be controlled.

However we find that in practice the formulation and implementation of the exchange
rate policies were insufficient and they encouraged an active black market for foreign exchange rather than encouraging the production of export goods, which is subject to other structural factors. The result was a discouragement of expatriate transfers through the official channels. In fact they turn to channel them through the black market which offer a buying rate of one pound more than the official rate (e.g. in 1985).

At least in the short run, an individual expatriate may be reluctant to remit because of the uncertainty of the exchange rate policy. An expatriate may wait for a further devaluation of the Sudanese pound and hence obtain from remitting now.

Hence, the successive devaluation of the Sudanese pound failed to bring about the required effect. It did not encourage private transfers* and not promote the export sector. The outcome of the devaluation in the Sudan is inflationary.

* There are examples of successful measures for attracting expatriate remittances from which the Sudan may benefit. The example of Egypt shows that the authorities have issued special bonds on attractive prices for their expatriates. They also initiated joint venture banks between the Egyptian government and the countries in which Egyptian expatriates work. The case of Jordan also provides a better mobilization of expatriate
There was also a negative result of the ineffective foreign exchange policy beside inflation which resulted from implementation the system of the "nil value" imports. It was implemented in the late 1970s and abandoned in 1979. It's implementation was not subject to strict follow-up. The result was that private importers have flooded the market with non-essential imports (e.g., ready-made clothes) which are profitable but economically non-productive.

Other measures to improve the BOP were not effective because of the delays in their implementation. One of these is the global restructuring of Sudan's foreign debts (an approach taken in 1982/83).

The final result from all these pitfalls is the wide BOP gap which needs large amounts of external resources for its support. During 1976-79 alone, the "BOP support" financing have absorbed 40% of the total amount of foreign inflows.24

24savings. These transfers are put into economic uses which are top priority. A large part of government expenditures are financed through floating "development bonds" for which non-resident Jordanians may apply. The profits from these bonds (in the form of interest) are payable in convertible currencies and they are tax-free. 23
The adjustment policies and the exchange rate policies were largely affected by the IMF directive policies for the Sudan. This will be considered below:

2.4.2 IMF Adjustment Policies in the Sudan:

The Fund has recognized the need for the structural economic adjustment in the developing countries and hence initiated an "External Facility" for that purpose. However, this also falls short of serving long-term structural solutions.

For the Sudan and many other developing countries, the Fund's adjustment policies in most cases mean a wider trade gap. Even if policy makers are confined to essential imports, the successive price increase of these items may outweigh any increase in export receipts especially in the short run.

Regardless of that the Fund's "Standby Arrangement" (1982) was made operative in the Sudan only after putting forward a comprehensive package of adjustment policies; which was mainly concentrated on the foreign exchange policy. In fact the devaluation was put as a
The policy-package encorporates the following measures which have to be implemented:

a) The export sector should by all possible means be promoted and expanded.

b) Non-essential imports should be immediately cut down.

c) Measures should be taken to attract expatriate savings.

As we will discuss later, these measures did not give the required outcome because of the structural and technical factors which are out of the planners' control (e.g. shortage of foreign resources, unfavourable terms of trade and drought); or otherwise due to ineffective administrative measures (e.g. loose control upon foreign exchange market and delayed implementations of overall economic policies).
At present, the policy of a unified and devaluated exchange rate may not be the right policy measure for the Sudan. This is mainly because of the rigid structure of exports and imports of the Sudan especially in the short run.

A multiple exchange rate could help to discriminate against non-essential imports. It may also serve to solve transient marketing problems for some exports by shifting them to cheaper rates. The exports which have favourable prices in international market (e.g. cotton) or for which the Sudan has a relatively higher comparative advantage relative to other countries (e.g. sesame) could be marketed at relatively higher rates.

Continuous devaluation policies for the Sudanese pound directed by the IMF have lead to wide speculations among foreign exchange holders. It also makes the repayments of the counterpart for foreign debt resources to increase sharply because they are not contracted on firm prices.

The IMF policy which discriminates in favour of export products may lead (in the
majority of cases) farmers to neglect (or reduce) the area under production of local tradables. An example of the export-oriented policy of the Fund is the Dhura export policy. The Dhura on the main food crop to the majority of the Sudanese people. The Sudan Dhura exports were encouraged by shifting it to the parallel rate (relatively lower) under the pressure of the Fund (so that the Sudan could have the standby arrangement 1982 operative) up till 1982, sorghum was one of the first three main export commodities of the Sudan. The helped to aggravate the present food deficit in the Sudan.

To ease the severity of the Fund's adjustment policies and get use out of them the Sudan has to get foreign loans with highly concessional terms and with a high level of grant element.

Besides, it is illogical and economically unfeasible to restrain demand without taking measures to mobilize supply-generating techniques. For short-term disequilibra financing measures for the support of the B.O.P. are quite necessary. In this respect the IMF role
of mobilizing or reallocating global surplus to stabilize international trade is quite important. For a country like the Sudan the disbursement of such resources must be quick and in sufficient quantities. This is almost absent in the Fund's repurchase clauses, in addition to the conditionality terms in the IMF repurchases. To quote the Commonwealth study group report in this respect:

"Controversy arises over the nature of the conditions attached to the IMF loans, wrongly handled conditionality can actually diminish discipline and delay necessary adjustments by encouraging countries to postpone going to the IMF until they are in severe trouble. More onerous adjustment is then required and hence more onerous conditionality, further complicating the already complex relationship between the borrower and conditional lender. There is also the possibility that inappropriate conditions may create unnecessary deflation and import cutbacks. To encourage early recourse to the IMF it should offer its financial support on a suitable basis for adjustment period in prospect, on the basis of relevant conditionality as agreed at UNCTAD VI."

This is the general view of the borrowers group. But from the lenders side, especially the multilateral institutions - which require certain safeguards for disbursing their resources to the developing countries and this may include pressing the debtors to abide by the conditions put by the Fund if the debtor
country has already been involved with the Fund’s financing arrangements. The Fund may have to find different treatment for different borrowers. The Sudan is now facing structural constraints almost outside policy controls (e.g. drought), is beneficial to have a less conditional terms from the Fund to safeguard for a reasonable standard of living for the have-nots.

2.4.3 Fiscal Policy Measures:

These measures were formulated to cut down the overall expenditure and mobilize the domestic revenues. From the revenue side we have already explained that the tax system is still inefficient despite the recent changes (1984).

There was an increase (in 1984) in the custom rates for many imports especially those classified as non-essentials. This increase would have brought about more revenue, had it not been for the specific nature of the imports duties. Added to that most of the essential imports either treated under reduced tax duties or they were already tax free. To compensate for the loss of revenue in that respect, the
authorities have levied an additional development tax (implemented in the same year) on locally produced and locally processed goods. It is worth to mention that such development taxes have already been abolished at the beginning of the same year, in which they are reimplemented.

A major change have been done in the taxation department in 1984. They introduced the system of the "Zakkat" which has a flat rate and low level of exemptions. It is therefore supposed to cover even the traditional economic sector. This may add to the already heavy burden of the taxation department unless well trained staff is employed. And this is not the case even at the time of writing this research so the revenue is expected to fall in the coming few years. This will make the authorities to rely more and more on indirect taxes as a major source of revenue.

Table 2.7 shows that the overall tax revenue in the past decade undergoes a fluctuating trend. (The upper and lower ratios to GDP are 15.9% and 11.6% respectively). The lowest ratio was in 1979/80 which was ironically
enough the year in which the "Economic stabilization and Recovery programme" has been implemented.

On the expenditure side, the percentage rate of increase of total expenditure to GDP was steadier than that of revenue.

In spite of the measures taken to cut down government expenditures, (for instance, reducing gasoline consumption for central government units and reject any additional budgetary expenditures to be submitted by these unit during the year), there were successive increases in the overall government spending especially after the establishment of the regional governments, with their budgetary expenditures exerting a great financial pressure on the central government budget.¹⁰ Spending for defence purposes also represent another pressure upon the limited government resources.

On the whole government revenue is expected to lag behind its expenditure in the short and the medium run because of the expected increase in the investment projects (e.g. the PIP and ARP). This has led the
government to borrow heavily from the banking system. The effect of that will be discussed in the following section:

2.4.4 The Credit Policy

Early in 1981, the Bank of Sudan (B.O.S.) has been authorized by the Minister of Finance to supervise and regulate the lending policy of the commercial banks. This was meant to restrict or limit the level of borrowing for public and private sectors activities except for economically productive uses. In the same year the BOS has raised the rate of interest, to support the credit ceiling policy. On a quarterly basis the BOS has to monitor these ceilings. The ceiling have to be estimated according to the financial needs and the absorptive capacities of all sectors in the economy. The credit policy was part of the overall monetary policy which aimed at restricting the monetary expansion and curb inflation. It was stated that only top economic priorities would be financed mainly in the agricultural sector.

