The Democratic Republic of the Sudan:
A Case of Structural Adjustment

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Forword

This document complements the main report entitled 'Economic Policy Changes In The Democratic Republic Of The Sudan'. The main policy conclusions of this report are summarized here. Starting from the dimension of the economic crisis in the Sudan and the poor results of the stabilization policy since 1978, the various factors which are responsible for the crisis are analysed. The aggravation of the economic crisis caused by the pursuing of ambitious development programmes in the 1970s is also considered. On the basis of the IMF/World Bank policy recommendations for the Sudan, the Sudan government responses to these recommendations and a discussion of necessary fundamental reforms a structural adjustment programme is outlined containing the key components of structural adjustment operations.

Although the Sudan does not qualify at the moment for World Bank Structural adjustment lending because of too weak economic management institutions and a lack of political support for fundamental policy changes, nevertheless structural adjustment measures at macroeconomic and sectoral level are necessary on a long-term basis. The measures proposed reflect the main structural bottlenecks of the country and the experiences with traditional stabilization policies since 1978.

In this document references are made to the main document; on the various sources mentioned see the main document. For abbreviations and exchange rates see also the main document.

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I. The Dimension of the Stabilization Crisis

During the 1970s a profound economic crisis emerged in the Sudan. This crisis becomes apparent in considerable imbalances of the main economic indicators:

- an imbalance between public revenues and expenditures;
- an imbalance between investments and savings;
- an imbalance between exports and imports.

There was a gap between government revenues and expenditures already before the ambitious Breadbasket strategy was implemented, but the gap was not serious prior to 1974/75, when develoment expenditures rose by 145%. One reason for the widening gap was the failure to raise public savings to a sufficient extent. Another point is the inelastic nature of revenues with respect to income, so that current revenues as a ratio to GDP fell from 21.6% in 1970/71 to 16.1% in 1977/78.

The share of domestic savings at gross domestic investment was only 34.9% in 1974/75, went up to 63.0% in 1976/77 and fell to 32.3% in 1978/79. In the last year the government savings became negative, whereas the total savings became negative in 1981/82. There was a parallel emergence of the rising government deficit and of the balance of payments deficit. The overwhelming importance of the public sector is a major issue of concern in this respect.
Exports and imports, in a balance in 1970/71, moved in opposite directions since then. While imports maintained their share in GDP at about 15%, the export share fell from 14% in 1970/71 to 7% in 1977/78. In real terms, exports registered a decline of 13% between 1970 and 1977, while imports grew at real rates of 18.5% annually (pp. 44-46).

In 1983/84 the budgeted total expenditures amounted to LS 2,463.4 millions, while the revenues came to LS 1,599.4 m. or 64.9% of the expenditures only. This resulted in a deficit of LS 864.0 m. (he highest deficit ever recorded; p. 73). This reflects the failure to raise public savings sufficiently to meet the huge investments. In 1982/83 public savings came to LS 53.8 m., while the gross domestic investments amounted to LS 1,399.0 m. The overall domestic savings were even negative (-LS 79.5 m.), so that there was a resource gap of LS 1,478.5 m. or 105.7% of investment (!; p. 45). This means that domestic savings are not only not sufficient to cover the investments, but that the flow of foreign capital even has to be higher than the total investments.

Another expression of the same crisis is the balance of trade deficit. In 1982/83 the exports amounted to $ 839.0 m., while the imports came to $ 2,042.5 m. or 243.4% of the exports (p. 71). A resource balance of - 1,203.5 has therefore occured.

The results of the stabilization period are so far extremely poor. The considerable rise in modern sector (irrigated sector) agricultural production between 1980/81 and 1982/83 was not reflected in a parallel rise in export earnings. For the overall stabilization period (1977/78-1982/83), exports declined by 14.8%, while imports rose by 46.7% (p. 71). The official figures for foreign debts show over the years 1978-1982 an increase by 109% from 3,847.2 million US dollars to 6,455.9 m. US dollars in 1982, whereas the total debt figure is given at more than 10 billion dollars in 1984 (p. 72). During the stabilization phase, budgeted revenues grew by 189.4%, current expenditures by 259.1% and development expenditures by 98.7%. So the share of the development expenditures declined as a percentage of current expenditures. Stabilization policies on the whole were biased against the development expenditures. The overall deficit could be reduced in 1982/83 for the first time. However, a year later the highest budget deficit ever recorded was reached. The stabilization policy was successful as far as the tax structure is concerned: the share of direct taxes in total revenues rose from 10.5% in 1977/78 to 16.3% in 1982/83, but there was no success as far as the share of total revenues in GDP is concerned. This share declined from 15.9% to 13.7% during this period (in 1974/75 this share even had been 18.8%).

As far as the sectoral shares in the GDP are concerned, the share of the tertiary sector increased from 47.7% to 50.8% in the stabilization period (p. 75). This is a barrier to adjustment efforts, because this sector is producing more nontradable products than the other sectors. The share of 'commerce' in GDP increased from 18.7% in 1977/78 to 22.15% in 1982/83. The real rate of growth was negative all ober the stabilization period by -3,9% p.a. The target to reduce the consumption share was not reached; the share was 84.6% in 1974/75, 87.4% in 1977/78 and 86.4% in 1982/83.

