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McNamara papers

Contact
Sudan (1975-1980)

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Contacts with member countries. Sudan - Correspondence 02

OFFICE MEMORANDUM

TO: Mr. Stanley Please, Dir., EA CPI

DATE: March 19, 1975

FROM: John T. Ducker, Acting Div. Chief, EA CPI

SUBJECT: Sudan - Mr. McNamara's meeting with Ambassador Deng

1. Mr. McNamara met Ambassador Deng on March 18, 1975, at the latter's request. He had requested the meeting in order to introduce himself and to pass on a message from Dr. Mansour Khaled, the current Minister of Education and former Minister of Foreign Affairs of Sudan.
2. Mr. McNamara enquired about the position of the new Cabinet. The Ambassador said that at first it had seemed possible that the changes heralded a shift in policies. But, in general, that was not the case. As Nimeiry had stated, the changes were required mainly to replace ineffective or tired men and to reassign others to more suitable posts. He did not anticipate major policy changes. He commented that there had been talk of ministerial dissent prior to the changes, and to some extent the reshuffle was a reassertion of Presidential authority.
3. Mr. McNamara told the Ambassador of his concern and unease at the level of financial and economic management in Sudan. In view of the potential of the Sudanese economy and of the ability and experience of the Sudanese in such fields as water management and agriculture, it was very discouraging to find scarce resources wasted or misused as a result of poor financial management. Furthermore, it made the job of raising funds and allocating scarce concessionary funds to Sudan very difficult. The Ambassador commented that there was a growing sense that it was time the Sudanese stopped celebrating the ending of the civil war and focussed their attention on the resolution of current problems, such as those Mr. McNamara had referred to. He indicated that the government would welcome suggestions for methods to approach them. Mr. McNamara said that Mr. Husain would be discussing these issues in Sudan, and the Ambassador should feel free to meet with Mr. Husain on his return to discuss the matter again.
4. After the meeting, the Ambassador said that while he had been aware of the Bank's unease concerning Sudan's financial management, he had not realized the level of concern. He was clearly impressed and, I think, worried by the strength with which Mr. McNamara had pressed the point.

cc: Messrs. McNamara, President
Adler, Acting RVP
Husain, RVP, EA (o/r)
Kaji, Res. Rep., Khartoum
Ljungh, Div. Chief, EA CPI

JTDucker:jt

Meeting with
Francis Mading Deng,
Ambassador for the
Democratic Republic of Sudan

*Mr. Mack
I have detailed list.*

Attached to this note is a general brief on Sudan, prepared for Mr. Husain's current visit to Sudan. Among a variety of matters which Mr. Husain expects to discuss, the following five topics feature prominently:

- a) General Economic Issues--Questions concerning the long term policy issues which are currently under examination by the ILO World Employment Mission, to which the Bank is making a significant contribution; questions concerning the short term issues--the need for a higher level of public savings and for short term priority setting to overcome various physical constraints.
- b) Aid Coordination and the C.G. Meeting--the need for coordination between the C.G. Meeting, which the Government has asked the Bank to call again, and the Arab Fund "pledging session" scheduled for mid-April. Mr. Husain has been discussing this matter in Kuwait.
- c) Rahad Irrigation Project--the project was the main topic of discussion in Kuwait between Mr. Husain, the Kuwait Fund and the Sudanese Ministers of Finance and Irrigation. The meeting resulted in an agreed approach to some technical and procurement issues and to a revised financing plan to cover accelerated introduction of new irrigation and agricultural techniques and the estimated cost overrun. The total cost of the project is now estimated to be about \$240 million (appraisal estimate \$96 million). The economic rate of return is still expected to be satisfactory, despite the cost increase. Under the proposed financing plan for the foreign exchange costs, IDA will contribute an additional \$20 million, the Kuwait Fund \$39 million, the Arab Fund \$9 million, the Sudan Government \$10 million and \$18 million will be sought from other possible sources. The Government will meet the full local cost. The additional IDA contribution will go almost entirely to the accelerated introduction of the new irrigation and agricultural techniques, which are expected to substantially increase the return on the project.
- d) Transportation and Sudan Railways Corporation--the need for a major Sudanese effort to overcome the operational deficiencies of the railways, which continue to hamper the development program. Sir Gordon Mackay will also be discussing this matter in Sudan in April.
- e) The UNDP Financed Planning Project--for which the Bank is executing agency. Recent changes in planning organizations suggest the government is reconsidering the whole planning mechanism.
- f) Triad Enterprises and the Sudan Development Corporation--questions concerning the employment of the \$200 million loan raised under Triad's leadership a year ago. The proceeds of the loan are to be the initial capital for the Sudan Development Corporation.

Projects under Appraisal and Negotiation

Two projects have been negotiated: and one is under appraisal:

- (i) Education II (IDA \$10 million)--we await government clearances of the negotiated documents. Board presentation is currently scheduled for April 8, 1975.
- (ii) Power II (IDA \$23 million)--negotiated in November 1974. We await completion of action required before Board presentation. Only the water tariff issue is difficult and current discussions in the field will focus on the timing of action to increase tariffs.
- (iii) DFC II (IDA \$5 million)--a mission at the end of March will discuss questions requiring solution prior to negotiations, which are expected in May.

Recent Ministerial Changes

There has recently been a major reshuffle of the Sudanese cabinet. The following are the major changes:

Minister of Finance - Ibrahim Moneim Mansour - replaced by Mamoun Behairy
Minister of Foreign Affairs - Dr. Mansour Khaled - transferred to
be Minister of Education; President Nimeiry to act as Foreign Minister
Minister of Industry - Musa Awad Ballal - replaced by Badr al-Din Suleiman
Minister of Local Government - Dr. Gaafar Ali Bakheit - replaced
by Karrar Ahmed Karrar.

Biographical Data

See attached note.

BIOGRAPHIC DATA

H.E. Dr. Francis Mading Deng
Ambassador Extraordinary and Plenipotentiary
Democratic Republic of the Sudan

- Jan. 1, 1938 Born Abyei, Sudan
1943 - 1958 Went to schools in both the South and the North
of the Sudan
1962 Received Law Degree from Khartoum University (Ll.B. Honours)
1962 Appointed to the Faculty of Law, Khartoum University
1962 - 1964 Sent to London University King's College on Post-Graduate
Fellowship from Khartoum University
1964 Joined Yale University and received Master's of
Law Degree in 1965
1967 Received Doctorate of Law Degree (J.S.D.),
Yale University
1967 - 1972 Officer, Human Rights Division, United Nations
1969 - 1970 Adjunct Professor of Anthropology, New York University
1971 - 1972 Visiting Lecturer, Columbia Law School and Research
Fellow in Law and Modernization Programme, Yale
Law School
1972 - 1974 Ambassador to the Scandinavian Countries

Books

- 1971 TRADITION AND MODERNIZATION: A Challenge for Law
Among the Dinka of the Sudan, Yale University Press
1972 THE DINKA OF THE SUDAN, Holt, Rinehart & Winston
1973 THE DINKA AND THEIR SONGS, Claredon Press, Oxford
1973 DYNAMICS OF IDENTIFICATION, Khartoum University Press
1974 DINKA FOLKTALES, Africana Press

Articles

Published numerous articles in law, anthropology and
related fields in European, African and Asian Journals.

Awards

- 1972 TRADITION AND MODERNIZATION received the Herskovits
Award, given by the African Studies Association
1975 Received Silver Medal from President Nimeri for
distinguished contribution in the fields of science,
literature and the arts.