Like all other economic policies the

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<tbody>
<tr>
<td>Exports of Goods and Services</td>
<td>80.6</td>
<td>80.8</td>
<td>82.5</td>
<td>99.4</td>
<td>111.9</td>
<td>124.0</td>
<td>130.0</td>
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<td>Exports of Goods</td>
<td>74.9</td>
<td>8.3</td>
<td>9.3</td>
<td>7.4</td>
<td>12.6</td>
<td>14.9</td>
<td>15.9</td>
</tr>
<tr>
<td>Exports of Services</td>
<td>6.0</td>
<td>0.0</td>
<td>3.1</td>
<td>8.5</td>
<td>14.8</td>
<td>14.6</td>
<td>14.0</td>
</tr>
<tr>
<td>Exports of Goods + Services</td>
<td>112.5</td>
<td>123.1</td>
<td>133.5</td>
<td>157.9</td>
<td>173.2</td>
<td>194.8</td>
<td>213.9</td>
</tr>
<tr>
<td>Government Revenue</td>
<td>65.5</td>
<td>80.9</td>
<td>81.3</td>
<td>93.2</td>
<td>102.4</td>
<td>110.1</td>
<td>114.2</td>
</tr>
<tr>
<td>Non-tax Revenue</td>
<td>20.7</td>
<td>18.7</td>
<td>18.6</td>
<td>16.9</td>
<td>14.8</td>
<td>11.1</td>
<td>8.4</td>
</tr>
<tr>
<td>GDP</td>
<td>76.2</td>
<td>83.2</td>
<td>85.4</td>
<td>86.2</td>
<td>89.6</td>
<td>91.0</td>
<td>94.8</td>
</tr>
</tbody>
</table>

Source: Own calculation based on data extracted from World Bank 84.
credit policy is not free shortcomings and setbacks. The commercial banks have failed to keep to the targeted ceilings. As a result commercial banks lending to the public or private sectors has increased tremendously during the past ten years. This is clear from table 2.8 below.

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<tr>
<td>Net claims on:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The public sector</td>
<td>187</td>
<td>139</td>
<td>205</td>
<td>163</td>
<td>348</td>
</tr>
<tr>
<td>Net claims on the private sector &amp; other items</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>net</td>
<td>-27</td>
<td>26</td>
<td>7</td>
<td>147</td>
<td>229</td>
</tr>
<tr>
<td>Total</td>
<td>160</td>
<td>165</td>
<td>211</td>
<td>310</td>
<td>577</td>
</tr>
</tbody>
</table>


Since the mid-1970s, the table shows that the net claims on the public sector exceeds that of the private sector. The changes in claims on the specialized banks were added to total claims on the private sector. This has smoothing effect on the growth rate of claims.
on the private sector. However over the whole period the trend of borrowing was increasing.

Close monitoring of the credit movements was insufficient. Some individual banks (especially in small towns) have even deviated from the credit ceilings which were regulated by the BOS. They lent individuals to finance economically non-productive activities e.g. for private housing constructions. A couple of years ago, some commercial banks were sued for issuing credit on personal grounds and with insufficient guarantees.

Firm ceilings for credit proved to be impossible to implement mainly because of the overall expansion of the economic activities and the inability to mobilize sufficient level of revenue to finance these activities.

In the following section we will discuss the general economic policy which was formulated to reverse the internal and external imbalances.

24.5 The General Economic Policy

During the past ten years the authorities have stressed that the public sector should be given the lead in the general economic activity...
The private sector, on the other hand would be encouraged to invest in the economically productive aspects.

Hence, during the past decade the authorities started by formulating the "Economic Recovery Programme" and they decided that agriculture was to be considered as a backbone for economic activities. Then at that time (early 1980s) the "ARP" was set forward. It concentrates on the on-going projects. It is likewise concerned with the technical and the infrastructural constraints. 35

Another programme which was concerned with agriculture was the "EAP". It aims at promoting the export sector mainly on cotton and groundnuts, through overcoming infrastructural bottlenecks. 36

On the whole there are structural bottlenecks which are difficult to solve at least in the short run - these are for example, skilled manpower shortages, lack of managerial and enterpreneurial skills, sufficient foreign capital, to name only few of them.

A third step which supports the public
sector decision to take the initiative in the economic activity was the government's formulation of a Three Year Public Investment Programme (PIP) to work simultaneously with the other two programmes. It was on IMF/IBRD type - programme because it was meant to serve both short and long term prospects. The programme was supposed to concentrate mainly on quick pay-off projects but it transcended to finance gain infrastructural projects (e.g. Khartoum International Airport and Sawakin Sea port although both projects were later suspended).

Due to insufficient resources to finance the public sector, the government sought the support of the private sector to enter into the economic activity. This was done through the enactment of the Investment Code in the 1980s. It was meant to mobilize the manufacturing sector. Due concern was also given to the import-substitution industry, through protections and easy access to liquidity needs from the banking system. The private sector was expected to spread its activities mainly in the regional areas. But its role was stunted. Private investors are reluctant to enter into
new economic fields for fear of loss. They do not even enter into joint ventures (except rarely) with the public sector for lack of confidence in the government's economic policies.

2.5 Evaluation

The policy measures which were already discussed were formulated to bring about a global restructuring of the economy. Nevertheless in most cases the effect was negative due to the ineffective formulation and implementations of economic policies. The other important factor that brought about the unfavourable outcome was the uncertainty of the overall economic policies. The result is always a general instability in the economy. This makes private investors whether domestic or foreign, to be reluctant to invest sufficient resources in the Sudan. As a result the overall productive capacity in the economy was reduced. There is also the skill-drain factor which is brought about by the open-door emigration policy in the Sudan. This also adversely affect the economic absorptive capacity. Lack of strong management and capacity utilization have resulted in a
slack manufacturing sector in the Sudan inspite of the financial privileges and the protective measures given to it. That sector absorbs only 4% of the total labour force and makes for 6% of total GDP and 6% of the export value in 1977/78 which is a timid contribution in an year which witnessed a comprehensive plans for economic recovery.11

Even the "PIP" does not cover major economic projects e.g. sugar and petroleum as we mentioned before. On the other hand the "EAP" concentrates only on the promotion of cotton and groundnuts exports exclusively in the irrigated subsector. The rainfed areas are almost neglected by the programme.

The "ARP" is not also free from criticism. Its financial resources are thinly distributed such that quick returns are doubtful. In this respect Dr. Abdel Muhsin wrote:

"...The programme seems to be confined to the agricultural sector, whereas the malaise is spread over most sectors of the economy".42

This is an evidence of the fact that there is a wide discrepancy between formulation and
implementation of policies. The thin distribution of the "ARP" resources will distribute the efforts and will bring about slim returns. Capacity augmenting efforts should be concentrated on key economic project.

The industrial sector also suffers from power cuts, unreliable inputs (being mostly agricultural products), mismanagement and shortages of foreign exchange which lead to shortages in fuel supplies, and capital inputs. For these reasons project implementation becomes slow.

All these constraints are interwoven and their treatment must be concurrent.

The exchange rate policy and the stimulating IMF adjustment policy, concentrate only on restraining the demand side of the economy without paying much heed to the supply side of it. This policy leads to inflation and to lower the standards of living (especially of the poor people) to levels which are thought inhuman. The restructuring of the economy should cover both sides (supply and demand) of the economy and most importantly to enhance supply augment-
ing measures so that adjustment may be smooth and short living. Dr. Abdel Muhsein also criticizes the neglect of the supply side of the economy by the IMF policies for the Sudan, he wrote:

"The economic problem here is one of a productive capacity that is too inadequate and inappropriately structured to produce the quantity and assortment of output necessary for meeting even the basic needs of the masses".

2.6 Concluding Remarks

The main constraints which stand in the face of global restructuring of the Sudanese economy are many. The mention few of them, we state the followings:

a) Shortage of foreign exchange resources
b) uncertainty of economic policies
c) lack of planned investment in supply-augmenting projects
d) inability to raise sufficient levels of domestic savings to bridge the saving-investment gap or even narrowing it.
e) slow project implementation that
hinders timely synchronizing of project yields with repayments of their debt obligations,
f) mismanagement of foreign debts which results in an unfavourable debt profile and adds to the external gap,
g) misuse of scarce economic resources which leads to reallocation and maldistribution of these resources.

A global restructuring of the Sudanese economy and its stabilization needs to be treated in a long term framework; this is not to undermine the short-term requirements. This is vital for formulating the internal economic policies. And it is also necessary that creditors must consider in their lending policies. Long-term maturities and reasonable interest rates are essential for long-term development projects and infrastructural needs.

Multinational and bilateral creditors may in the first place consider pressing liquidity needs and the potential ability to pay of the Sudan to offer it highly concessional loans.