As far as the money supply is concerned, the stabilization policy seemed to be successful in curbing the rise of money and quasi-money supply from 30-40% p.a. between 1976/77 and 1978/79 to 22.1% p.a. in 1979/80. Since then, the figures rose to 38.6%, 31.3% and 37% in the following years. Because of the high inflation rate, the reduced outputs and the constraints on imports, the negative real rates of interest of -10% or more could not be overcome; thereby the whole process of resource mobilization remained distorted.

All these indicators show that the Sudan is still in a very deep economic crisis. The fact that these imbalances are not of a recent nature only point to the structural and more fundamental character of the crisis.

The Sudan is a complex case of stabilization, because a viable balance of payments position as defined by the IMF (a deficit of the current account financed by capital imports which are compatible with long-term development perspectives and liberal capital and trade policies) can obviously not be restored in the short-run. A long-term time horizon is necessary, even longer than the time horizon assumed by the World Bank for structural adjustment lending operations. During this period drastic structural adjustments are required to reach a viable balance of payments position under conditions of maximum feasible growth and development. The results of the stabilization period since 1977/78 point to the necessity of unconventional approaches; steps beyond the pattern of efficient export development and import-substitution strategies may be necessary. Some indications in this direction can be found in the more recent minutes of the Consultative Group Meetings for the Sudan.

In order to explain the emergence of the crisis we will analyse in Part II the causes of the inherited structural problems of the economy as evident in the beginning of the 1970s. This is then the basis for an evaluation of the structural adjustment problems generated during the years of the Breadbasket Strategy which was implemented during the 1970s (Part III). The next two parts analyse the appropriateness of the structural adjustment policies in the Sudan by reviewing the IMF/World Bank recommendations for a solution of the crisis and the government policies from 1978 onwards, which tended to follow these prescriptions closely (Parts IV and V). The next part (VI) sketches more fundamental structural adjustment measures as an extension/alternative to the former economic stabilization programmes. In the final part (VII) a structural adjustment package for the Sudan is outlined by referring to key components and the interrelationship of problem-areas.

II. Inherited Sources of the Structural Adjustment Problems

The basic characteristics of the structure of the Sudanese economy are a heritage of the colonial times. Great Britain, the colonial power, had superimposed a system of export production on the indigenous economy. The main economic linkages connected the modern sectors in the Sudan with the economy of Great Britain, via:

first, the export of agricultural raw materials, mainly raw cotton, and

second, the import of consumer goods and capital goods.

This made the Sudanese economy highly dependent from external markets. Neither an internal sector of consumer goods production nor an adequate domestic capital goods sector were existing. The agricultural sector had to earn the foreign exchange necessary for the import required. Furthermore, this sector was the basis for the generation of state revenues. Altogether, more than 60% of the revenues depend on foreign trage. The foreign trade taxes alone accounted for 38% of the total government revenues over the period 1964-72 (p. 5).

At the same time, the economy itself was disintegrated: The modern, export-oriented sectors (irrigated and mechanized agriculture, cattle ranches, industry, trade and transportation) were surrounded by the stagnating "traditional" sector of subsistence-oriented agriculture which gave the livelihood to the majority of the population (more than 80%).

The export revenues remained critically dependent on the competitiveness of export production and thus on a low remuneration of agricultural labour. Thus the wages were significant as a cost factor only, but the development of a broad domestic market for mass consumption goods was prevented by such a wages policy.

This economic structure was not altered fundamentally after independence. The "traditional" sector continued to be neglected by development planning. However, its functions as a supplier of cheap labour and of cash crops were of central importance for Sudan. This fact has been described as a connection between two different modes of production which enables the price of labour to be extremely low, because the greater part of labour's reproduction costs is borne by the "traditional" subsistence sector itself (p. 6). This type of sectoral interaction put the last sector into a precarious state: Its labour resources are partially absorbed for the export production (via labour migration and cash crop production), which deprives this sector of its self-sufficiency. But, at the same time, a certain degree of reproduction capability is necessary to keep the whole system functioning. A precarious balance of preservation and destruction of the traditional sector had been maintained until the 1970s.

The organization of labour and the distribution of incomes in the Gezira can illustrate this relation. While the migrants are the main part of the labour force (58% in 1971/72; p. 10), their low wages constitute only a small additional income to their main source of income: subsistence agriculture. On the other hand the Gezira tenants have incomes much higher than the national average.

The second possibility to take part in the market economy is the production of cash crops. This option offers better conditions for traditional farmers and nomads. However, the structure of marketing in the Sudan is a strong obstacle for a substantial generation of income, which allows adequate consumption and investment. In fact, agricultural producers in the "traditional" sector are not able to realize more than a small part of the consumer/export price for themselves. The most reasonable explanation for this fact points to the imperfection of markets characterized by unequal positions of sellers and buyers (oligopsony on the demand side and competitive conditions on the supply side; p. 15). State interventions in the 1970s via joint private/public marketing companies have only aggravated this problem.

This structure limits all agricultural policies aiming at raising production and productivity through price incentives. Institutional rigidities thereby blocked the assumed elastic supply responses of the farmers. This structure drains off resources for consumption and investment from the agricultural sector. At the same time it increases the cost of living in urban areas (they are determined by agricultural prices to a great extent). Furthermore, it contributes to the unproportionate and rather unproductive growth of the services sector (it accounted for 43% of the GDP in 1974/75 and for 50.8% in 1982/83, p. 75). The share of commerce has increased from 16.0% (in 1974/75) to 22.15% in 1982/83. Trade, real estate and other tertiary sector activities give higher, quicker and more certain returns to investment than productive activities. Thus the tertiary sector has been the favourite field of private investments. At the same time the government services are characterized by a high quantitative growth and a decline of the overall efficiency. On the whole, the tertiary sector's preponderance was neither reflected in an adequate performance nor was it appropriate to the level of Sudan's economic development in general. The tertiary sector benefitted from the supply rigidities and the scarcities generated during the 1970s.