OFFICE MEMORANDUM

TO: Files

DATE: Sept. 2, 1975

FROM: Stanley Please

SUBJECT: Sudan; Meeting Between Mr. Beheiry (Minister of Finance) and Mr. McNamara

1. Mr. Beheiry met with Mr. McNamara on August 29. Included in the Sudanese delegation were the Ambassador (Mr. Deng), the Commissioner of Planning (Brig. Khalifa) and Mr. Mekki (Executive Director). Attending from the Bank were Messrs. Knapp, Husain and Please.
2. Mr. McNamara invited Mr. Beheiry to outline the Government's programs and policies for dealing with the very worrying problems relating to the management of the Sudan economy over the past several years and particularly to emphasize what success the Government was having in implementing its new measures. Mr. McNamara emphasized it was particularly important to the Bank to be assured that the economy was being better managed if we were to be able to maintain our program. He emphasized that we were very anxious that this program should be maintained because he was fully aware of the enormous potential of the country including its manpower potential.
3. Mr. Beheiry stated, to begin with, that he was confronted with a difficult psychological problem in Sudan since he had taken office. This arose from a widespread belief in the country that concessionary oil money would be readily available to the country and as a consequence "development would be easy." It was now coming to be realized that there were no easy routes to development and a sense of disappointment existed because of the failure to make many dramatic beginnings. He was, however, convinced that the Government now realized it had hard decisions to make if it were to achieve its development objectives. At the same time it would be counterproductive for the Minister of Finance to move too rapidly ahead without having the necessary political backing to his policies. For this reason he pleaded for "patience and understanding" from organizations such as the World Bank. There were already several achievements to record, in particular the reduction in subsidies and the increases in public utility tariffs. These measures were essential in a country which was already one of the most highly taxed countries in the developing world yet one which could not finance any significant part of its development program. A major achievement which he had in process was in relation to the so-called "umbrella budget" which had led to an excessive number of projects being started but to a failure to complete them. Whilst there was still a good deal to be done to improve the budgetary process, he felt that he had made a very good beginning on this particular problem.
4. Mr. McNamara emphasized that in the present situation the Bank expected Sudan to be able to be a major beneficiary from the funds of the oil exporting Arab countries. He wondered where Sudan stood in relationship to this matter. Mr. Beheiry stated that the major vehicle for Arab financing had to be in projects. Some of these were already under way such as in the fields of textile production and sugar. Furthermore he was hoping that a so-called "mini crash"

program on projects could be developed within a few months in order to attract oil money. However, the longer term problem related to the development of the project pipeline. In agriculture, the Arab Fund had produced its comprehensive program for agricultural development and the discussion of this report at a pledging session on the 7th January 1976 would, he hoped, provide the vehicle for establishing confidence and procedures through which the mobilization of oil money could be undertaken. The major shortcoming of the study, however, was that it did not contain many projects which had been prepared and presented in a way in which they would immediately attract external financing. Mr. Beheiry emphasized at this point that in his discussions with the Arab oil producing countries he had emphasized very strongly that he did not wish the closer relationships which he desired to develop with them to be at the expense of relationships with so-called "old friends" amongst whom, in particular, he included the World Bank. On the contrary he considered Sudan's relationship with the Arab oil countries and with the World Bank to be complementary. The Bank had a capacity to generate well prepared projects for financing and he was hopeful that this activity by the Bank could be associated with oil money so that effective development could take place. For this reason he was particularly anxious that the Bank's proposed technical assistance credit should be acted on as rapidly as possible and that additional Bank manpower be made available in Khartoum in the Resident Office or elsewhere to move project preparation ahead more rapidly. He also felt that the Consultative Group should be convened at as early a date as possible (in February 1976 or soon after was suggested) in order to ensure that the financing of projects by both oil producing countries and other external agencies was accelerated.

5. Mr. McNamara said that he was very pleased to hear this report from Mr. Beheiry and he could assure him that in principle we would wish to be as closely associated with the development of the agricultural program stemming from the Arab Fund report as the Sudan Government and the oil producing countries would wish. He could confirm that in doing so we wished to do nothing to dilute the involvement of the Arab Fund and other oil producing countries but simply to be useful to them and to Sudan in any way we could. He could certainly give assurance that the Bank did not wish to steal the limelight from the Arab Fund on this matter. Mr. McNamara said that his concerns were along two lines. Firstly, he was anxious that it be recognized that agricultural development depended upon solving certain bottleneck problems particularly such bottlenecks as the transport problems associated with the Railways and the Port Facilities. Secondly, he considered it essential that Sudan itself should make a significant contribution to the financing of agricultural projects and this raised the whole question of fiscal policy which has been the subject of discussion between the Government and ourselves for many years. He agreed fully with Mr. Beheiry that top priority should be given to the technical assistance credit in order to generate the required project pipeline and he also agreed that the Consultative Group should be activated in order that the pattern and level of external assistance could be in the context of the Government's own investment priorities and programs.

SPlease/10

cc: Messrs. McNamara, Knapp, Husain, Hablutzel, Creyke, Barry, Hansen/Acharya, Ljungh, Tolley, Farag, Ducker, Amoako.

BIOGRAPHICAL NOTES

Mr. Mamoun Beheiry: (Minister of Finance and National Economy) Born in 1925, he was educated at Victoria College in Alexandria and took a degree in Economics at Oxford. A former Secretary to the Ministry of Finance he founded the Bank of Sudan and was its first Governor (1959-63). He was the Minister of Finance (1963-64) and then became President of the African Development Bank at Abidjan. During the first three years of the Nimeiri regime, Beheiry held no significant post in government, being considered too closely associated with the earlier regimes, and being out of sympathy with the extreme left-wing position of the government. However, soon after the settlement in Southern Sudan in March, 1972, President Nimeiri appointed him with ministerial rank as the President of the Board of Trustees for the Special Fund for the relief and rehabilitation of the Southern Region. He was appointed to his present position after a Cabinet reshuffle in January, 1975.

He knows the Bank well, and is considered quite a good administrator. He is regarded by many as a pro-western economist not interested in politics as such.

Maj. Gen. Awad Ahmed Khalifa: Educated Gordon Memorial College and Sudan Military Academy. Discharged from Army in 1958 for political activities against the Aboud regime. Joined Gezira Board as an inspector in 1958, and in the same year joined Department of Cooperatives as inspector of cooperatives. Spent one year in UK on a course for administrative officers. In 1968 promoted to Assistant Director in the Department of Cooperatives. During 1962-68 attended a number of international conferences and seminars on cooperatives and related subjects in Europe and Africa. Obtained a law degree (possibly an honorary degree) from the Khartoum Branch of Cairo University in 1968. Reinstated in the Army at Nimeiri's coming to power in 1969, and rose to the rank of Maj. General in 1972, when he was designated Chief Assistant to the Chief of Staff. In this post he was in charge of military supplies. Appointed Commissioner General for Development in July 1974. General Khalifa is believed to be a close personal friend and confidant of President Nimeiri, but he is subordinate in authority to the Minister of Finance.

Mr. Abdel Rachman Abdel Wahab: (Acting Director General, National Planning Commission) His promotion to Acting Director General brings in a man with substantial professional and management skills -- M.A. in Economics from Chicago; Ph. D. in Economics from Illinois; good connections in government. Above all, he gets on well with his staff and is willing to take decisions. He is expected to be appointed as Director General soon.