To attain and sustain a favourable economic growth, the Sudan needs joint external
and internal efforts as an inevitable prequisite. Genuine efforts from economic planners in the Sudan and concessional loans (with great amount of grants) are urgent priorities. These could help the Sudan to invest for its economic stabilization and its structural change and help it to build its creditworthiness and access to international financial markets.
3.1 Introduction:

In the preceding two chapters we have explained the causes of the payment crisis in the developing countries in general and in the Sudan in particular. We have also mentioned that one of the causes of these crisis is the mismanagement of foreign debts. Here in this chapter we will discuss this factor in depth with regards to the Sudan. This is because this factor combines the shortcomings of both the internal and external factors of debt crisis mainly during the 1970s when the economic growth was greatly hampered due to external and internal shocks. The situation became even worse due to the delayed disbursement of external resources to finance the external deficit in particular. These resources would have eased the economic hardships as an effect of the structural adjustment if they were put into supply-generating and supply-augmenting uses. Due to the delays in disburs-
ing the financial resources and the insufficiency of these resources, the corrective measures taken afterwards became ineffective and the management of debts became quite difficult.

Such circumstances deprive the Sudan from reaping the benefits of external inflows—(as the case in any other developing country) which otherwise could have helped in the process of economic growth.

In the Sudan, until 1975, there was no specific until which was solely responsible for contracting external debts. In 1976, this responsibility was assigned to the Ministry of Finance, Planning and National Economy, (now the Ministry of Finance and Economic Planning).

Certain autonomous institutions like the Sudan Railways, and Sudan Gezira Board are eligible to negotiate their foreign debt agreements under the auspices of the Ministry of Finance.

In 1979 a committee was formed (all its members are deputy undersecretaries) in the Ministry of Finance to be responsible for
contracting loans which have long term maturities (more than one year). That committee did not exercise its responsibilities ever since and became ineffective. It is clear that its responsibilities were assigned to the "Debt Management Unit" (DMU) formed in 1978;\(^3\) in the Ministry of Finance, under the Department of Economics. The "DMU" is supposed to be responsible for contracting, cancellations, repayments and refinancing and/or rescheduling of the Sudan external inflows.\(^4\) Later in this chapter we will show the extent to which these responsibilities are carried by the DMU.

Then, it remains to explain the meaning of the debt management.

It is important to explain the meaning of debt management:–

A debtor country must follow certain principles to manage its foreign debts in particular, these are:\(^5\)

a) projections of the time profile (i.e. repayments, arrears over due etc.) of the external debt service obligations,
b) Annual forecast of export earnings and of the overall domestic source of revenues, and the possibilities of future access to new financial resources.

c) Tapping the potentialities for debt relief. This could be through refinancing, by means of contracting new loans on more concessional grounds or launch on quick pay-off projects to repay the obligations of the original loans. Debt relief could also be worked out thorough debt rescheduling which incur the change in the structure of (the maturities, rate of interest and grace periods) the original loans. Spontaneous shortfall in export receipts must be timely overcome.

However, to strengthen the debt management, there are three important arrangements to be followed these are:

1) Knowing the debts.
2) Deciding how much to borrow and
3) Selecting the appropriate financing technique
Hence, we will discuss the extent to which, the Sudanese authorities have managed their external debts according to the above arrangements.

3.2 Knowing the debts:

To know your debts means to have an efficient and effective debt reporting system such that up to date data are available on the debt agreements, their origin, amounts, maturities, interests, their type and purposes, as well as all the future changes which occur to these amounts including repayments, cancellations and arrears with clear-cut dating and up-dating. And above all there should be a central unit to be responsible for all matters concerning foreign debts so as to avoid duplication or under estimation of the amounts of foreign debts. The debt management unit should be (as far as possible) provided with the necessary staff and equipments for data reporting and processing.

In the Sudan, as we have mentioned earlier, it is not until 1978 that the "DMU" was constructed. But after the "DMU" started to exercise its responsibilities we find that
there are several units (all within the Ministry of Finance including the BOS unit for foreign unit), which are concerned in a way or another with the same responsibilities. These are, to name some of them: the debt rescheduling department under the BOS, the foreign Debt Unit in the Planning Department, Research and Budget Follow-up Unit etc.

These units do not always share in the foreign debt negotiations. There is a lack of coordination and hence a duplication of work. This is clear in the case of the Planning Department and the "DMU"; each claims to have the sole responsibility for the negotiation and repayment of long-term development loans. As a result some of these loans have their data lost in between and under estimation occurs.

As for the repayment of debts, the problem becomes more complicated. First the "DMU" claim rightly that they must have or they have the right to follow up all the repayments of long terms foreign debts because they are the guarantor, but we find that the Research and Budget Follow-up Unit in the Ministry of Finance is assigned for negotiation of auxiliary
agreements with the government units who are the beneficiaries of foreign loans, and hence has the upper hand to follow up the repayment of the local counterpart. We also find that there is lack of cooperation and coordination between this unit and the "DMU" which is a key factor for the follow-up of repayment of obligations.

As for the Rescheduling Section in the BOS, we find that it gains the experience for several years and could provide up to date data on rescheduling agreements more than any other unit concerned with foreign debts.

Due to the lack of concrete central unit for debt repayments or due to weak connection between those who negotiate the agreements and those who follow-up the repayments, we find that the local public units which benefit from such loans do not usually repay in time. Recently (in 1984/85) one of the beneficiary government units has remained silent upon the repayment of its foreign debt arrears (which were overdue for ten years) until there is an internal clash within that unit and only then has the amount of obligation in arrears become
revealed for the authorities and their repayment put under considerations, with the Ministry of Finance.

Again local beneficiaries may directly arrange with the Minister of Finance for rescheduling their auxiliary agreement without informing the department which is responsible for that. The terms of this rescheduling might contradict with the timing or the terms of repayments of the installments in the original agreement with foreign credits.

To know one's debt, it is also important to know the debt structure or debt profile. This leads us to the second principle of how much to borrow (in fact the three principles are closely interrelated).

Tables 3.1 and 3.2 show that over time the nature and distribution of foreign loans to the Sudan do not undergo any significant change. Table 3.1 shows that the commitments from bilateral sources have the highest amount over the whole period except for some individual years (1974 and 1975), although its percentage increase has declined in 1980. This table also
### 3.1: Loan Commitments by Creditor Source

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<td>45</td>
<td>223</td>
<td>53</td>
<td>89</td>
<td>36</td>
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<td>n.a.</td>
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<td>80</td>
<td>161</td>
<td>14</td>
<td>40</td>
<td>52</td>
<td>36</td>
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<tr>
<td>Bilateral loans</td>
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<td>116</td>
<td>110</td>
<td>84</td>
<td>86</td>
<td>141</td>
<td>266</td>
<td>282</td>
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<tr>
<td>Multilateral loans</td>
<td>139</td>
<td>167</td>
<td>150</td>
<td>310</td>
<td>380</td>
<td>504</td>
<td>528</td>
<td>30</td>
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| Total            | 286   | 512   | 571   | 608   | 569   | 721   | 946   | 398   |

<table>
<thead>
<tr>
<th>% of Total</th>
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<tr>
<td>Official credits</td>
<td>17.8</td>
<td>8.8</td>
<td>39.0</td>
<td>8.7</td>
<td>15.6</td>
<td>5.0</td>
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<td>Social institutions</td>
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<td>35.9</td>
<td>14.0</td>
<td>26.5</td>
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<td>9.0</td>
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<td>Bilateral loans</td>
<td>16.1</td>
<td>22.7</td>
<td>20.7</td>
<td>13.8</td>
<td>15.1</td>
<td>19.5</td>
<td>28.1</td>
<td>70.9</td>
</tr>
<tr>
<td>Multilateral loans</td>
<td>48.6</td>
<td>32.6</td>
<td>26.3</td>
<td>51.0</td>
<td>66.8</td>
<td>70.0</td>
<td>66.4</td>
<td>20.1</td>
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</table>


**Note:** n.a. = not available
indicates that the level of the loans from the financial institutions and suppliers credits, which are offered in short maturities and high interest rates is not insignificant; though the trend of their increase seem to be variable.

Table 3.2 provides the weighted averages of the debt structure, 1972-1982. It is clear that the structure of loans is in general not highly concessional because the average grant element* is even less than 50%. It is however clear from that table, that the grace period (5-6 years in weighted average) of maximum 6.9 years and minimum 4.5 years. However an average maturity of 20 years for long term projects planning in the Sudan with their implementation delays and a host of economic constraints seems insufficient. Unless these constraints in development planning were treated before hand, these period (grace and maturity) were not satisfactory. The grant equivalent on the other hand, covers only about a third of the total amount of commitments.