The industrial sector is characterized by the structural deficiencies typical for the economy of an underdeveloped country:
- the production of capital goods is almost absent;
- the diversification of production is confined to the range of consumer goods.

The post-independence industrialization strategy emphasized branches of import substitution (agricultural non-food-processing, but to an increasing extent also non-agricultural manufacturing). These had insufficient or no basic links at all to the domestic potential of raw materials and other resources.

Thus, the intensity of linkages with other sectors on the input side (backward linkages) was very low: In 1968 only 6.78% of total agricultural output was absorbed by the industry (p. 21). The same is true for the intra-sectoral backward linkages. Instead, the pattern of industrialization enforced to a remarkable extent the dependence on imported inputs. On the whole, a vertical structure of production could hardly be established. Infact, 82.0% of fixed assets were invested in branches of consumer goods production in 1970/71 (p. 22). Within this subsector, it was directed to the production of commodities for high income groups rather than for the mass consumer goods market. Only a small proportion of the assets was devoted to the production of basic consumption items. The limitations of that market, the lack of international competitiveness and the insecure supply of raw materials resulted in a low capacity utilization. Therefore, the industry was only viable under a high effective protection. In 1970/71 the total value added of the sector at world market prices was only 5.5% of its value added in domestic prices (p. 24). In 7 branches the total value added at world market prices was even negative. A highly inefficient structure of industrialization and import substitution had emerged.

Another feature of the industrialization process is its low capacity to create employment: After independence its GDP share rose much faster than its share in employment. This fact has been interpreted as an interdependent relationship between an increasing orientation of industrial production at the demand of higher income groups, more import- and capital-intensive production, declining capacity to absorb labour and rising income disparities (p. 23).

III. The Concept of the Breadbasket Strategy: An offensive attempt of structural adjustment in the Sudan

The analysis of the malformation of the Sudan economy (in Part II) is the basis for an evaluation of the Breadbasket Strategy implemented in the 1970s. Did it help to overcome the inherited structure? Did it contribute to sustainable structural adjustments?

In fact, this strategy was an attempt to restructure the export sector (by producing processed food, sugar, wheat and textiles for export) and to promote import-substitution in strategic sectors (sugar, wheat). This strategy of structural changes was however implemented in a period of already aggravating macroeconomic imbalances (see Part I), so that the intended structural change led to further adjustment problems (e.g. inflation, increase of foreign indebtness, strain on bottleneck factors, like transport), instead of curing the structural weaknesses. The motivations for the strategy were diverse: first, the US threat with a wheat embargo against the Arab countries; second, the cotton marketing problems which led to a reallocation of cultivable land in the Sudan to other crops; third, the favourable world market situation of the breadbasket crops (like cereals and sugar), and fourth, the availability of Arab oil surpluses for the financing of the ambitious strategy.

The Breadbasket strategy was based on a concept of export-led agroindustrialization. This ambitious strategy involved a massive restructuring of production and trade in order to take advantage of a regional Arabic division of labour. Based on Sudan's huge agricultural resources and the financial resources of the oil-rich Arab contries it was planned to make the Arab region more selfsufficient in food. The Six Year Plan (1977/78-1982/83), based on the Arab Fund's Basic Programme for Agricultural Development in the Sudan, reflects these priorities. For this reason, the planned investments concentrated on agriculture and, to a lesser degree, on agro-industries. This should allow the Sudan to export not only a few primary goods, but also processed agricultural products, like meat and sugar, thereby reducing a one-sided dependence on the world market.

While the manufacturing sector had the highest planned growth rate in the Six Year Plan, the intra-sectoral structure of investments followed the same pattern as before. It did not overstep the limits of export- and import-substitution and so the formation of a dynamic structure of specialization was presented (pp. 28-29).

Within the agricultural sector, the concentration on modern subsectors was maintained: 88% of total investments of the Six Year Plan (1977/78-1982/83) were planned to go to the modern sectors directly, compared to 3.0% for traditional agriculture (p. 30). Furthermore, the small investments aimed at an expansion of modern cultivation practices - like mechanization of rainfed crop production and establishment of cattle ranches - instead of modernizing the existing farming systems. This kind of modernization is inaccessible to the small peasants.

The huge production increases envisaged were planned to be arrived at in the way of horizontal (land-consuming) rather than vertical (intensified land use) expansion. The strategy aimed at capital investments from outside the sector. It relied on foreign capital to a high degree: the Six Year Plan states an external resources share of 52% of total investments, while the public share (59% of total investments) was going to be financed to an extent of 39% of the remaining domestic resources share by deficit financing (p. 30). An extremely high inflationary element was implied in these plan figures.

The Breadbasket Strategy did not plan to overcome the regional disparities within the country significantly. Although the Arab investments were directed to mechanized farming and livestock subsectors in the Western Sudan also, the share of the region in the Basic Programme's planned investments amounted to 24% in agriculture, industry and trade only; the Southern Region was expected to receive only 4% (p. 35).

The Breadbasket Strategy relies on two main assumptions:
1. the availability of a surplus of "unutilized land" with heavy underpopulation, and
2. the feasibility of an expansion of the mechanized farming sector.