OFFICE MEMORANDUM

TO: Files

DATE: December 9, 1975

FROM: Stanley Please

SUBJECT: Sudan -- Meeting of Dr. Mansour Khalid, Minister of Education, and Mr. McNamara

1. Dr. Mansour Khalid met with Mr. McNamara on Friday, December 5, 1975. Also present were the Sudanese Ambassador (Mr. Francis Deng), Mr. Thahane (Alternate Executive Director), Mr. Pennisi and myself.
2. Neither Dr. Khalid nor the Ambassador had indicated the purpose of the visit. We had anticipated that it would be in regard to the major external liquidity problem facing Sudan and we had briefed Mr. McNamara accordingly. In fact, apart from handing over a brief message from President Niemery to Mr. McNamara, the purpose of Dr. Khalid's visit was limited to informing Mr. McNamara of decisions made in respect of the restructuring of the Sudanese system of higher education and to solicit World Bank assistance for two proposed new university developments in Juba and Gezira. These two institutions were to be oriented towards the technical and managerial manpower requirements of the country which, it is claimed, cannot be met by existing institutions and, in particular, cannot be met by the University of Khartoum. Dr. Khalid mentioned that he was also having discussions with the U.S. Government, the University of Arizona, and other institutions in order to obtain financial and technical support for his program for higher education.
3. We responded by briefly reviewing the Bank's present involvement in the education sector in the Sudan including various areas of technical and higher training. We had, however, concluded that further commitments were not desirable until a full-scale sector survey had been undertaken, for which we were providing funds under our recent education project. In particular, Mr. McNamara emphasized the Bank's concern that the structure of education should be relevant to the needs of a developing country and also consistent with the resource scarcity which it faces. Dr. Khalid indicated that President Niemery had already announced the appointment of a committee which would be responsible for reviewing the whole field of education. It would be assisted by UNESCO and the Bank.
4. As a postscript to the meeting, it is worth emphasizing that an active debate has begun in the Sudan in recent months on education policy. The Bank can take some of the credit for stimulating this very necessary debate. Both through the sector policy discussions associated with our education projects and through the discussions of the recent ILO employment mission report, in which the Bank played a central role both in conception and execution, the Bank has been instrumental in moving this education strategy debate ahead. More recently Mr. Ballantine, Mr Pennisi and subsequently Mr. Erder of CPS have been in the Sudan to follow up on the decision to undertake a sector review. We will continue to play a major part in supporting the Government's sector review and will formulate our operational proposals as occasion justifies. At the moment we only have an unscheduled project (in FY 1978) in our five-year program.

SPlease/lo

cc: Messrs. McNamara, Knapp, Husain, Adler, Hendry, Pennisi, Ballantine, Hultin, Erder, Tolley, Amoako, Hansen and Acharya

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: December 4, 1975

FROM: S. Shahid Husain *HS*SUBJECT: Your Meeting with Dr. Mansour Khalid

Attached is a brief for your meeting with Mansour Khalid. It summarises the current economic position. The issue of unfavorable terms of borrowing has been an issue in the past, but the Government is now making a serious attempt to mobilise funds on concessional terms. A propos this, you may wish to mention to Mansour Khalid our own strategy of spreading our resources thin, so that our technical expertise could be combined with funds from OAPEC countries. I have had discussions with the Saudi, Arab and Kuwait Funds on this and there are substantial possibilities for co-operation. Obviously, the initiative in mobilising funds, whether for IDA financed projects or otherwise, would largely have to come from the Sudanese. You may wish to mention to Mansour Khalid that provided there is a will and effort on the part of the Government, we would be very forthcoming in our own work in this regard.

cc: Mr. Knapp

Attachment

SSHusain:pe

Meeting with Dr. Mansour Khalid
Minister of Education and Former
Minister of Foreign Affairs
of the Democratic Republic of Sudan

We understand that Dr. Khalid has been sent to Washington by President Nimeiri and hopes to meet senior United States officials during his visit. We do not know the purpose of his visit to the Bank but consider it likely that the serious liquidity problem faced by Sudan in its external payments will be raised. If this proves to be the major topic of conversation it might be a matter for some surprise that Dr. Khalid was sent rather than the Minister of Finance, Mamoun Beheiry, except that Dr. Khalid is better qualified to handle the question of relations with the United States as a result of experience in his former position as Minister of Foreign Affairs and at the United Nations. It is perhaps worth recalling that Dr. Khalid was leader of the Sudan delegation at the Consultative Group meeting in July 1973, rather than the Minister of Finance.

The current payments position is under intensive discussion between the Government and the IMF. In summary, Sudan is currently facing serious balance of payments difficulties exacerbated by a significant deterioration in terms of trade. The current account deficit for this year will exceed US\$400 million as compared to US\$260 million last year. The much larger deficit for this year is the result of a continuing rapid growth in import payments with export earnings unchanged since 1973. Following the trend of last year, the rise in imports is due partly to higher prices for essential commodities, including food, and an increase in development related imports, but some expansion in imports of manufactured consumer goods has also occurred. In value terms, petroleum imports will increase by almost 40 percent, while imports of machinery and of transport equipment will almost double. On the receipts side, the balance of payments still suffers from the slow movement of cotton exports. Export earnings this year have returned to their 1973 level largely on the strength of non-cotton exports, particularly groundnuts and sesame. Less than half of the current account deficit will be covered by long-term foreign capital inflows. External reserves are precariously low. The extent of external debt service is very worrisome, and even on conservative estimates rise to about 20 percent in 1978.

On the fiscal front, public sector deficits continue to be the primary cause of excess aggregate demand, although a number of budgetary measures recently adopted will make significant contributions to revenues, and consequently, improve the situation in the current fiscal year. However, to avoid excessive borrowing from the banking system, or continued aggravation of the debt servicing problem, either expenditures must be contained or borrowing must be on more concessional terms than has so far been the case.

The IMF's current position is that they have recently approved use of the oil facility by Sudan (18.3 million SDRs) but do not consider they can propose a new standby agreement unless they obtain agreement of the Sudanese authorities to a stabilization program whose features would include:

- a) an adequate exchange rate adjustment;
- b) the imposition of a target on the expansion of bank credit;
- c) improved debt management, including restrictions on the maturity and interest rate structure of future borrowing.

Agreement to a standby will require concrete Sudanese action on these points. If such action is forthcoming, an IMF mission is being planned to visit Sudan in January 1976, with a view to completing agreement on a package of measures.

In recent discussions with Mr. Please, the Minister of Finance raised the possibility of a Bank program loan to assist in overcoming the difficulties. Our response was to emphasize that program lending required the existence of a program of action and whilst we were impressed by Mr. Behairy's recognition of Sudan's problems and by the isolated actions he had taken, these did not add up to a program to meet the country's problems. In any case a minimum requirement would be agreement with the IMF on a new standby agreement. In the last few years, there have been sizable inflows of foreign capital into the Sudan, but the terms of such borrowing have frequently been unfavourable. There is therefore a need to ensure that further borrowing is on concessionary terms, and equally important, that policy measures which facilitate a more efficient allocation and utilization of both foreign and domestic resources are adopted. Together with the Fund, we now feel we have the analytical basis for recommending specific policy actions. An early meeting of the Consultative Group, the need for which Mr. Mamoun Behairy emphasized when he met you at the Annual Meetings, could be the medium to achieve these twin objectives. The difficulty will be in obtaining sufficient commitment from the Government to be sure that the necessary policy measures will actually be adopted. The political difficulties are sufficient to make a sizable external contribution virtually a sine qua non of Government action on a sufficient scale. The synchronisation of Government measures with an external financing package could be the key to success in achieving these objectives.

Dr. Khalid's discussions with the United States Government may focus on Sudan's need to buy a substantial quantity of wheat on concessional terms. If all goes well in the Sudan's plans to expand domestic wheat production, this could be the last year in which major purchases of wheat are required. The Minister is also understood to be seeking assistance from universities in the U.S. in expanding agricultural education facilities. But the discussions could be broadened to cover the whole question of Sudan/United States relations. Since May 1974, when the Palestinian terrorists were released, the United States has ceased all foreign aid to Sudan and kept relations on a caretaker basis. A gradual softening of this position has occurred-EXIM Bank has resumed lending and Sudan was included in the list of countries standing to benefit from the generalized system of tariff preferences.

A biographic note is attached.

Dr. Mansour Khalid, Minister of Education of the Sudan

Khalid was born on January 17, 1931. After graduating from the University of Khartoum, in 1957, he attended the University of Pennsylvania, where he received an LL.M. degree in 1960, and the University of Paris, where he received an LL.D. degree in 1964. From 1957 to 1959 he was an attorney in Khartoum.