* Formula of the grant element = \( Q \left( 1+\frac{g}{r+i} \right)^{r+i} \)

\( (1-(r+\tau)^{r+i}) = 0 \)

Grant element = \( \frac{Q - P}{P} \times 100 \) %

\( Q = \) face value of the loan, \( r=\) interest rate during the grace period, \( g=\) grace period in years, \( \tau=\) interest rate of the loan. \( A=\) equal annual installments of debt servicing of the loan.
<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Loans</th>
<th>Total Commitment</th>
<th>Average Commitment</th>
<th>Grant Equivalent</th>
<th>Total Current</th>
<th>Interest Due</th>
<th>Interest Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>77</td>
<td>236,509</td>
<td>3,083</td>
<td>22.2</td>
<td>5.4</td>
<td>18.8</td>
<td>14.6</td>
</tr>
<tr>
<td>1971</td>
<td>72</td>
<td>205,205</td>
<td>2,922</td>
<td>25.2</td>
<td>6.9</td>
<td>18.3</td>
<td>14.7</td>
</tr>
<tr>
<td>1972</td>
<td>71</td>
<td>164,000</td>
<td>2,342</td>
<td>28.9</td>
<td>7.4</td>
<td>19.5</td>
<td>15.9</td>
</tr>
<tr>
<td>1973</td>
<td>70</td>
<td>150,500</td>
<td>2,143</td>
<td>30.0</td>
<td>8.1</td>
<td>20.9</td>
<td>16.9</td>
</tr>
<tr>
<td>1974</td>
<td>71</td>
<td>150,000</td>
<td>2,128</td>
<td>30.1</td>
<td>8.1</td>
<td>20.9</td>
<td>16.9</td>
</tr>
<tr>
<td>1975</td>
<td>70</td>
<td>150,000</td>
<td>2,100</td>
<td>30.0</td>
<td>8.0</td>
<td>20.6</td>
<td>16.6</td>
</tr>
<tr>
<td>1976</td>
<td>71</td>
<td>150,000</td>
<td>2,100</td>
<td>30.0</td>
<td>8.0</td>
<td>20.6</td>
<td>16.6</td>
</tr>
<tr>
<td>1977</td>
<td>70</td>
<td>150,000</td>
<td>2,100</td>
<td>30.0</td>
<td>8.0</td>
<td>20.6</td>
<td>16.6</td>
</tr>
<tr>
<td>1978</td>
<td>71</td>
<td>150,000</td>
<td>2,100</td>
<td>30.0</td>
<td>8.0</td>
<td>20.6</td>
<td>16.6</td>
</tr>
<tr>
<td>1979</td>
<td>70</td>
<td>150,000</td>
<td>2,100</td>
<td>30.0</td>
<td>8.0</td>
<td>20.6</td>
<td>16.6</td>
</tr>
</tbody>
</table>

It is also clear from the above table that the amount of loans (net) from the financial institutions (disbursed) and outstanding as of Dec. 31/1982 equals to 1,008 (US$ million translated value) that is only 0.461 (US$ million) less than those of the multilateral loans. (US $1,469 million translated value) and $3,201 million (translated value) less than the amount outstanding for the bilateral donors (Paris and non-Paris Club groups).10 Because the financial loans are expensive they raise the interest rate lower the average maturity and hence result in a lower rate of the grant element.

The above information show that a preconceived knowledge of the structure and the details of foreign debts is quite important before contacting foreign creditors for the necessary debt relief. Figures for the amounts to be rescheduled or refinanced might be underestimated and hence maximum benefit from the relief is not reaped. This was actually the case for the Sudan when in 1979 the "OECD" countries (which provide relatively more concessional loans for the Sudan as we will show later in this chapter) in Paris Round ( )
have agreed to reschedule an estimated amount of $330 million (translated value as of Sept. 30/1982 exchange rate) while in the second rescheduling round these countries were provided only with an estimated amount equal to US $150 m.\(^{11}\) (converted at the same rate). This is inspite of the fact that other sources of data show the total obligations to Paris Club bilateral (Net) as of Dec. 31/1982 amounting to $1,735 million (translated value).\(^2\)

This also shows the shortages of the reconciliation efforts and the contradictions in the estimates of the Sudan foreign debts obligations.

3.3 How much to borrow

Economic planners in particular have to master the technique of borrowing. This requires full knowledge of the payments gap and the fiscal gap which is actually a knowledge of all sources available for generating revenues. Both the economic models and the policy measures are important aggregate parameters for determining the debt service capacity (DSC) and the absorptive capacity in the economy. This requires a complete collaboration between those
who decide how much to borrow or the whole job may be undertaken by an effective central body.

In the Sudan there is a weak relationship between the work of planners and those who prepare the estimates of the external gap. The work of (although both units are in the same Ministry) the latter is assigned to the Foreign Exchange Budget Section. They provide preliminary data on the level of external resources which are needed annually. They have no follow-up actions of the future changes in the disbursements and uses of foreign inflows. Hence, they are not in a better stand to determine the absorptive capacity of the economy. Export receipts and imports payments data (the trade gap) is likewise estimated in a routine way just like what happens in other central government fiscal budgets.13

Due to such discrepancies, the payments gap gets wider over the years and the Sudan own-foreign reserves are always quickly exhausted. Table 3.3 provides that in general the reserves ratio to import is declining in trend. Over the period mentioned (1971-1980) except for certain individual years mainly
the ratio concerned.

The result was slightly unexpected in the light of
this view expressed by many economists and thus
involved due to the fact that the factor balances
رغ 97/1974 - 1979 in which the value of imports is

а два века импорт вата 2

In a context year the total (e.g. 1980)

Amount of reserves covers our requirements
From the world bank report in which the balance
defined above

| Year | Total Reserve Import Reserve 
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1977</td>
<td>167.7</td>
</tr>
<tr>
<td>1978</td>
<td>164</td>
</tr>
<tr>
<td>1979</td>
<td>164</td>
</tr>
<tr>
<td>1980</td>
<td>164</td>
</tr>
</tbody>
</table>

The reserve ratio added.

The report is imported to a larger degree

In which the value of imports is
We also find that while the Reserves ratio to imports (%) is generally decreasing, the debt service ratio to exports (%) is continuously increasing. This is in spite of the fact that the foreign currency obligations are under-estimated as we have already mentioned.

Before measuring how much to borrow it is important to measure (qualitatively and quantitatively) the "DSC" in the Sudan. This requires measuring the debt service ratio, the ratio of the whole debt commitments to amortization and the ratio of the value of imports to the Sudan foreign reserves. It is also important to measure other monetary indicators for example the rate of inflation. If these parameters happen to be available, they are only approximates. For instance the data concerning foreign trade are distorted due to under invoicing of exports or over invoicing of imports or smuggling practices. As we have mentioned in the preceding chapters, the rate of growth of inflation and price indices are distorted due to price controls.

We have estimated some of these indicators in the above table, they provide that the "DSC" of
the Sudan is rather weak. The weak absorptive capacity in the Sudan has contributed to the low DSC. It is estimated that in the public sector about 90% of the plants are working at less than 50% of capacity, while about 30% of the private sector plants work below their half capacity. This is due to the shortages in the skilled-labour and the overall managerial weaknesses. The result is the slow and insufficient returns due to the low productivity. This low productivity could also be attributed to the misallocation of foreign resources in financing the economic operations.

It also impairs the capacity to raise new financial capabilities. It lowers the level of the Sudan creditworthiness to refinance and/or reschedule. Donors may think that the already borrowed resources are more than what the Sudan could service on timely basis at least in the short run. This is because overborrowing and under-borrowing are both due to the mismeasurement of the "DSC".

3.4 Optimum Financing Techniques:

These are highly determined by the terms and the structure of the different available
financing combination. This is so because we find that although grants and soft loans are the best and cheapest form of financing, they are nevertheless difficult to get especially for certain time spans and in the level required:

a) First we will consider the financing techniques at the general economic level during the period 1970-80. In this regard we have already explained that the average weights for the maturity, the rate of interest and the grant elements etc. did not give promise of having a favourable concessional loans, especially when we find that most of the investment expenditure took place during that period. The result has been the accumulation of arrears due to the fact that most of the old commitments fall due in
the 1970s. Hence, heavy borrowing to finance investment and refinance these due obligations has taken place. As we have also mentioned that a significant portion of the debt drawn and outstanding as of 31/Dec./1982 is in the form of loans from financial institutions and suppliers credits.

b) At the project level we find that the development aid is an important portion of foreign inflows for financing projects. More of grants aid is expected or received during the 1980s for project financing. The foreign inflows are not perfectly allocated in a sector-wise framework. Table 3.4 shows that more than half of the development aid is allocated for infrastructure. Though this sector is quite essential for economic development but it has a high capital output ratio. It is feasible to finance infrastructural and services sectors from grants or loans which have a high degree of
grant element and long maturities. This mainly because these sectors do not yield quick direct returns to be used for repayment of loans with short maturities.