Both assumptions have to be questioned. Traditionally, all land has been used extensively by systems of rotational farming and nomadic cattle breeding. Today in many areas there are indications for acute and increasing shortage of land. This is due to intensification of land use, increasing population density and the establishment of modern sector projects which resulted in the expulsion of native peasants and nomads from the ecologically most favourable areas.

The feasibility of mechanized farming systems (producing mostly dura) has to be doubted with regard to technical, economical, ecological and social aspects. They are characterized by extensive cultivation with low yields, a high capital input and seem to be only viable because of external factors: high direct and indirect government subsidies (very favourable land leases and credits), the Saudi-Arabian market which offers a price premium over the world market level and the fact that many of the farmers act as distributors of their crops as well, and benefit from high trading profits due to highly uncompetitive markets.

These factors make mechanized farming production not only financially feasible, but even profitable, as the continued enthusiasm of merchants for leases indicates. Merchants almost exclusively are the lessees in all mechanized farming schemes, which is due to the large fixed capital and liqudity requirements to obtain state credits. Because of these characteristics of mechanized farming schemes the farmers are not interested in long term consolidation and in sustained yields on their farms, but in quick returns on the huge investments. At the same time mechanized farming schemes disrupt the indigenous production systems (which have the former interest) and do not compensate this by the creation of employment. At least for the Western region in the Sudan mechanized farming systems have proved to be ecologically disastrous.

In the contrast to the Breadbasekt Strategy the ILO (1976) proposals give main priority to the traditional sector. Its approach offers a more appropriate understanding of "modernizing the traditional sectors" - starting from its own institutional structure and resources and envisaging a gradual reform. However, it is based on the same over-optimistic opinion about the "vast land resources" and its vision of a parallel development of modern and traditional sectors does not account for the specific kind of interdependencies (see above). Although already in 1978 the implementation of the Breadbasket Strategy was abruptly stopped because of a worsening balance of payments situation and increasing domestic imbalances, nevertheless this concept has left their marks on the structure and the course of the Sudanese economy. The negative economic consequences of this strategy had an impact on the stabilization and the structural adjustment policies after 1978.

The failure of the Breadbasket Strategy was due to serveral connected factors. The strategy was based on a main assumption about external financing which proved not to hold: the idea of Arab integration containing a regional food self-sufficiency strategy. This concept implied a long-term transfer of Arab capital. However, from 1976 onwards the main Arab donors did not supply any more programme aid (balance of payments and budgetary support) and started to make their disbursements conditional on Sudan's acceptance of IMF/World Bank requests. The political basis for Arab integration had faded away.

During the same time, the terms of trade were moving against the Sudan at an annual rate of 12-15% (p. 47). However, more important for Sudan's weak export performance were the falling quantities of exports. This was due to area reductions of the traditional export crops and, mostly, to falling yields as a result of import shortages (both irrigated and mechanized farming sectors and industrial production are highly import-dependent) and the decreasing profitability of cotton for the tenants under the practised Joint Account System.

A serious bottleneck for most export-oriented development projects were labour shortages. However, it can be argued that they are neither of an absolute character nor are they likely to rise in the future, but are caused by the insufficient level of wages (p. 49). However, the decomposition of subsistence agriculture and a high rate of population increase are likely to raise the pressure to migrate in the future.

The analysis of the causes of the failure of the Breadbasket Strategy points to the impact of external factors, but also to the urgent necessity of drastic structural adjustment measures (especially as far as economic incentives in the mechanized farming sectors and in the cotton production, and a wages and incomes policy for the export-oriented sectors are concerned).

IV. Stabilization Policies and Structural Adjustment Measures since 1978

In 1978 the extent of the created imbalances forced the government to change its economic policy in the direction of IMF/World Bank recommendations which were conditional for the disbursements of their credits.

The analysis of Sudan's economic crisis by the IMF and the World Bank starts from a reflection of the distorted structure of the Sudanese economy as evidenced by the fundamental disequilibrium of the balance of payments and the other imbalances mentioned above. As primary causes internal factors are stated:
- distortions in the allocation of resources resulting from an overvalued currency, restricted trade and payments regimes and inadequate government pricing policies;
- inefficiency of public enterprises;
- overinvolvement of the government and suppression of private sector activities;
- lack of unskilled and skilled labour.

Recently the excessive rates of traders' profits are mentioned which drain away investments from productive sectors and further luxury imports.

Various external factors are stated to aggravate the situation:
- worldwide inflation;
- weak international demand for Sudan's export commodities;
- falling terms of trade.

From this analysis the recommended strategy is deducted. While the IMF's exchange rate and demand-oriented credit policies include as measures devaluations, credit ceilings, budget deficit reductions, consumption restraints and a removal of subsidies, the World Bank provides some supply-oriented policy suggestions:
- price incentives for the production of export goods;
- deferment of all new government projects and rehabilitation of the existing ones
- removal of price and cost distortions;
- liberalization of production relations in the state schemes; displacement of the Joint Account System by individual account systems and land and water charges;
- shifting emphasis from large-scale public projects to the support of the small-scale entrepreneur.

While many of these measures - especially the policies to remove the bias against agricultural producers - are steps in the right direction, some misconceptions and inconsistencies have to be noted. Some of the policy measures do not take into account Sudan's basic structural deficiencies. So the poor results of the stabilization policies can be explained.