Khalid served as a legal officer for the United Nations during 1962-63. From 1964 to 1965 he was in Algiers as Deputy UN Resident Representative. From 1965 to 1969 he served with UNESCO in Paris. In 1968 Khalid received leave of absence to serve as visiting Professor of International Law at the University of Colorado. He served as Sudan's Permanent Representative to the United Nations from July 1970 until his appointment as Minister of Foreign Affairs in August 1971.

Dr. Khalid took a leading part in the diplomatic negotiations ending with the settlement of the South and was connected with the international relief efforts which followed. He is one of President Nimeiri's closest advisers.


In January 1975 he was moved from the Ministry of Foreign Affairs to that of Education.

December 4, 1975

OFFICE MEMORANDUM

TO: Files

DATE: April 15, 1976

FROM: John T. Ducker, Loan Officer, EA CPIB SUBJECT: SUDAN - Mr. McNamara's Meeting with Minister Deng

1. Mr. McNamara met Minister Deng, the Minister of State for Foreign Affairs on April 13, 1976 at the latter's request. Mr. Mekki, Executive Director, and I were present.

2. The Minister said that discussions with the U.S. Secretary of State had resulted in agreement to restore normal relations between the U.S.A. and Sudan. To mark this agreement, it had been arranged that President Nimeiry would visit Washington in June. He is expected to be accompanied by Minister Behairy, among others. The Minister mentioned that Sudan had noticed an increased interest in the Sudan on the part of American firms but he felt the restoration of normal relations would encourage more of them to go ahead and implement plans, and this would be welcomed. The Minister said that President Nimeiry would like to meet Mr. McNamara during his visit, and Mr. McNamara welcomed this opportunity.

3. The Minister said that investment in Sudan, in both the public and private sectors continued at a higher level, with significant participation by Arab official and private investors. He said he trusted that this larger Arab role in Sudan would not mean a reduced interest on the part of other sources of foreign capital. Mr. McNamara assured the Minister that so far as the World Bank Group was concerned this would not be the case, and, in particular, technical assistance would be required to supplement the increased capital inflow.

cc: Messrs. McNamara, President ✓
H. Adler, Dir., EA Proj.
Please, Dir., EA CPI (o/r)
Loh, Acting Dir., EA CPI
Tolley, Div. Chief, EA CPIB
Farak, Res. Rep., Khartoum

JTDucker:jt

Meeting with Mr. McNamara of
Francis Mading Deng, Minister of State for Foreign Affairs
Democratic Republic of the Sudan

The Minister has recently been appointed to his new post after a period of 15 months as Ambassador to the United States. His appointment came as part of a fairly extensive Cabinet reshuffle, the most important part of which concerned the financial ministries. Under this reorganization Minister Behairy now has three Ministers of State, one for Finance, one for Planning and one for National Economy. He was able to establish a new Ministry of Supply and Commerce to deal with the large volume of work concerned with licencing, application of controls etc. He also has the former Minister of State for the Budget as the new Minister of State for Local Government, the Ministry whose recurrent expenditure has formed the most rapidly growing component in the national budget. Minister Behairy has expressed himself well pleased with these changes, which appear to strengthen his position in the Government, and has indicated that he now feels free to concentrate on the essential financial and economic problems of Sudan.

The Sudan's current payments situation has improved in recent months due to good cotton sales. Nevertheless, the IMF is at a fairly advanced stage in considering compensatory financing for Sudan under its new facility. The IMF will also have a routine Article XIV mission in the field in May which could take further the discussions on a possible new standby agreement.

In February, the Bank gave Minister Behairy a paper, which drew heavily on the Bank's recent work as part of the ILO Comprehensive Employment Strategy Mission, and which outlined our views on the priorities for economic and financial management over the next few years. We do not expect a quick reaction to these suggestions, which would require major measures, but will look with interest for signs of movement when the budget is presented in early June.

A meeting of Arab Finance Ministers is scheduled for April 27 in Rabat, and we understand that the Directors of the Arab Fund will meet on that occasion to discuss the financing of the first phase of the Arab Fund's Ten-Year Agricultural Program for Sudan. This meeting will be of crucial significance to the Sudan. If the commitment is of a generous nature, it will tend to reassure both public and private investors as to the scale of Arab investment in Sudan. We have been told that after the Ministerial meeting, other organizations, including the Bank, would be invited to a briefing meeting about the Program. We understand that negotiations with Saudi Arabia for financial assistance, both for project financing and balance of payments support, are also at a fairly advanced stage, but we have very few details. Although the Sudanese have raised the question of a Consultative Group meeting we have taken the position, up to now, that it would be preferable to await the outcome of the Arab Fund's "pledging session" before holding such a meeting. However, we are carrying out preparatory work which would enable us to respond fairly quickly should the timing become opportune.

There are no project issues of major significance which need be mentioned.

OFFICE MEMORANDUM

TO: Files

DATE: June 21, 1976

FROM: Shawki M. Farag, Resident Representative, Sudan

SUBJECT: Mr. McNamara's Meeting with President Nimeiry

1. Mr. McNamara met with the President of the Democratic Republic of the Sudan, Major General Gaffar Mohamed Nimeiry, on Thursday, June 10, 1976 at 4:30 p.m. The meeting was requested by the President of the Sudan during his stay in Washington in the course of a three-week private visit to the United States. The meeting lasted for about half an hour and was attended by:

From the Bank: Mr. Stanley Please, Acting RVP, EAM
Mr. Shawki M. Farag, Resident Representative, Sudan

From the Sudan: Sayed Mahmoud Beheiry, Minister of Finance, Planning and National Economy
Dr. Mansour Khalid, Minister of Education
Dr. Francis Deng, Minister of State for Foreign Affairs
Dr. Abdul Rahman Abdul Wahab, Undersecretary, Ministry of Finance, Planning and National Economy
Sayed Ismael El Misbah Mekki, Executive Director for the Sudan

2. President Nimeiry started the meeting by thanking Mr. McNamara for his visit and for the assistance of the World Bank Group in the financing of major projects in the Sudan. He mentioned the Rahad Project as an example of the contributions of the World Bank Group to the development of the Sudanese economy.

3. Mr. McNamara recalled that the last time he met with President Nimeiry they discussed the difficult problems the Sudan has been facing. He said that he was pleased with the efforts being made to overcome these problems and he assured the President that the Bank would do all it could to help Sudan particularly in the development of its enormous agricultural potential. He also suggested that the Sudan could help IDA if President Nimeiry would be willing to write to the Arab and western IDA donors explaining the critical role of IDA in the development of the Sudanese economy and encouraging them to increase their contributions towards IDA's Replenishment. President Nimeiry welcomed this suggestion and he pledged his full support in that direction.

4. Mr. McNamara pointed out that while on the whole the Bank is satisfied with the progress of the various projects it is helping to finance, there are some implementation problems in the education and power sectors which need to be addressed. He emphasized, however, that the basic issues which the Sudan is facing and which are of concern to the Bank are the low level of public savings and the problem of external debt management.

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President Nimeiry responded by saying that he was pleased to note that the Bank was encouraged by the recent fiscal measures he had taken and he indicated his intention to push for more economic reforms within the general political constraint which he faces. He mentioned that additional and important measures will be forthcoming within a few months.

5. Mr. McNamara enquired about the Arab Fund-sponsored agricultural program which had been submitted to a pledging session in Rabat in May. President Nimeiry informed him that the Arab Finance Ministers have agreed to the establishment of an Authority, with a capital of KD150 million (US\$512 million), which will implement the first phase of the investment program prepared by the Arab Fund. The total program prepared by the Arab Fund is estimated to cost about US\$5.5 billion over a ten-year period, and while the first phase over the next five years is not finalized yet, it is estimated that its total cost is US\$2.7 billion. President Nimeiry indicated that additional financing for this first phase program would be forthcoming from the Arab oil states and he said that Bank Group financing was both needed and welcome. Moreover, he further indicated that he is broadening the circle of countries associated with this program and he is hoping that his visit to the United States and France will help in this direction.