<table>
<thead>
<tr>
<th>Sector Source</th>
<th>Allocation of authorized devt. (%)</th>
<th>Devt. aid total amount ear-marked (£M)</th>
<th>% of total amount ear-marked</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture:</td>
<td>Concessional loans:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1/ Multilateral &amp; regional</td>
<td>37.0</td>
<td>25.0</td>
</tr>
<tr>
<td></td>
<td>2/ Bilateral</td>
<td>14.7</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-concessional</td>
<td>35.2</td>
<td></td>
</tr>
<tr>
<td>Infrastructure:</td>
<td>Concessional loans:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1/ Multilateral &amp; regional</td>
<td>52.5</td>
<td>50.4</td>
</tr>
<tr>
<td></td>
<td>2/ Bilateral</td>
<td>55.4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-concessional</td>
<td>30.3</td>
<td></td>
</tr>
<tr>
<td>Industry:</td>
<td>Concessional loans:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1/ Multilateral &amp; regional</td>
<td>8.2</td>
<td>13.8</td>
</tr>
<tr>
<td></td>
<td>2/ Bilateral</td>
<td>7.5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-concessional</td>
<td>53.6</td>
<td></td>
</tr>
<tr>
<td>Social services:</td>
<td>Concessional loans:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1/ Multilateral &amp; regional</td>
<td>2.3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2/ Bilateral</td>
<td>7.1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-concessional</td>
<td>66.6</td>
<td></td>
</tr>
<tr>
<td>Other Non-classified:</td>
<td>Concessional loans:</td>
<td>85.4</td>
<td>6.5</td>
</tr>
<tr>
<td></td>
<td>1/ Multilateral &amp; regional</td>
<td>--</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2/ Bilateral</td>
<td>15.3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-concessional</td>
<td>--</td>
<td></td>
</tr>
</tbody>
</table>

Despite the fact that the agricultural and industrial sectors have more direct and quick returns than the infrastructural sector only 25% and 13% of the total development aid at that time is respectively allocated for them. On the other hand we find that a large proportion of the development (30.3%) non-concessional aid is allocated for infrastructure while the share of industry was only 23% of such kind of loans. For reasons mentioned earlier infrastructural must not be financed from nonconcessional loans.

Hence, at the project level, this distribution present major discrepancy from what is considered to be optimum allocation of external resources as regards to the quantity and quality of the loans.

If we consider the concessional development aids offered to the Sudan during the period covered by the table above we find that the degree of concession differs. source-wise. 20

If other things (e.g. political constraints) are considered to remain the same, planners must choose the mix of loans that has the
highest grant element (G.E.) especially during the first years of the life of projects.\textsuperscript{21}

Table 3.5 provides the ranking of creditor sources according to the degree of the "G.E." in their loans which are offered to the Sudan; during the period in consideration. I have been told that neither the "DMU" or any other debt unit do measure in advance the (G.E.) of the development loans.\textsuperscript{22} It is also because of the traditional ties with certain creditor sources, certain political constraints and the abruptness in contracting and negotiating debts that (almost due to urgent financial needs that are not forecasted beforehand), the authorities may accept creditor loans that have relatively low rate of (G.E.) e.g. IBRD loans contracted between 1977-1980 amount to US$27,000,000\textsuperscript{23} (although there is a large variation between the data provided by the BOS and those by post Marwick accountants' report concerning these commitments). The commitments from OPEC special Fund, U.S.A. and CHINA from the bilateral group, as of 31/Dec./1982 amount to $47,450,000 $127,250,000 and $145,000,000 respectively (U.S.A. loans include commodity aid loans). In
certain years the amount of commitments from U.S.A. are not known. Nevertheless they are much more than those offered and negotiated with the OPEC special fund through the latter's loans are more concessional.

It is also clear from the B.O.S. Annual Reports, that the loans contracted during the period 1977-82 all have their maturities falling due in the 1990s. This may lead to bunching of maturities and the need for refinancing and/or future reschedulings. This could have been avoided by having prior knowledge of the structure of the foreign debt.

A favourable distribution of maturities overtime is needed.

The other shortcoming in the financing technique of foreign debts in the Sudan is that during the past decades especially (1960-1980) nearly 54% of external development assistance is source-tied and 76% is project-tied. Source-and project-tying is a rigid method of financing techniques. Though it allows creditors to avoid risk but does not allow debtors much freedom in financing the economic priorities already arranged by planners.
Hence we could say that the three principles necessary for perfect debt management must be simultaneously implemented because they are highly interrelated.

3.5 Conclusions:

Foreign debt analysis and projections with the extent of financing (and/or correcting) external and internal deficits need perfectly formulated and implemented debt reporting systems. Alternatively, all these require an up-to-date knowledge of the origin of debt, its terms and conditions, the outstanding commitments and the future possibilities of the continuous inflow of these debts etc. Without such information and many others, (e.g. knowing the spread of maturities, the cost of the debts, arrears etc.) donors may well be hesitant to lend more or lend at all.

In the Sudan the detailed knowledge of its Foreign Debts is incomplete and the result is an underestimation of the level of foreign debts. The performance of the "DMU" is inadequate because of the lack of effective staff and lack of coordination between the units concerned with the reporting of foreign
debts. Consequently there has been great delays in debt reporting but in 1965 they said that there is some improvement and the "DMU" is even taking steps towards computerizing the data on foreign debts within its premises, with the help of the IBRD staff and others. But the main issue still remains to be raised: that the role of the "DMU" has to be further clarified and its correlation and coordination with other units concerned with foreign debt must be specifically defined. The "DMU" (wherever located) must have the lead in negotiating and contracting foreign debts. This will provide the unit with the basic and full information necessary for debt-reporting and debt processing. The definition of the role of the "DMU" is a down-to-earth judgement which is urgently needed. When its responsibilities and qualifications were pinpointed, then it remains to be provided with sufficient and efficient staff members. The staff must satisfy a mix of qualifications (e.g. Economic analysts, accountants, statisticians etc..) so as to serve a mix of purposes. Then the data on foreign debts will be at hand and reconciliation of foreign debts will be easy and could be
be undertaken by the "DMU" own staff rather than outsiders.

Last but not least it is important to state that improved debt management system is inevitable because the Sudan's need for foreign resources at least in the short run (and perhaps in the medium run) is vital and essential, as long as the performance of the exports sector is sluggish and the import-substitution sector is inefficient; while it is also true that the arrears on foreign debts are continuously growing in volume. It is estimated that up to 1983, the foreign debt obligations are approximately equal to US $7 billions which amounted to more than seven times the export earnings during the same year. While recent estimates by the Ministry of Finance (1985) show that the total foreign debt obligations up to 1985 amount to US $9 billion including arrears).
CHAPTER IV

THE MAGNITUDES OF EXTERNAL DEFICIT IN
THE SUDAN, AND THE EXTENT OF FOREIGN
INFLOWS 1982/83-1994/95: A FORECAST

4.1 Introduction:

Chapter two was about the extent and magnitude of the payments gap in the Sudan. In that Chapter we have likewise discussed policy measures taken to treat those payments crisis. However, those policies were not carried out in timely manner and when implemented, they were undeterminately followed up. As a result, both the internal and external gaps were aggravated, such that overall economic situation became unsustainable.

Both the external and internal imbalances stem from similar if not synonymous causes. From the internal side, the economically unsound policy measures have wide discrepancies. For instance in the past decade the Sudanese economy had suffured from the saving-investment gap, consumption expenditure gap which coincide with the discrepancies between debt service obligations and debt service capacity
(DSC) on the one hand and between the absorptive capacity and foreign inflows on the other. The latter had led to putting foreign resources into less or uneconomic uses.

Thus, the imbalance in the external sector of the economy in the majority of cases (e.g. in Sudan) reflects to a large extent, the imbalance in the internal sector of the economic. Hence, in this chapter, we will discuss the extent of the external gap in the Sudan during the coming decade, which is subject to certain policy recommendations.

Two "scenarios" will be presented under slightly different assumptions. The difference is in degree and kind. The base case in these scenarios, assumes moderate policy changes than those already mentioned in the preceding chapter, while the "optimistic" scenarios, considers the possibility of the enforcement of more effective measures which were correctly formulated to treat the economic crisis on timely basis. This could bring back the economy into a more sustainable condition. Such a situation would be safeguarded, if the imports-exports gap is narrowed, or fully bridged, and sufficient foreign resources were
made available, to repay foreign debt arrears and make for domestic investment plans.

4.1.1 Note on the Projections:

The data were based on those provided in the World Bank reports on the Sudan (1983); which were in turn based on the Bank of Sudan data on trade. These are timely prepared and provided on a fiscal year basis (which coincides with other economic parameters) in contrast with the data provided by the department of Statistics. However, both sources suffer from under estimation. They also exclude capital imports used for petroleum exploration in the Sudan.

The "B.O.S" data on trade mainly take into account these transactions which are financed through resources from the Bank of Sudan, although the majority of the trade transactions were financed through foreign resources from the free market, due to shortages of foreign exchange in the B.O.S. Hence other sources should be (e.g. custom invoices) used to complete the data. But it needs to be emphasized that the shortcomings and discrepancies between the B.O.S. data and those of the
department of Statistics are considered small in comparison with the practical uses of the former. For calculating the projected increase in the physical volumes of merchandise and other average percentages a historical trend of changes over some years back is taken as an indicator for future growth rates. Unit prices and price indices were calculated likewise, based on World Bank international price indices.2

The expected changes in the price level for petroleum and petroleum products may not be smooth because of the monopolistic nature of the OPEC group; and the possibility of price wars with the petroleum producers outside the OPEC.