For example, the objective to raise the agricultural production by giving incentives to the primary producers does not account for the present marketing structure in the Sudan which prevents that producers receive a reasonable part of the consumer/export prices. Furthermore, for the modern sector agricultural schemes the proposed reform of the account systems leaves out of consideration the actual divorce between tenancy ownership and operation. Besides that, the proposed change will enforce the polarization between the absentee tenants and the landless labourers through the cost recovery system (which favours large units). Because of the crucial role of incentives policies for the success of adjustment, these socioeconomic characteristics are determining.

The term "private sector" seems to reflect a misconception because it does not differentiate between traditional producers and investors in modern sectors. In fact, almost all of the planned measures aim at the second sub-sector affecting the first adversely. The great hope set in private investment seems both to overestimate the capability and willingness of the private capital to invest in productive enterprises and to underestimate the adverse effects of this investment. It seems not to be proved in the Sudanese context that private firms are more capable to do the job the parastatals have failed to do. Rather, other factors like lack of spare parts, maintenance facilities and infrastructure are more important. Furthermore, the penetration of foreign capital has often been accompanied by disadvantageous conditions for the Sudan (p. 60).

However, the main area of conflict with regard to the IMF/World Bank proposals lies in the simultaneous pursuing of the two main objectives: first, the drive to increase export production to relieve the country from the immense debt burden and second, the drive to reduce the imports and the government budget deficit. Because of the high import dependence the export production will inevitably face severe import shortages, if not special measures are taken as a relief. Besides that, the short term objective to restore financial equilibrium as fast as possible and the long term objective of a sustained economic development may be in conflict. For the sake of the short term objective the perspective of basic reforms to overcome the structural deficiencies may be sacrificed.

Conflicts between IMF and World Bank structural adjustment policies may arise as far as timing and the emphasis of priority issues are concerned. Although in principle such conflicts are ruled out by institutional cooperation, in reality such conflicts may be relevant in the case of sensitive issues, like public finance and exchange rate policies. The poor results of the devaluations since 1977/78 point to the necessity of a very close coordination between these two institutions, and a synchronization of exchange rate policies with all other incentives policies and supply-side measures (see Part VII on the various components of a structural adjustment package). As far as public finance is concerned, the IMF policies to regain financial stability as quickly as possible have to consider the fact that a careful revision and selection of public investment programmes and current expenditure budgets by the World Bank needs time, more time than may be left by the IMF negotiators. Some of the conflicts which arose in the Sudan on the subject of measures proposed by the IMF - conflicts on the timing and extent of exchange rate adjustments and conflicts on the extent of cuts of subsidies - could have been avoided by a better coordination and by securing political support for the intended measures. Some of the valuable IMF suggestions for the Sudan - as a supply framework for the exchange rate reform - have not been adequately inplemented since 1977/78, so that the adjustment costs proved to be higher than necessary.

All these arguments lead to a main conclusion, that a time horizon of at least 10 years is necessary for structural adjustment policies, and that the IMF adjustment programmes as well as the sectoral and project-specific World Bank adjustment policies have to be worked out within such a long-term framework.

V. Government Responses to the Crisis

Since mid-1978 the Sudanese government has pursued an economic stabilization policy consisting of an exchange rate and trade regime reform programme, a financial stabilization programme and a package for a reconstruction of the agricultural sector to promote export-oriented cultivation. These programmes followed the strategy recommended by the IMF and the World Bank closer and closer.

The Sudanese Pound was devalued five times, credit ceilings were fixed, the increases of the budget expenditures and the deficits were restricted, a reduction of the share of consumption was planned, a liberalization of the foreign exchange market was introduced and subsidies on imports were removed step by step. Furthermore, a moratorium on most new projects was set, rehabilitation programmes were implemented, agricultural areas were reallocated to the traditional export crops (cotton, groundnuts) and incentives for export crops were provided (individual and per crop account systems were introduced). Comparing these measures with the IMF/IBRD requests (see above), it can be seen that the government had been willing and successful in introducing some of the crucial policy proposals. However, it may be doubted that this policy has been successful in terms of long term economic development. These doubts are substantiated by the dramatic proportions of the main economic imbalances years after the start of the stabilization policy.

The optimistic view of IMF/World Bank representatives is substantiated by the rise of export procution which is claimed to be a result of the incentives reform and the technical rehabilitation of projects. However, this statement has to be qualified in four points:

1) The higher cotton yields, although remarkable, nonetheless reflect over the long term (since 1974/75) an overall decline by 7.7% (p. 70).
2) It is not possible to discriminate the reasons for the erratic development of agricultural yields unequivocal.
3) From the main crops only cotton and wheat realized significant increases of productivity. The productivity of the other main crops was erratic or declined (p. 70).

4) The rise in modern sector agricultural production (there was no increase of traditional sector agricultural production) was not reflected in a parallel rise in export earnings, which was due to weak international demand. Furthermore, the terms of trade were estimated to decline by more than 20% in 1981/82 and 1982/83 (p. 68). This shows clearly the risks of a continuation of this development path wich commits the Sudan to the role of a traditional raw materials exporter under weak international demand conditions. The last tendency is enforced by the impact of the devaluation, the credit ceilings and the liberalization of the foreign trade on the Sudanese industry (which is highly import dependent). However, in principle these measures may support an industrialization based on the country's own agricultural and non-agricultural resources.