6. Mr. McNamara raised the question of the brain drain from Sudan and asked whether there was anything which could be done to stop the emigration of needed skills to other Arab countries. President Nimeiry agreed that this was a most worrying problem but he suggested that the solution can only be found in the long term when Sudan would have created good job opportunities with adequate remuneration to attract skilled people to remain within the country. In the absence of this, he felt that there was no way to stop emigration. He believed that whilst the Sudan is contributing manpower to the Arab world, the Arab countries should pay for these skills.

7. President Nimeiry was pleased to learn that the Consultative Group Meeting would be held in November and he hoped that it would be an effective meeting and be closer to a consortium type of meeting. Mr. McNamara confirmed that the Bank would do all it could to ensure an effective meeting and he asked Mr. Please to explain our position on this matter. Mr. Please outlined the objectives of the forthcoming meeting of the Consultative Group emphasizing that it will be more of the nature of an interim meeting as the Six-Year Plan has not been formulated. The meeting will alert the countries interested in the Sudan to the short-term problems of the Sudan and to the immediate requirements to keep the level of investment at a higher level.

8. The President said that just as many Sudanese go abroad for training in western countries and the United States, so many Africans could have training in the Sudan particularly in the field of irrigation and he suggested that the Bank could finance some training programs for Africans in the Sudan. Mr. McNamara indicated that any such opportunity will be explored by the Bank particularly through the training component in its projects.

cc: Messrs. McNamara, Knapp, Please, H. Adler (4), Tolley, Ducker, Amoako
cc: Mr. Mekki, Executive Director
SMFarag:cmm

OFFICE MEMORANDUM

64-28 55/7 = 64
 69-73 5/60 = 65
 74-78 70/114 = 715
 75 0/53 = 53
 76 4/11 = 11
 77 20/41 = 61
 DATE: June 9, 1976

TO: Mr. Robert S. McNamara, President

DATE: June 9, 1976

FROM: Stanley Please, Acting RVP, EA

SUBJECT: Your meeting with President Nimeiry, June 10, 1976, 4:30 p.m.

1. I attach a brief for your meeting with President Nimeiry. I will be attending the meeting, together with Mr. Shawki Farag, our Resident Representative in Khartoum.

2. The brief covers a number of issues which we believe the President might raise with you. I think the question of IBRD lending will definitely be put to you. As you know, a Bank loan on third window terms is being presented to the Board next Tuesday (June 15). This reflects our growing, but still very qualified, confidence in the standards of economic management in the economy. Both the level and composition of investment are likely to improve the rate of growth of the economy from the late 1970's onwards. Internal fiscal management is being taken more seriously, but an already high tax ratio of 25 percent of GDP gives little room for manoeuvre on the revenue side (although the recent budget has increased taxes) and despite marked constraint on defence and the virtual abolition of subsidies, the growth of recurrent government expenditure is notoriously difficult to reduce in the short run. Externally the major problem is debt management and, whilst this has markedly improved in the last year or so, a debt service ratio of over 20 percent, once again, gives little room for manoeuvre unless concessionary assistance is forthcoming to finance the vast infrastructure required to support directly productive investments in industry and agriculture. Such concessionary assistance from Arab oil producing countries is coming forward but less abundantly than the government (and the Bank) had previously hoped. In all these circumstances I believe your response to the request for IBRD funds should be more positive than we have been in the past and should indicate that you will instruct the staff to examine the question again. This would recognize what I believe to be an improved situation in which (1) the Government has established a completely new economic planning and financial organization and team under Mamoun Beheiry (the Minister of Finance) to formulate and to implement the Government's development programs and policies and (2) the Government has taken certain measures which, although they are politically courageous, only begin to make an impact on the major internal and external financial problems of the country.

3. The President might also ask you about the possibility of a program loan to bridge the gap between the past sluggishness of the economy and its expected future buoyancy. We have continuously discouraged this request on the grounds (a) that program lending by the Bank is very exceptional and (b) that such lending is only justified if there is a program of policies and investments that we can unequivocally support. Whilst we are impressed with the changes in direction of Sudanese development policies, they do not add up to a comprehensive program that we could support through program lending. I feel we should maintain this position.

cc: Mr. Knapp, SVP, Operations

JTDucker/SPlease:jt

*Public savings must increase
 Need improved debt mgmt
 [Public savings must increase
 Need improved debt management]*

Meeting with President Gaafar Muhammad Nimeiry
President of the Democratic Republic of Sudan
June 10, 1976

- A. Purpose of visit to the U.S.A. and to the Bank
- B. Summary of Recent Developments
- C. Issues
 - 1. Level of Future Bank Group Operations
 - 2. The Arab Fund's Agricultural Program
 - 3. Prospects for the Consultative Group Meeting
 - 4. Sudan's Manpower Problems
- D. Annexes
 - 1. Domestic and External Political Situation
 - 2. Financial and Economic Situation
 - 3. Bank Staff Dialogue with Sudan
 - 4. IMF Activities
 - 5. Bank Group Activities/IFC Activities
 - 6. Biographical Notes

Purpose of the Visit to the U.S.A. and to the Bank

The President's visit is private and being organized by the Sudanese. However, it is a working visit intended to build on the recent restoration of normal relations with the U.S.A. A considerable program has been worked out and the President will spend two weeks in the country.

The President will meet President Ford, the Senate Foreign Relations Committee and possibly other Congressional Committees/leaders. He will meet a group of businessmen at a lunch to be given by OPIC, but will not meet the Secretary of State, who will be out of Washington. The President will meet Mr. Witteveen after your meeting with him.

After Washington, he will visit Tennessee, whose Governor recently visited Sudan, Wisconsin, Nebraska, Kansas, Texas, where he will meet the Chamber of Commerce, Arizona, Oregon and New York, where he will also meet a group of businessmen, including Mr. David Rockefeller (Chase recently opened an office in Sudan). He will also meet the Secretary General of the United Nations in New York. The itinerary has been designed to include those states whose agricultural and animal production industries are of particular interest to Sudan. It is hoped that the visit will encourage private business to invest in Sudan.

We understand that the President views his meeting with you as an opportunity to explain his views on various general development issues, for example:

- how to link aid from the Arab countries with the traditional sources of aid;
- how to expand the role of the Bank and IFC in Sudan; and
- how to make the Consultative Group more effective.

Other more specific topics which may arise include the role in Sudan of the new Arab Authority for Agricultural Investment and Development; the current economic situation and the measures proposed to handle it; possible Bank lending and the role of IFC in supporting the private industrial sector.

We understand that in his meeting with you, President Nimeiry will be accompanied by the Finance Minister, Mamoun Beheiry, the Education Minister, Dr. Mansour Khalid, the Minister of Industry,

Badreldin Suleiman, the Minister of Transportation, Dr. Bashir Abadi and the Minister of State for Foreign Affairs, Dr. Francis Deng. Biographical summaries are attached as Annex 6.

Summary of Recent Developments


On the political front, the situation in Ethiopia has become a matter of serious concern to Sudan (see Annex 1 para 4). Economically, public investment (and increasingly private investment) has continued at a high level (Annex 2 para 2). The budgetary situation has remained a matter of concern. Revenues continue at a high level, but recurrent expenditure continues to limit public savings to very low levels. Investment has been largely financed with loan capital (Annex 2, para 3). The balance of trade has recovered somewhat from the oil and commodity price rises and the collapse of the cotton market, and current investment is eliminating some imports and expanding some exports, but a substantial deficit is inevitable for the foreseeable future (Annex 2 para 4-6). Sudan has continued to incur much new debt. In 1974 and 1975 debt incurred on concessional terms and semi-concessional terms amounted to \$530 million, or 50% of the total. Average terms of Sudan's debt have continued to harden (Annex 2, para 5). A six-year plan for July 1, 1977 - 1983 is under preparation (Annex 2, para 7). Recent economic analysis by the Bank and IMF has concluded that structural imbalances in the economy need correction. At the request of the Minister of Finance, the Bank prepared a paper with recommendations to deal with these imbalances. The response has been favorable, but the timing of the necessary measures remains uncertain (Annex 3). Good progress is being made on the Education Sector Review, expected to be completed by the end of 1976. The IMF has recently had a mission in the field, and discussions on a standby agreement are continuing (Annex 4). Implementation of Bank financed projects is reasonable, though currently we have problems with the First Education project and the Second Power project. The Rahad project is going quite well, though it will be difficult to adhere to the current implementation schedule (Annex 5, para 1). The current project preparation work by the Bank would support a higher level of Bank Group lending (Annex 5, para 2). At the Government's request, we are preparing for studies of the parastatal institutions and the performance of existing irrigation schemes (Annex 5, para 3). EDI has an active training program in Sudan (Annex 5, para 4). IFC has several Sudanese projects under consideration and expects an increased level of commitments in Sudan (Annex 5, para 6).