The gum arabic forecasted prices may be greatly affected by the level of production in the Sudan because it has a monopolistic position in that commodity and the Sudan is to be considered a price leader. So the forecast of the prices of the above commodities could be taken with conservation.

To forecast an increase in the volume of exports, especially of cotton and groundnuts it
is important to go over the Export Action Programme (EAP - 1980-1990). The "EAP" estimated projections provide that the volume of each of these two crops will increase by 7% p.a. over the decade (in physical terms) and by 8½% per annum and by 10 and 9% p.a. in real terms for cotton and groundnuts respectively (taking constant US dollar prices, 1980).

Although it is clearly stated in the programme that over half of the groundnuts product is grown in the rainfed areas, but minor emphasis were laid in the "EAP" to improving the pattern of production in these areas. This is one of the reasons, that the actual export volume of groundnuts in 1983/84 was far below what has been projected in the "EAP". The failure of the targets in the estimates of the "EAP" was also partly attributed to the adverse weather conditions which proved not to be completely compensatory to the extent stated in the "EAP" assumptions.

In the forthcoming analysis, adverse weather conditions are put into consideration. Another important factor to be considered and which will bring about changes in the economic policies is the change in the political set up.
in 1985. These last two factors were not wholly considered in the "EAP".

However, among other factors, the global restructuring of the Sudanese economy, within a stable economic and political settings, is the main factor to bring about positive results for the "optimistic case" scenario. With the assumed stability especially in Southern Sudan, domestic petroleum production will be put under control.

4.2 The "base" case

Here, the economic policies already implemented will be considered. Among these are: The Agricultural Rehabilitation Programme (ARP), the Export Action Programme (EAP) and the Three Year Public Investment Programme, (TYPPI); which they were almost implemented in the early 1980s. The Foreign Exchange Regulation Act 1979 (amended '85), which banned the official free market for foreign exchange and did nothing about the unofficial dealers is to be considered as one of the foreign exchange policy measures in this case. All these programmes (which were already discussed in Chapter II) aim at expanding the export sector.
and encouraging the import substitution industry so as to cut down the level of imports especially for such commodities as sugar, wheat, wheat flour, cement and textiles.

4.2.1 The Exports Scenario:

As we have already mentioned in the preceding chapter, the level of exports during the 1980s had slowed down in comparison to that in the early 1970s. This was especially true for cotton exports, which is the major export item. Both the "ARP" and the "EAP", within the Economic Recovery Programme were set to reverse the declining trend in exports; especially in the irrigated subsector. In early 1980s measures were taken to cater for the Agricultural Sector. It has been considered as a future leading sector in the Sudanese economy. By so doing, the import-substitution industry could also be expanded because it uses agricultural products as industrial inputs (e.g. sugar and textile industries).

However, many constraints still act as bottlenecks for agricultural sector development. Chief among these are (to name only few of them) technical e.g. inefficient transport
system, inefficient marketing system, shortages of fuel and physiological setbacks. 4

Due to such bottlenecks, the level of the production of cotton and groundnuts had failed the targets put to them in the "EAP"; especially in the two years following the implementation of the programme (1981 and 82). 5 The "ARP" have concurrently failed to reverse such slow down in those years.

Hence, the following assumptions will be put forward to support the "base" case scenario:

- past policies concerning the agricultural sector, will continue over the period, (1982/83 -1994/95), with only minor changes in their formulation and implementation. This is to say that the structural rigidities will not be completely solved due to the shortages in foreign exchange resources.

- Adverse weather conditions may continue to affect the traditionally rain-fed and mechanized rain-fed areas which provide the export sector, with, groundnuts, sesame, sorghum, gum Arabic, rain-fed cotton and livestock.
Cotton production is supposed to increase, assuming an increase in the yield/feddan - due to the "ARP" and in the area under cultivation if the new extension in the schemes suggested in the "EAP" were completed, (Rahad II and Upper Atbara). Thus an average growth rate of 6.5% p.a. is expected over the period considered.

Gum Arabic exports will increase by 3% p.a. assuming that effective measures were taken to encourage farmers to plant more of the plantations provided for them.

The volume of sesame exports is expected to increase only by 3% p.a. over the same period, that is because in the rainfed areas, farmers are expected to divert for cultivating more of sorghum than sesame to satisfy the present food deficit.

Groundnuts will have an average annual increase of 3.5% if production in the irrigated subsector is expanded due to the effect of the "EAP" export promotion efforts.

Oil seeds and cake will increase by 5% p.a. due to an expected increase in cotton seeds, sesame, groundnuts.
Sorghum export volume will rise only by 3% p.a. because of the internal food deficit and the need for its local consumptions.

Sheep and lambs exports will record a modest level of only 2% p.a. due to the losses recorded in their number because of the drought and the absence of organized grazing methods.

Petroleum exports are assumed to begin in 1980/81 due to political unrest in the South. The starting level of these exports in this "base case" and the "optimistic" one is expected to be 40,000 barrels per day. This level is lower than the projected level of the World Bank's estimates which is 50,000 b/d. This lower level is an average of the figures provided by the Sudan general petroleum corporation, (which range between 50,000, 30,000 and 40,000 barrels per day). The average increase in the export volume of oil is projected to be 5% p.a.

For the projections of this case and for the "optimistic case", all the oil that will be produced is expected to be exported. The Sudan will gain about 49% (not pure profits) of the
value of oil exports. Tariff costs which include, operating expenses of the pipe line, all debt service obligations for constructing the pipe-line and an additional 15% rate of return to investors from which the Sudanese government, as an investor, should have a percentage share. Hence, the value of the oil exports will be multiplied by 35% as an approximate share of profits for the Sudanese government from oil exports.

4.2.2 Imports Scenario:

For this scenario we will assume that the shortages of foreign exchange resources, power cuts, price distortions and mismanagement are only partly removed. Thus the increase in the volume of import-substitutes will be modest especially in the textile industry which suffers from excess capacity and largely affected by the "skill-drain". Consumption for such commodities is not expected to be drastically cut down; so is the import level of these commodities.

- The "FIP" will not be sufficiently updated due to the insufficient resource mobilization, such that many strategic industrial projects
will remain outside the programme e.g. sugar and petroleum industries.

- It is also assumed that the "ARP" will not be completely freed from the weaknesses and shortcomings mentioned in Chapter Two. Due to the above assumptions, the import volumes are expected to increase by the following rates:

- Food imports will increase by 3% p.a. in real terms due to the domestic food shortages; the failures in economic policies and hazardous weather conditions.

- Other consumer goods, will increase by 3% p.a.

- Petroleum imports will increase by 2% only (less than the average rate of increase of 2.2% p.a. during the past ten years as provided in the general petroleum corporation records), because the plan for reducing the number of the imported private cars and the reduction of the number of government cars used by different governmental units. (This is suggested in 1985).

- Intermediate goods will show a slight increase from past trends because of the expected minor increases in the investment
plans (mainly processing industries). It will therefore grow by 3% p.a.

- For similar reasons capital goods will grow by the same rate, 3% p.a. to make for the continuation of the "ARP", the "EAP" and the updating of the "PIP".

- Non-factor services will increase by 2% p.a.

4.2.3 The Foreign Exchange Inflows:

- The level of inflows from the Sudanese expatriate remittances depends largely upon the general economic policies taken internally, especially those concerning exchange rate and the exceptional measures taken to attract expatriate savings.

The exchange rate policies before April 1985 and till now do not give an attractive rate for SNWA to channel their savings through official means together with the fact that the BOS is not able to control the foreign exchange market by completely banning unofficial dealers. The present, (April, 1985) change in the political side, which is expected to change more of the economic policies might give SNWA some satisfaction to remit their savings
through official channels. Hence, they are assumed to increase by 5% p.a. in real terms over the whole period covered by the projections in the "base case".

- Due to the assumed change in the economic policies in the coming years, to develop the economy, public transfers are thus expected to increase by 7% p.a. in real terms.

- The projections on the level of change in disbursements of foreign assistance are based on the standard disbursement schedules of the Sudan major creditors. However, because the actual disbursements level depends upon, the debt service capacity (DSC), (which in turn depends upon qualitative and quantitative measures mentioned earlier in the text) which is expected to increase in the coming decade because of the expected increase in the economic activity, we assume that the public multilateral disbursements (net) increase over what has been projected by the World Bank in 1983 by 1% p.a.

- The level of repayment of debts also depends upon the "DSC" and the absorptive capacity of the country. If they both increase
the level of repayment of foreign loans will increase according to the level of accumulation of arrears.