The danger to sacrifice long term objectives for short term ones has become reality in the restriction of the development programme to projects producing "quick results" in terms of foreign exchange earnings - neglecting the sphere of infrastructure which was identified as a major bottleneck. In the long term perspective major negative side effects of the stabilization policy are the declining standard of living in the rural and urban areas and the redistribution of income depriving the low income groups. The strengthening of the position of the trade capital is alarming because the services sector is inferior in producing tradable goods.

As mentioned in Part I, most economic indicators continued to deteriorate after 1978. As a result of reduced outputs and imports and of the rise in money supply the inflationary pressures intensified. This effected a continuation of a negative real interest rate in the country (estimated to be - 10% or more, p. 75). Any attempts to improve the system of resource mobilization are thereby doomed to failure.

In this context it may be observed that the growth targets projected by the government seem to be highly unrealistic. The main planning document 'Prospects, Programmes and Policies for Economic Development 1982/83-1984/85 (PPP I) projected a real growth rate of 5.6% p.a. over the period of 1981/82-1991/92 (p. 66). It was admitted that this target appeared quite optimistic on the background of the past experience. However, it was based on the assumptions of a 'significant amount of productive capacity built up during the last decade', waiting to be exploited, and on the hope on Sudan's mineral oil wealth.

The expectation that the economy will improve rapidly after 1984/85 is based on two other important assumptions: the development of the terms of trade and of the workers' remittances. Both assumptions may be questioned (p. 68). On the basis of the experiences of the stabilization policies since 1978 it is hard to understand the optimism expressed in the documents. Such overoptimistic projections are also presented to the donors' Consultative Group Meetings. In spite of the failures to reach the targets set at the previous meetings, another number of targets is fixed which are characterized by the same lack of realism. For example, the negative growth rates of the GDP during the last years do not give reason to anticipate the danger of a continuation of this trend in the future, but on the contrary it is envisaged to reach an even higher rate of growth than the planned 6% of PPP II (presented in December 1983).

Nome of the stabilization programmes constituted a substantial change in priorities and measures of stabilization policy as well as the expectations on its outcomes. In PPP I there are reflections on an option to rely more on domestic resources and to adopt simple technological innovations requiring only minimal imported capital inputs, but this option does not reappear in the catalogue of actual measures. Neither PPP I nor PPP II are based on a coherent development strategy.

Since the failure of the Breadbasket Strategy and the start of the stabilization policies, the government did not succeed in designing a new concept of development. The government adjusted to the requests of the IMF and the World Bank, but even on this point some reservations have to be made. The fast expansion of the Military Economic Cooperation undermines the declared policy of privatization and gives comparative disadvantages to all other economic entities. The investment selection process and the demand management capacity of the country are eroded. Another reservation concerns the implementation of Islamic principles in the conduct of the economy. The resource mobilization policies as intended by the IMF and the World Bank may be hampered thereby.

VI. More fundamental structural adjustment measures

It may be argued that the stabilization policy failed both in respect to its own targets and, more important, in respect to a solution of Sudan's economic problems in the long-term perspective. Furthermore, it may be argued that this failure is due to an adjustment strategy which aims at improving the debt servicing capacity of the country in the short term, but lacks any consideration of the basic structural deficiencies. During the stabilization period since 1978 the structural malformation of the Sudanese economy was rather enforced than surmounted. It is not a surprise that some members of the Consultative Group realized that another development strategy for the Sudan might be necessary. On the last Consultative Group meeting in December 1983 some donors suggested reducing the capital and import intensity of new agricultural investments. This policy would allot a new function to the foreign trade sector. It would not determine anymore the course of the economy, but would have a supplementary role (p. 81). The members of the Consultative Group meetings may be more and more interested to find out the key elements of a viable development strategy for the Sudan rather than to discuss the catalogue of actions presented by the Sudanese Minister of Finance and Planning. Otherwise the support of the donors for the Sudan may fade away soon.

All relevant research on the Sudanese economy and their structural problems shows that a fundamental reform has to be based on a development strategy of agricultural demand-led industrialization rather than the export-led agroindustrialization strategy pursued during the 1970s. Such a strategy has the following characteristics: It is an open economy strategy as the other strategy, but the trade and investment incentives are neutral. The dynamics of the economy is transmitted from the intermediate and final demand linkages that result from productivity increases in agriculture. This is not a new concept, but the objectives of policy and the concrete measures have to be focussed appropriately. The structural adjustment measures (see Part VII) have to be oriented towards such a strategy. Especially the public investment programmes, the sectoral programmes, the pricing and incentives policies, and the trade and investment regime have to be designed in such a frame. The Three Year Public Investment Programmes of the government may be a main instrument to effect these changes in policy. In so far the Joint Monitoring Committee (of donors and the Sudanese government), which is examining in detail these programmes, has a decisive position for effecting any policy changes. Besides that, an agricultural terms-of-trade policy, an agricultural institutions policy (to eliminate the structural marketing barriers working against the farmers' supply response), a land tenure policy (to ensure land security for smallholders and appropriate land use in the modern sector) and a rural infrastructure programme are essential elements of such a strategy. Such a programme may lead to intermediate and final demand linkages which are the basic requirement for a turnaround of the economy towards a new growth dynamics. Such a development strategy is less risky than the export-led agroindustrialization strategy (Breadbasket Strategy), taking into consideration the weak world market conditions for Sudan's traditional export products and the weak adjustment capacity of the country towards world market changes.