Issue No. 1

Level of Future Bank Group Operations

The strategy adopted at the last CPP review of Sudan was aimed at facilitating the expanding investment program through preparation of rather more projects than is required strictly for the Bank's own lending program, and by co-financing to the maximum extent possible. A small increase in the IDA allocation was permitted and a higher level of manpower expenditure authorized. This work of project identification and preparation has gone ahead rather quickly, and can be sustained through use of the recently approved technical assistance credit. We feel confident that an expanded level of Bank Group lending is feasible in terms of availability of well prepared and economically desirable projects if it is appropriate from the point of view of country considerations.

The question is whether an expanded level of Bank Group lending is warranted. This question, in turn, breaks down into two -- whether Sudan's general economic performance warrants increased lending; and whether, in the absence of additional IDA resources, Bank lending can be contemplated. We understand President Nimeiry may raise this latter question with you.

With regard to Sudan's economic performance, the summary of the financial and economic situation at Annex 2 describes our concern over a number of issues. But on the whole, we feel that compared to the situation that existed at the beginning of this decade there has been significant progress in two fields. First, there has been a rising level of investment activity, mostly in the priority sectors. Second, and equally important, there has been for some time now serious discussions in Government on development strategy and issues which have led to (a) an improvement in Bank staff dialogue on policy issues with the Government; (b) specific fiscal measures to improve the budgetary situation; and (c) a reorganization of the Ministry of Finance, Planning and National Economy to place it under more efficient and competent management and to facilitate the implementation of policies. 

It is largely on the strength of these developments that an increase in the IDA allocation for Sudan was approved during the last CPP review meeting, and use of Third Window Funds authorized for the Domestic Aviation project which will go to the Board on June 15, 1976. We feel that this kind of progress and the basic potential of the economy requires that we keep an open mind on Bank lending. In the

meanwhile, we intend to carry on our discussions on policy issues with the Government and in particular seek progress along the following lines:

- (a) Public savings must increase. What is required is a shift of government expenditure from consumption to investment. Subsidies have been virtually eliminated and defense expenditures constrained, but the Government's role of employer of last resort and inadequate control of certain kinds of recurrent expenditure imposes an insupportable budgetary cost.
- (b) Improved debt management, to restrict borrowing to high priority needs and to eliminate borrowing on inappropriate terms, which causes heavy short term servicing problems. The debt service ratio will peak at about 27 percent in 1978 and will probably exceed 20 percent over the next four years.

The debt servicing difficulties and the worsening balance of payments situation, which in all likelihood will be intensified during the next eighteen months by crop failure and pest infestation affecting the current year's cotton and wheat crops, suggest a need for quick-disbursing foreign assistance. Minister Beheiry has raised the question of Bank program lending with us, but our response has been that we would not be able to make such a recommendation in the absence of a program of policy measures to address the short-term difficulties, to improve the efficiency of resource allocation and facilitate the kind of agricultural export-based development strategy which rapid economic growth in the long-run calls for. Both the IMF and Bank has made specific policy recommendations to achieve these objectives (Annex 3).

Issue No. 2

The Arab Fund's Agricultural Program

The Arab Fund prepared a program of agricultural expansion estimated to cost \$5.7 billion in which \$3.7 billion would be foreign exchange. The first phase of the program costing \$2 billion (foreign exchange \$1.3 billion) was to be implemented over eight years.

The meeting of the Governors of the Arab Fund in Rabat on April 29, 1976 authorized establishment, on a smaller scale than originally proposed, of the Arab Authority for Agricultural Investment and Development, with a capital of K.D.150 million (\$510 million).

A follow-up meeting of technical staff took place in Khartoum on May 29, 1976 when the draft Articles of Agreement of the Authority were adopted. Initially the Authority is expected to operate entirely in Sudan, and its investment program will be drawn up over the next few months.

The presentation to the Governors of the Arab Fund, after discussion with the Sudan Government showed clear awareness of the debt problem facing Sudan. In implementing the program "due consideration was to be given to the role of foreign financing institutions, particularly developmental institutions, in financing part of the investment plan."

It would be informative to hear President Nimeiry's assessment of the outcome of the Rabat meeting and the Bank's role in support of this Arab initiative. We sense some disappointment with the outcome of the meeting.

Issue No. 3

Prospects for the Consultative Group Meeting

A Consultative Group meeting has been scheduled for November 1976, and interested parties are being informed. The objective of the meeting will be:

- (a) to brief the members on the outcome of the Rabat meeting;
- (b) to brief members on the current economic and financial situation in the context of the Government's evolving longer-term strategy for development;
- (c) to brief members on the current investment program and the financing requirements for the next two or three years; and
- (d) to establish better aid coordination machinery.

Since the Sudan's next Plan will cover the period July 1, 1977 to June 30, 1983, we anticipate a need for a further CG meeting in late 1977 or early 1978, soon after the Plan has been adopted by the Government. The meeting in November 1976 will therefore be of an interim nature.

Apart from the traditional donors, the Kuwait Fund and the United Arab Emirates attended the last CG meeting. For the November meeting, we expect to broaden participation by Arab agencies. Other countries which are expected to attend for the first time are Canada and the EEC.

Although the Arab World can be expected to be a major source of foreign capital for Sudan, the programs of the traditional donors, including the Bank Group, are, in the aggregate, substantial and increasing. (In 1974-75 traditional donors accounted for 40% of total commitments).

In view of the recent progress achieved, we will put the case for continued support to Sudan as best we can to the member countries. However, it would be worth emphasizing to President Nimeiry that the case we make is still limited by the inadequate record on such essential matters as public sector savings performance, management of foreign debt, etc. While recognizing and fully supporting the progress made by Minister Beheiry (reduced subsidies, increased utility rates, increased interest rates and recent revenue proposals), we would be able to give a more wholehearted endorsement of the Government's financial and economic management if further progress could be made on these questions.

Issue No. 4

Sudan's Manpower Problems

Up to now it has been possible to make the case that the level of manpower and skill training achieved in Sudan is higher than in most other African countries. We are concerned that this position may be changing because the oil-exporting countries are able to pay much higher wages and salaries than can be paid in Sudan and because many Sudanese technicians, draughtsmen, teachers, machine operators and other types of skilled manpower are leaving the country to work in oil-producing countries. At a time of expanding economic activity in Sudan, and when the expanding investment program is placing an increasing strain on the relatively small number of good managers, the country can ill afford the loss of such skills.

It is, of course, flattering to Sudan to find this demand for its trained manpower, and it is possible to argue that in the long run the country stands to benefit substantially from the heightened professionalism and broadened experience which these people can bring back to Sudan. It is also not always easy for a country to deny a person the opportunity to improve his earnings by working abroad.

We believe the Government has begun to show increasing awareness of this problem. Although there is no obvious solution to recommend, we think it would be useful to discuss the matter with President Nimeiry to see what prospects he sees for providing inducement for technically qualified manpower to remain in Sudan, and in fact return from abroad. Mr. Please has recently written to the Minister of State for Planning on the problems of attracting and retaining good managers. Crash training programs for other types of manpower maybe appropriate, and it might be reasonable for Sudan to consider, as Egypt has done, requesting a financial contribution towards meeting the cost of such programs by the countries which are attracting Sudanese technicians.