- The GDP level in this case is expected to increase by 3.5% p.a. that is 0.5% less than what had been projected in the "EAP", (1980-90)

The following tables show the physical volumes and values of the imports and exports during the period covered by the projections. They depict the BOP indicators and the current account gap. The estimates were all based upon the corresponding rates of increase assumed, before in this chapter.

It is clear from table 4.5 that despite the modest policy changes which were assumed to occur, the current account deficit gets worse every year. The ratio of the current account deficit to the GDP increases continuously as in table 4.6.

It is depicted in table 4.6 that the debt service ratio is decreasing except in 1984/85. This could be taken carefully, because the debt service obligations were rather under estimated
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<td>0.34</td>
<td>0.33</td>
<td>0.32</td>
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In production:

- Per unit: 0.76 |
- Total: 175.5 |
- Total goods: 170.5 |

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In production:

- Per unit: 0.76 |
- Total: 175.5 |
- Total goods: 170.5 |
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<td>G</td>
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<td>I</td>
<td>J</td>
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</tbody>
</table>
due to the incomplete reconciliation of the Sudan external debt obligations, such that certain amounts (as it was mentioned elsewhere in the text) of obligations were excluded. In this case, the external imbalance is unsustainable. More is needed of policy reforms and of foreign inflows.

4.3 The "Optimistic" Case:

The scenario for this case is based upon the assumption that, in a general sense, the economic policies will be timely formulated and effectively implemented. However, the following assumptions are also considered.

- We assume that the "ARP" will be continuously updated such that the concentration could be on the projects which have the maximum value added. Concentration could be on the agricultural products in which the Sudan has high comparative advantage e.g. cotton. This might safeguard for large returns to repay foreign obligations.

- Domestic resources must be intensively mobilized to finance a large part of domestic investment programmes, such as the "TYPIP".
- The "PIP" should be rolled in an updated manner. Both foreign currency and local currency must be made available for financing it. It should encorporate projects with high economic priorities. Quick-return projects could go side by side with programme-projects to safeguard for short term, medium and long term needs for economic resources.

- The implementation of the "GAP" additional projects (e.g. Upper Atbara) could be completed. The recommended increase in the irrigated area under cultivation, could also be attained by securing more financial resources. This may remove large part of the inherent rigidities in the agricultural irrigated subsector. The rainfed areas must have greater care by improving the transport facilities, giving farmers attractive prices for their products and safeguarding for the availability of fuel.

- The technical bottlenecks and the structural rigidities (mentioned in Chapter II) are expected to be solved in the agricultural sector, through measures like, cost recovery, better marketing systems and comprehensive feasibility studies for the application of alternative plans.
- Mobilization of the external resources is safeguarded by removing the uncertainties in the general economic policies. S.N.W.A. remittances could be attracted by offering them various incentives (and completely banning the unofficial foreign exchange dealers, who offer continuously rising rates), and by providing a relatively stable foreign exchange policy. If expatriates feel that their savings were used for economically viable purposes they might channel large amounts through official means.

Economic growth adds to the creditworthiness of the country. By attaining economic growth the Sudan might be on a better standing to have sufficient amount of foreign assistance and concessional inflows. Better management of debts and determined economic measures are the basis for higher "DSC" and higher absorptive capacity.

- If economic and political stabilities are attained especially in Southern Sudan, domestic oil production will start and the explored quantities will increase so long as investors feel that there is security. While the recommended pipe-line is designed to transport 50,000 b/d but it might be expanded (by adding more stations) to carry up to 200,000 b/d.10
The ban on non-essential imports must be effectively enforced. The overall demand-restraining measures might be matched with supply augmented ones, which must not act against the production of locally consumed foodstuffs; and hence add to the already existing food shortages.

However, it is not possible to change the economic path in the shortrun, but in this "optimistic" case we assume determined and ambitious policy changes in all sectors of the economy.

Under such assumptions, the expected growth rates in the external sector will be as follows:

4.3.1 Export Scenario:

- Cotton: Because of the assumed updating of the "ARP" and effective implementation of the "EAP", cotton production is expected to reach targeted levels of the "EAP" by 1994/95. Hence, because we start from a lower base (that of 1981/82 production levels which are comparatively low) we regard the rate of increase in cotton production (and hence cotton exports to increase because the whole amount produced is assumed to be exported) will increase by 11.5% p.a.
- Gum Arabic: Exports will increase by 4% p.a. and this could be possible if farmers are encouraged to plant all of the new plantations provided by the department of forestry in the previous season.

- Sesame: It is important that the authorities should make efforts for the production of this crop, because the Sudan has a comparative advantage and a monopolistic position in the world markets for this commodity. It is mainly grown in the rainfed areas which are less catered for. Hence its exports are expected to increase in physical terms by 4.5% p.a.

- Groundnuts: If the recommendations in the "EAP" were carried out, the groundnuts exports volume is assumed here, to increase by 5% p.a.

- Oil seeds and cake: Due to the expected increase in oil seeds crops, these items are also expected to increase by 6% p.a.

- Sorghum: The export volume of this commodity over the next decade might not be very high. This is because the feed deficit will make the producers and the authorities stock most of the future surplus of sorghum products. So we assume a modest increase in
export volume of this commodity. The average increase is expected to be 3.5% p.a.

- Sheep and lambs: Due to improvement in the marketing system for animal export and the recommended improvement in the breeding and grazing systems, the export volumes are assumed to increase by 3.5% p.a. over the decade.

- Petroleum: Taking into account what has been stated in the "base case", starting in the same year and by the same level, the export volume of this commodity will increase in this case by 10.5% p.a. over the period concerned; i.e. and average increase 5% than the base case.

- Other goods: They are expected to increase by 4.5% p.a.

- Nonfactor services: They are expected to show some increase, 3.7% p.a. in real terms, due to the expected expansion in economic activities.

### 4.3.2 Imports Scenario:

- Food: Due to the expected growth of the level of import-substitutes mainly of sugar and wheat in the coming years, food imports in real
terms will increase only slightly. Hence, they are projected to increase by 3.2% p.a. up to 1989/90 and from that onwards they will increase only by 0.2% p.a. till 1994/95 when in that year there will be no food imports and Sudan will be self-sufficient.

- Other consumer goods: If the recommended retrenchment of the non-essential imports is followed then the expected increase in other consumer goods will be only 3.3 p.a.

- Petroleum: If measures were taken to restrain excessive uses of petroleum (e.g. by reducing the importation of private cars and by controlling the use of petroleum by parastatals and government units), then oil imports are expected to increase only by an average rate of 2.3% p.a.

- Intermediate goods and capital goods: Because we assume that the "PIP" will be updated and the "ARP" rolled over, all these and the domestic import substitution industry will need inflows of such goods. They are also necessary for the development projects. Each group of the imports of these commodities is expected to increase by 4% p.a.
- Nonfactor services: The expected increase in the economic activities will raise the need for such services. So they are assumed to increase by 2.5% p.a. in real terms.

4.3.3 The Inflows of Foreign Resources:

Net private transfers: If these were mobilized in the way recommended before, large amounts are expected to flow in. Hence, a rate of increase of 10% p.a. is expected to happen.

- Public transfers (net) will increase by 12% p.a. due to the expected structural changes in the Sudanese economy.

- Net, MLT disbursements: it is assumed that; the absorptive capacity of the economy will increase by increasing the productive capacity, then public and publicly guaranteed loans are projected to increase by 5% p.a. over the projection projected rate given by the IBRD staff report, 1983.

- The Sudan investing for global restructuring of its foreign loans supported by efforts to negotiate future foreign debts on highly favourable terms (including quickly disbursed gapfill requirements) must be supported by
efforts to turn a large part of the old obligations into grants or make them forgiven. This will make repayment on old commitments rather favourable and hence lowers the debt service ratio.

The tables below show the whole estimates on this case. Table 4.11 shows that the current account deficit gets smaller till it turns to a surplus in 1994/95. This is mainly due to the assumed favourable trade balance and the increasing trend of public and private transfers. Table 4.12 also shows that the BOP indicators will grow favourably.

The overall improvements in the economic situation is due to the recommended policies that must be followed at least for a decade ahead.

4.4 Concluding Remarks:

It is clear from the "base case" that, minor changes in the economic policies as those already implemented (those discussed in chapter II) to little to reverse the unfavourable economic situation. It needs time and effort to reach a sustainable economic path. On the
other hand the "optimistic case" assumes that major policy changes should take place to reach the targeted levels. It requires, among other measures, the following:

- The cooperation from the international community is needed especially major creditors and friendly countries to help in the global restructuring of the Sudan's external debts and to give the Sudan brighter prospects for more concessional loans in the future.

- Enhance the domestic growth of the economy by embarking on feasible investment projects and exploiting domestic industrial potentialities (e.g. local oil production in the Sudan).