Such a strategy may be a way out of stagnation, may lead to a better income distribution, a viable balance of payments situation, and a higher rate of productive labour absorption. The problem of international migration of skilled and unskilled labour as well as the problem of seasonal labour migration under conditions of extremely low wages could over the long-run be brought under control by such a policy change. The output losses in traditional agriculture in recent years (which are not only due to unfavourable weather conditions) point to the urgent necessity of a new approach, because of the weight and potential of this sector for food self-sufficiency, for productivity increases and the creation of linkages, for market development and for adjustment as well. The lower import intensity of agriculture (than industry) and of the farmers' consumption may be a convincing argument for the donors to support such a policy change. On the other hand such a strategy may lead to a sustainable rate of industrialization with adequate levels of capacity utilization.

In order to bring forward such a policy change, a new policy on foreign debts is necessary. The debts are far beyond the capacity to repay, so that a moratorium for all interest and principal payments for several years is necessary. Under such conditions the government can disconnect the aim of sustained economic development from the pressure to repay debts. A more fundamental economic reconstruction policy also includes the following elements:

- a policy to select and coordinate carefully the foreign aid and foreign investment transactions, by revising the investment regulations and improving the machinery to channel foreign aid to the various destinations;
- a wages and incomes policy which considers the causes and consequences of seasonal and international migration and the causes and consequences of the excessive trading profits;
- a policy to promote small-scale agriculture, because of the favourable employment and distribution effects, and the reduced ecological risks of this type of agricultural development;
- a policy to promote capital formation within the agricultural sector, rather than relying on capital injections form outside (merchants, foreign capital);
- a policy to support cooperatives at all levels of production and distribution, in order to counterbalance the impact of the state bureaucracy and of the traders on the economic results of the smallholders' activities;
- a policy to support adequate technologies at the local level, in combination with a policy of support for local crafts and smallscale industries;
- a policy to restructure the industry as far as the scale, the degree of centralization, the structure of outputs and inputs is concenred;
- a policy to release resources from the services sector;
- a strategy of economic and political decentralization in order to raise the overall allocative efficiency in the country and in order to create a more appropriate machinery for economic de-

cision-making;
- a policy to realize a higher degree of political participation in the country.

VII. Key components of a structural adjustment programme for the Sudan

In the Table the key components of a structural adjustment package for the Sudan are outlined, by commenting on the main policy problems, the necessary structural adjustment measures, the time horizon and the progress so far achieved. The Table shows that the structural adjustment problems of this country are extremely complex, require a great number of policy instruments and a much longer time horizon than assumed by the World Bank for their structural adjustment lending (of 5-7 years).

The problems are interrelated and a solution requires therefore not only specific strategies for the key components, but also the design of an overall development strategy as a basis for policy reform. A policy change requires first of all a long-term solution to the debt problem so that the other key compoments of the adjustment programme can be implemented. Most important are sectoral policies based on an overall development strategy, as well as subsectoral policies (e.g. as far as sectors of mechanized farming and traditional agriculture concerned). Also of great importance are public sector policies because of the allocative inefficiency of this sector and the negative repercussions on the private sectors (however, a distinction has to be made between private modern and private traditional sectors!). Trade and investment policies, and resource mobilization policies are becoming more and more important as the rehabilitation of the economy is progressing. Institutional and legal instruments can contribute to development and adjustment, by improving the investment climate and the land security for the traditional producer and the tenant in the modern sector agriculture.

The Table shows that progress is slow, and did not take place so far in important policy areas, e.g. in traditional agriculture, services and transport sectors and as far as policies on migration and on land security are concerned. With regard to public investment programmes, some progress had been achieved only as far as the concentration on quick-yielding export projects is concerned, but there was no progress as far as a change of investment priorities towards a long-term viable production structure in the Sudan is concerned.

Table: Key Components of structural adjustment measures in the Sudan

Components	Main Policy Problems	Structural Adjustment Measures	Time Horizon for Measures	Progress achieved so far
I. Trade Policy 1. Exchange rate policy	- high import - intensity of modern sector production - ambigous effects of devaluations because of import content of export production - weak exchange market - offen changing policies on the exchange rate and the organization of the exchange market	- supply framework for exchange reform - coordination of exchange rate and incentives policies - supply of real inputs to increase the real export capacity - IMF/World Bank coordination on extent, timing and complementary measures of exchange reform	5-7 years	some progress on coordination of exchange rate policies
2. Tariff reform and import liberalization	- very high protection of industry - very inefficient industrial sector and very low capacity utilization - international competitiveness limited to few agricultural export products (e.g. cotton, groundnuts, local cereals, sesame)	- decision on the viability of import-substitution industries - policies on textiles and sugar industry - gradual tariff reform and import liberalization to support industries with higher use of local resources	medium to long-term	some progress in sugar industry rehabilitation
3. Export Incentives	- weak international demand for Sudan's main agricultural export products - export-led agroindustrial development strategy too risky - inadequate export marketing	- neutral trade and incentives policies to support agricultural demand led industrialization strategy - elimination of disincentives on local use of raw materials - Improving export marketing	3-5 years	some progress as for as correcting disincentives for cotton production are concerned