Current Domestic and External Situation

1. Domestically, the major political event of the past year was the attempted coup d'etat in September 1975, by a group whose membership was largely soldiers of junior rank. It appears that Nimeiry's life was briefly at risk during the coup. Major Abul Qassim, the Minister of Agriculture, consolidated his position as the second most powerful man in the country, by taking charge of the force which put down the coup. Those responsible were severely punished, nineteen persons being executed. There was an element of regional (Nuba Mountains) discontent behind the coup, and some students at Khartoum University were again found to have links to the leaders of the coup. The University was closed for several months as a result. Accusations of Libyan support for the coup were made, but not pressed. Support for the coup appears to have been limited.

2. The Sudan Socialist Union (SSU) continues to play a prominent role in political life, although it recently lost one of its leaders, by the death of Dr. Gaafar Bakheit. Delegation of authority to the provincial level is frequently emphasized, and the political links between the Government, its Ministers, the SSU and the Provinces reinforced. The SSU is the medium through which the country's leadership seeks to broaden the basis of the regime, but the strength of support for the SSU is difficult to assess. In general, there appears to be support for the view that Nimeiry's regime has come to represent stability, and provides an opportunity for the country which should not be lost. The much increased level of development activity is providing improved employment and income earnings opportunities for many, which helps to counteract the distress caused by the recent inflation and reduce political discontent in the main productive centers. In a remarkable recent move, parallel to that taken in Egypt, President Nimeiry has called for all senior civil servants and public officials either to undertake in writing to provide an example of responsibility and strength of character by avoiding "alcohol and other similar vices and habits," or to ask to be relieved of their public duties.

3. Although security incidents occur from time to time in the South, disaffection does not seem widespread. The economy of the South is slowly beginning to feel the effect of four years of peace, and investment is gradually increasing. This should progressively make itself felt over the coming years. The capacity of the Regional Government remains limited, however, and economic development will continue to remain heavily dependent on technical support from Northern Sudan or from outside.

4. The situation in Ethiopia is a cause of anxiety to the Sudan. Although some support to the Eritreans has undoubtedly found its way through Sudanese territory, largely at the instigation of other Arab countries, Sudan is clearly alarmed at the prospect of being dragged further into the dispute. Sudan's efforts at mediation have focussed on bringing the splintered Eritrean liberation movement together, so that the Ethiopian Government has somebody to negotiate with, should they wish to negotiate. This has been unsuccessful. There have been incidents along the Sudan/Ethiopian border, no doubt some of them deliberate, and up to a hundred thousand Eritrean refugees are now living in Sudan. UNHCR has been rendering assistance. Some of the refugees have been finding work in Khartoum, in the irrigation schemes and in road building.

5. Sudan's relations with the Arab world are complex and difficult to follow. Negotiations with Saudi Arabia for a package of economic assistance have been going on for several months, though the outcome is unclear. The Arab Fund meeting at Rabat is difficult to evaluate, since the functions of the Arab Agricultural Authority, established with a capital of K.D.150 million (\$510 million), have yet to be determined with precision. However, the money is expected to be used principally for investments which can generate a commercial return, so at present it seems unlikely that much will be lend on concessionary terms. Private and semi-private investment in Sudan by Arab interests continues, though no accurate figures of the amounts involved are available. These broadening links with Arab financial interests have hastened the acceptance of free market trends in the economy. The Government has recently hinted at the possibility of selling some industries back to the private sector. While generating increased economic enterprise, this trend is not without opposition in Sudan on ideological grounds.

6. Relations with the Western World continue to prosper. Most European countries have aid programs in Sudan. Following the Lomé Convention, the EEC is developing a program of some substance. Canada, too, is considering starting a program. With the resumption of normal relations with the United States, a greater participation by this country can be expected. Relations with the Eastern block countries show some sign of recovery, and China continues its useful program of assistance.

Financial and Economic Situation

1. The most significant developments in the Sudanese economy in recent years have been a major increase in public sector investment and a deterioration in the trade balance which, combined with an increase in the external debt burden, has considerably weakened the balance of payments position compared to that of three years ago.
2. Public Investment. Since 1973/74 the Government of Sudan has been committed to a number of heavily capital-intensive, expensive investments in industry, infrastructure, and irrigated agriculture in order to expand the country's transportation system, to achieve self-sufficiency in a number of basic consumer products and to increase production of high-value cash crops. On average, development expenditures in real terms were about US\$135 million during the two-year period 1973/74 - 1974/75, or more than double the level attained in 1972/73. In general, we believe the investment priorities have been right. It is expected that by 1980, Sudan will be a net exporter of sugar, wheat and textiles, which in the last three years have, on average, accounted for about 34 percent of merchandise imports. Achievement of this goal will release foreign exchange for the importation of capital goods and intermediate products to add to the country's low, but growing, capital stock.
3. Budgetary Situation. While the increasing rate of investment on the part of the public sector is in sharp contrast to the stagnation of the late sixties and early seventies, in most other respects, economic performance has not been impressive. In particular, the budgetary situation is a matter of serious concern. Despite an enviable record in revenue raising, which is reflected in a revenue/GDP ratio currently about 25 percent, the public sector continues to be a net dissaver. Recurrent expenditure by the Central Government has been growing faster than is desirable, and public sector enterprises have failed to generate surpluses, with the result that public investment has had to be financed entirely through domestic and foreign loans. Thus, net capital inflows financed about 36 percent of development expenditures during the Second Plan period (1970/71-1974/75), while recourse to the domestic banking system accounted for the remainder of actual Plan expenditures (64 percent). The reliance on domestic credits contributed to an annual inflation rate in excess of 20 percent in the last two years, a rate higher than that prevailing in Sudan's principal trade partners and competitors.
4. The Balance of Payments. Since late 1973, higher rates of international inflation coincided with the Government's decision to step up the pace of public investments, while recession in major

industrialized countries adversely affected export earnings from cotton (Sudan's major foreign exchange earner). In addition to a fourfold increase in crude oil prices, price increases of more than 100 percent were registered for such commodities as sugar and fertilizers, and more than 50 percent in the case of wheat, electrical machinery and steel. All in all, Sudan's import prices rose by more than 50 percent in 1974, compared with an increase in export prices of 15 percent, leading to a deterioration in the terms of trade of 26 percent, equivalent to a loss of about US\$100 million. The current account deficit which had averaged US\$27 million or about 2 percent of GDP during 1970-73, widened to about US\$290 million, or approximately 8 percent of GDP in 1974. Both in 1974 and 1975 the Sudan has qualified for IMF compensatory financing.

5. The mounting trade deficits combined with interest payments (which had reached \$85 million by the end of 1974) required sharply stepped-up foreign borrowing. In 1974 a large inflow of external capital, consisting largely of short and medium-term credits was sufficient to finance a current account deficit in excess of \$290 million and to limit the overall deficit to \$11 million. Official net capital inflows fell sharply in 1975 (from \$286 million in 1974 to \$72 million in 1975) with a resulting deterioration in the overall balance to a negative \$397 million. Moreover, the terms of debt contracted have hardened considerably and partly as a result, 75 percent of the projected cumulative debt service payments of US\$740 million for the period 1976/80 will be in respect of foreign borrowing in 1974 and 1975. It now appears that service on debts contracted as of the end of 1975 will peak at about 27 percent of export earnings in 1978.

6. The overall balance of payments will continue to be under pressure in 1976 even though a significant improvement in the current account is expected in addition to some increases in net capital inflows. A large increase in exports, coupled with a projected zero growth in imports resulting from greater self-sufficiency in sugar, are expected to reduce the deficit on current account from \$465 million in 1975 to about \$360 million. Capital inflows are expected to more than double over the levels attained in 1975 (\$72 million), although they would still remain below the inflows that occurred in 1974. Looking ahead to 1977, the balance of payments pressures are expected to be intensified by a shortfall in cotton exports, resulting from reduced acreage in the cultivated area under cotton in 1975/76, a depletion of cotton stocks and an outbreak of pests which is affecting the current year's cotton crop.