- More and more of expatriate remittances should be attracted and mobilized. However, if these assumptions (and those mentioned elsewhere of the "optimistic case" fail to materialize, then a move towards the "base case" in likelier. The pull towards the "base case" may be supported by ineffective implementation of the economic policies and their slow response to the economic needs especially in the short run. An adverse economic path may result if there is also a political upheaval after the
present transitional period or if the foreign inflows are insufficient or less concessional than what is projected while the expatriate remittances are not sufficiently attracted.

Although the "optimistic case" bears bold and optimistic assumptions but they are not unattainable given the present economic potentialities of the Sudan. (e.g. domestic oil production and large areas suitable for agricultural production) However, the substantial assumption of the efforts to get concessional loans and grants on reasonable amounts from major creditors could be highly supported by directing foreign exchange policies and other policies to attract higher amounts of expatriate savings. This should be a component of the overall changes in the economic policies. Genuine efforts are needed from the Sudanese people in general.

On the whole, it is important to mention that, the scenarios are based on assumptions and arrays that could be varied in multways, accordingly with unexpected changes in the internal and external economic conditions.
SUMMARY AND CONCLUSIONS

The BOP crisis in the developing countries originate from interrelated causes. These causes may be grouped into "External" and "Internal" causes.

The external causes are mainly the following:

- The oil-price hikes
- The economic recession (in the 1970s) and trade protectionism in the developed countries;
- hence, unfavourable terms of trade for the LDCs.

The "internal" causes stem from the policy-oriented causes and structural causes. Among these is the mismanagement of foreign debts. The lending policies (from the creditor side) which are outside the borrowers control and the domestic economic policies of the debtor country, both affect the level of the mismanagement of foreign debts in the LDCs. The mismanagement of debts results in a higher capital output ratio and the end result is that more of foreign inflows is needed and hence the
BOP may undergo further deteriorations. The mismanagement of external resources may occur due to the misuse and misallocation of foreign resources. However, the insufficient and/or nonconcessional foreign inflows result in deteriorating the already unfavourable economic conditions in the LDCs, and hence lead to prolonged adjustment processes.

The adjustment policies and the financing solutions should go hand in hand and on timely basis such that a prompt solution for fiscal and payment imbalances is safeguarded.

To offer genuine contributions for solving the economic problems in the LDCs, the developed countries have to concentrate more on the ways and means through which these countries could be developed, rather than on the growing indebtedness of these countries and the possibility of the exposure of the financing institutions. The stress upon these factors may be at the expense of certain individual developing countries, which may in this case have less of foreign inflows or may not have them at all (e.g. from the commercial institutions). Other unfavourable aspect in the
creditors lending policies is the equal
treatment of non-equals. Although the LDCs
share common economic problems during specific
times (e.g. during the 1970s) due to common
external causes or shocks, but still we find
that their local environments differ in many
respects (e.g. economic, political and social
frameworks) and may even differ in their
response to these shocks, so the major creditor
countries (especially the multilateral institu-
tions) have to evaluate and consider such
difference and formulate their lending policies
accordingly after taking each case on its own
accounts. This procedure needs the absolute
coordination and collaboration between the
creditors and debtors. The long term/short
term sides of the economic problems in the LDCs
could be treated by solving the solvency and
liquidity crisis in these countries. This
collaboration between the developed and the
developing world is inevitable, because they
share common uses and common prospects due to
the growing interrelation between their
economies through aid and trade.

If we take the Sudan as an individual case
for the developing countries, we find that it shares with the others, the main causes (especially the external causes) of payments and debts crisis mainly during the 1970s. Nevertheless, it differ in certain structural and policy measures. The Sudan case of exporting labour to oil-producing Middle East countries is not unique but it is so in the under-mobilization and insufficient attraction of the expatriate savings and remittances. This makes the cost of exporting this labour more than the benefit reaped from their exportation especially when we consider the serious skill-drain which the emigration policy caused at the managerial and technical levels. We find that more than 50% of the public sector plants work at less than full capacity while 30% are like that in the private sector. This may cause serious setbacks in the Sudan "DSC" and absorptive capacity, due to low productivity levels. It ends by a vicious circle of low productivity, low "DSC" and a deteriorated BOP which results in an inevitable need for foreign resources.

A strong debt management in the Sudan
needs an effective debt reporting system (e.g. data in debt-by-debt form). In the way of strengthening foreign debt management three principles are necessary but not sufficient. Successively these principles are:

1) Knowing the debts, that is: the debt structure and the debt profile. (Including the total amounts, their origins, distribution and purposes).

2) How much to borrow. This comes next to the above principle. It requires in addition, estimation of the "DSC" quantitatively and qualitatively) and the absorptive capacity they are in proxy forms. The amount to be borrowed may be constrained by the availability of the sources of foreign financing; but the amounts needed of foreign resources may often be over-estimated or underestimated and in both cases the outcome is unsatisfactory. Overestimation adds to the debt service burden and on the other hand underestimation means taxing the economy and constraining it by the shortages of
foreign resources which are important for the development process.

3) After getting the resources needed, the third principle remains to be the choice of the optimum financing techniques. It means perfect allocation of foreign resources at the general economic level and at the project level. The need for quick pay-offs and for establishing long-term projects has to be balanced by the right financing technique. The whole matter of choice is the responsibility of planners and decision makers. Nevertheless, they are also constrained by the already available terms and structure of foreign debts. If a country accumulates a bad debt profile then at least for some sectors or for certain projects, there may be a wrong loan-combination of the financing technique (e.g. in the case of tied-loans or in financing of long term projects through large amounts of commercial loans which have short maturities).
In the Sudan the three principles are not effectively and efficiently implemented. It is mainly because of the multiplicity of the units which are concerned with foreign debts. The Debt Management Unit "DMU" does not have sufficient recruits to shoulder the whole burden of debt contracting and debt reporting. In the present state of things the communication and coordination between the "DMU" and other debt units is weak though they are in the same Ministry. The problem is that each one of these units tries to achieve a leading role in debt management and claims more responsibilities than the others.

The result of mismanagement of Sudan's foreign debts is a lack of complete information on these debts. This is reflected in the difficulty of getting foreign obligations reconciled (in 1983) with creditors. Whole amounts of disbursements were found to be missing from either side of the reconciliation. This is clear in Beat Warwick report, 1983, Appendix, XXVII. For planners and policy makers in the Sudan, it is not only important to have comprehensive estimates of the internal
and external gaps and the old foreign debt commitments, but it is likewise necessary to have ready projections and estimates of these imbalances. It is also important to speculate the possibility of getting more of new loan commitments and to calculate how much on the pipe-line (e.g. undisbursed commitments). The projections may be flexible enough to be altered due to changing circumstances. Projections are also important to pinpoint certain economic parameters so that timely policy measures are rendered possible. For such reasons a two-case projection scenarios are estimated as useful for the Sudanese authorities for the decade ending 1994/95. The base case assumes minor changes in the fiscal, monetary, foreign exchange policies and the general economic policy that were present at the time of the research. It also allows for a moderate increase in the level of soft loans. The level of the B.O.P. deficit in the base case is deteriorating through the end of the decade. This proves that the minor changes which are assumed are not sufficient to bring about a favourable payments balance.

On the other hand an "optimistic case" is
projected it allows for comprehensive well-defined policy measures with a greater degree of certainty supported by an effectively implemented economic policies. If these assumptions hold, the Sudan unfavourable B.O.P. will be gradually reversed and in 1994/95 it will have a positive payments balance. (Major factors for attaining that are the domestic oil production and attracting higher amounts of expatriate remittances). The expected increase in the level of foreign inflows mainly in concessional terms or in grant form and the possibility of getting arrears refinanced or forgiven, may be unrealistic but possibly achievable with the collaboration and the help of the international community mainly the major creditors and the friend countries of the Sudan. The Sudan could also prove its credit-worthiness through increased efforts to reach a sustainable level of economic growth and by genuine policy actions to promote its export and import-substitution sectors.
CHAPTER 1


8. Ibid., p. 33.
10. Ibid., p. 2.
11. Ibid., p. 21.
17. Ibid., pp. 17-15.
20. Ibid.
CHAPTER II

15. Ibid., p. 6.
16. Ibid., p. 36.
17. Ibid., p. 37
18. Ibid., p. 39.
19. Ibid., p. 140.
22. Ministry of Finance (Documents from the Minister's Executive Office), "Unpublished Reports".
27. ITC, Ministry of Trade and Commerce (Sudan), "Export Action Programme 1980 - 1990".
34. Ibid.
35. Ibid., p. 10.
36. Ibid., p. 11.
37. Ibid., p. 12.
39. Ibid., p. 39.
41. World Bank, op.cit., 1982, p. 79
43. Ibid.
CHAPTER III


6. Ibid.

7. Ministry of Finance and Economic Planning (Foreign Debt Repayment Section), "Personal interviews".


13. Ministry of Finance and Economic Planning (Foreign Exchange Budget, Section) "Unpublished Reports".


16.


19. Ministry of Finance & Economic Planning (Economic), "Unpublished Reports".


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5. Ibid.


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