4. Sepcific programmes for export sectors/importsaving sectors	- disincentives for cotton production - allocative ineffiencies in sugar industry	- identification of real causes of erratic movement of cotton yields - political decisions on viable sugar industry (problem of Kenana sugar company's high production costs)	3-5 years	some progress on cotton
II. Foreign Investments Regulation	- lack of policy orientation - administrative weakness - lack of experience in negotiations on mining and oil exploration	- selective and restrictive policies on investment (and tax) allowances - economic rates for land/water and electricity to be introduced - neutral incentives policies to support new development strategy - strengthening negotiating capacity	3 years	no progress
III. Sector Policies				
1. Energy	- export sectors and import-substituting sectors very energy-intensive - retarded adjustment of energy prices - inflationary effects of anticipating mineral oil production in Sudan	- reduction of energy - intensity of modern sector production (conservation) - reorientation of development strategy towards less energy-intensive agriculture and industry/crafts	long-term	some progress on price adjustment
2. Agriculture	- neglect of traditional rainfed agriculture - neglect of food security policies - neglect of agricultural demand-led industrialization - unproportionate growth of mechanized farming	- change of priorities of public investment programmes - agricultural terms - of - trade policy - agricultural institutions policy - land tenure policy - rural infrastructure policy - support for rural coperatives - policy on traders' profits - support of rural crafts and small-scale industries - decentralization of political/economic decision-making - limits on expansion of mechanized farming	long-term	no progress on traditional agriculture and mechanized farming sector; some progress on irrigated agriculture

3. Industry	- shift towards import - and capital - intensive industrial production for high income groups - low capacity - utilization - lack of raw materials, spare parts, infrastructure	- exchange reform, tariff reform and energy price adjustments to support a viable domestic resources - based industry - policy decisions on sugar and textiles industry urgent - industrialization based on agricultural demand to be supported	medium - to long - term	progress limited to to some measures on sugar industry
4. Services	- unproportional growth of services sector - excessive and unproductively used traders' profits - undue expansion of the production of nontradables (e.g. luxury housing) - expansion of highly inefficient government services	- identification of causes for unproportional growth of services and excessive profits of traders - adequate taxation policies - support of cooperatives to counterbalance the dominance of traders and of the state bureaucracy - very strict policy on government consumption expenditures	medium-term	no significant progress so far; rather aggravation since 1978
5. Transport	- neglect of the transport sector dusing the 1970s, thereby inhibiting transport of tradable goods - transport sector development exclusively oriented on modern sector expansion - concentration of public investments on quick-yielding projects at the expense of transport sector	- improvement of rural transport system and river transport system - maintenance of highway Port Sudan - Khartoum and other main roads - rehabilitation of railways	medium to long - term	no progres because of focus on quickyielding projects only
6. Training and Manpower	- international migration of skilled and unskilled labour - working condition of seasonal labour - regional imbalances of training/education system - high rate of illiteracy	- fundamental policy change necessary towards new development strategy - incomes policies (urban-rural, skilled-unskilled) - active policies on remittances - regional equalization of training/education system from primary to higher education level - evadication of illiteracy in the rural and urban areas	long - term	no progress so far

IV. Public Sector Policies				
1. Public Investment Programme	- lack of a coherent development strategy since 1978 - concentration on quick-yielding projects, on modern sector agriculture and on East-Central Sudan - heritage of large-scale public sector projects	- review and revision of sectoral priorities - priority areas: rural infrastructure, land conservation, food security, local energy systems, rehabilitation of energy sector - decentralized decision-making and control of use of public funds	long-term	no progress as far as fundamental change is concerned
2. Public Sector Enterprises	- public sector enterprises as a source of negative public savings and of overall saving-investment gap - establishment of military public corporation (Military-Economic Corporation) is counteracting stabilization policies (e.g. public saving targets) and privatization policies	- pricing policies (on outputs and inputs) - very strict policies to control financial performance and institutional efficiency of public sector enterprises - policies to restrain expansion of Military Economic Corporation are urgent strengthening of public sector projects selection	medium-term	slow progress; no progress on Military Economic Corporations
V. Resource Mobilization	- negative real interst rates - introduction of islamic banking principles,taxation - sectoral credit allocation biased against agriculture and small-scall industry and crafts - inadequate rural credit system and public credit organizations - fluctuations of remittances - capital flight - lack of preconditions for foreign capital acquisition - investment projects selection process inadequate - higher return on unproductive investments than on productive investments	- strict credit ceilings on public sector credit and review of current expenditures - active policy of sectoral credit allocation to support a fundamental policy change (towards private sectors,rainfed agriculture, crafts and small-scale industry) - policy on traders' profits (e.g. taxation) - incomes policy (e.g. on government wages and allowances, wages of seasonal labour) - improving direct taxation on income, land and property and strengthening of tax administration - restrictive policies on investment incentives - support of cooperatives for saving and communal investments - long-run rescheduling of foreign debts - rational pricing policies on land, electricity and water	medium long - term	some progress in taxation only

VI. Legal and Institutional Measures	- land insecurity in rural areas affecting productivity of smallholders and tenants - investor's uncentainty in modern and traditional sectors - rights on international migration and on remittances inadequate - rights and institutional support on cooperatives inadequate	- horizontal agricultural expansion strategy to be abandoned completely - definition of legal rights and institutional support for smallholders, tenants, seasonal labour and nomads - legal and institutional measures on international migration and remittances - legal and institutional support on co-operatives	medium - term	no progress
VII. Debt Management	- structure of foreign debts very unfavourable - ad hoc international debt management by Consultative Group creates uncertainties - inadequate domestic management of foreign debts	- long-term rescheduling required to support a fundamental policy change - strengthening of institutional capacity to manage external borrowing	long - term perspectives on debt rescheduling required; short-term changes in debt management may be possible	some progress in debt management at the national level, but no progress on long-term concept of donors