7. The Six-Year Plan. It is against this background of a domestic liquidity squeeze, a deteriorating balance of payments position, caused in part by a rapidly expanding public sector investment, and accumulating technical arguments for economic policy reform of a structural nature, that the Government will launch a Six-Year Development Plan (1977-83) next year. The Plan is expected to emphasize self-sufficiency in vital commodities and export expansion. It will emphasize the development of infrastructure, skilled labor and other auxiliary services such as research and extension. Although work on the Plan is still under way it is expected that the target growth rate over the Plan period will be about 7 percent and that aggregate investment will increase from about 16 percent of GNP in 1975/76 to about 23 percent in 1982/83 through a continued expansion of the public investment program and a recovery in private investment. If this increase in investment is achieved, even with a significant improvement in the domestic savings rate, a larger inflow of real resources from abroad will be necessary to support the Government's development program. Our preliminary projections indicate that gross external capital inflows must (in constant 1975 prices) rise from \$475 million in 1976/77 to \$813 million in the terminal year of the Plan period (1982/83), it is evident that Sudan would require substantial assistance from both bilateral and multilateral sources if the Plan targets are to be met.

Bank Staff Policy Dialogue with Sudan

1. As we stated in the 1975 Country Program Paper, growing concern on the part of the Government with the above problems has resulted in a number of important decisions; namely, a substantial increase in railway and public utility rates, the removal of subsidies on a number of consumption goods, and a relative reduction in expenditures on security and defense. Given the difficult economic environment, these are achievements of note. However, more far-reaching and difficult policy actions have to be taken if the new Six-year Plan is to lead to an efficient and rapid exploitation of the considerable natural resources of Sudan, to improve the income-earning opportunities, productivity and living conditions of the mass of the population.

2. For these reasons, we attach great importance to the analyses and policy recommendations contained in the report of the ILO Comprehensive Employment Strategy Mission in which Bank staff played a significant role. Following a request from Minister Behairy, the staff prepared a paper (in close collaboration with the IMF) which was submitted to the Government in February 1975, detailing specific policy changes recommended by the ILO mission to correct the structural disequilibria in the Sudanese economy, indicated by the imbalances in the budget and balance of payments. The paper also put heavy emphasis on policy measures over the next few years to improve the efficiency of resource allocation and facilitate the kind of agricultural export-based development strategy which rapid economic growth in Sudan calls for. The main thrust of our recommendations was:

- (a) an exchange rate adjustment;
- (b) reforms in the existing tax structure of the agricultural sector to increase the competitiveness and relative profitability of agricultural production in general and exports in particular;
- (c) encouragement of more flexibility of cropping patterns to changing prices;
- (d) measures to ensure reasonable built-in elasticity of revenues vis-a-vis income growth and to curb the rise of recurrent expenditures; and
- (e) rationalization of the existing foreign trade tax structure to minimize its adverse effects on resource allocation in the economy.

The Finance Minister responded that he is in general agreement with the objectives of the proposals and that we can expect action to implement them in due course. However, a number of the necessary measures will raise political difficulties, and the Minister has emphasized that the detailed steps and their timing must be left to the Government. Meanwhile, a few specific steps have already been taken, i.e., the reorganization of the financial ministries, removal of inappropriate incentives in industry and some additional revenue measures.

IMF Activities

1. Sudan's quota with the Fund is equivalent to SDR 72 million, of which SDR 13.0 million has been paid in gold. Excluding purchases under the Oil Facilities and compensatory financing, the Fund's holdings of Sudan's currency amounted to 159 percent of the quota on April 29, 1976. Since then the Board of the Fund has approved a purchase by Sudan of the equivalent of SDR 26.7 million under the 1975 Compensatory Financing, with respect to an export shortfall for Calendar Year 1975. Previous uses of Fund credit were (a) purchases totalling \$47.01 million under the 1974 and 1975 Oil Facilities; (b) a purchase of SDR18.0 with respect to an export shortfall for the 12-month period ending October 31, 1974; and (c) drawings under the regular tranche policy totalling SRD58.5 million.

2. The regular tranche drawings were supported by standby arrangements (March 1972, July 1973 and July 1974) with financial programs meant primarily to restrict credit expansion. In all three cases the programs achieved only limited results. The 1976 Article XIV discussions were held in Khartoum during the last week of April, but failed to reach agreement on a financial program for a new standby. We also understand that the IMF had insisted upon a devaluation of the Sudanese pound and that while the Government was not prepared to make such a commitment at the present time, Finance Minister Beheiry indicated he would raise the issue with the President.

Bank Group Activities

1. With the approval of the Domestic Aviation project, scheduled for Board presentation on June 15, there will be 12 Bank/IDA projects under implementation. The total cost of these projects is about \$545 million, of which the Bank/IDA contribution is \$200 million, or 35 percent. Of the Bank/IDA contribution, about \$50 million is for projects benefiting Southern Sudan. IFC has one textile project under implementation. While there are, of course, weaknesses in the implementation of all these projects, in general, performance is reasonable. Three current exceptions which give us cause for concern are the First Education project, which has suffered badly from poor management and lack of priority within the Government, the Second Power project, where management problems also persist, and the railway project. President Nimeiry recently devoted two days to the Corporation responsible for the power project and we will look forward with interest to seeing the result during the next review mission. So far as railways are concerned, while we plan a fourth railways project, we are concerned at the lack of awareness by the Railways Corporation of the urgency of upgrading their equipment maintenance system. The Rahad project is being implemented on a very tight schedule, dictated partly by rainfall and river levels. It will not be apparent until the end of this dry season whether delivery of the first irrigation water can be expected on schedule on June 1, 1977.

2. The priorities for our future lending are being shaped partly by the conclusions of the ILO Comprehensive Employment Strategy. Among the projects under discussions, there are several projects which will emphasize agricultural production in the least developed areas of Sudan (the West and South), as well as expansion in the modern sector. Transportation will continue to receive a strong emphasis. Undoubtedly a higher level of Bank Group lending would be possible on the basis of on-going project preparation work. At the same time we feel the expanding level of project preparation work will facilitate the inflow of capital from other sources, through co-financing arrangements.

3. Economic and Sector work planned for Sudan following recent discussions with the Government includes a study of the parastatal corporations, to evaluate their performance and prospects, especially from the point of view of an adequate incentive and organizational framework to facilitate efficient production. In the agricultural sector, the Government has asked that we review the performance of the existing irrigation schemes, where there is rising concern over

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their productivity and financial results. Additionally, Bank staff will assist the Government in making macro-economic projections for the Six-Year Plan and in developing a long-term planning model of the Sudanese economy.

4. EDI has recently completed a highly successful series of four project analysis courses in Khartoum, in the agricultural, agro-industrial and transportation sectors. Sudanese receptivity to these courses was high. A further program of EDI courses in Sudan is under discussion with the Government.

5. The Bank continues its work of executing the UNDP financed Planning project. This has not been as successful as we and the Government had hoped, and it was necessary to change the leadership recently. However, on balance the contribution made by the team has been useful, particularly in regard to training.

IFC Operations

6. Until recently IFC had made only two investments in a textile factory near Khartoum. However, since 1974 an intensified promotional effort has been made to develop new projects. This effort has focussed on identifying projects in the agricultural and agricultural based sectors and has so far resulted in the financing of a fully integrated textile mill and a number of promising investment possibilities including projects in livestock and meat processing, poultry, fruit and vegetable processing and canning and an industrial estate. In pursuing that policy, particular efforts were made at identifying foreign technical partners, willing to enter into joint ventures with Sudanese private investors and at co-financing of projects by foreign institutions. Of major help to our activity was the close working relationship developed with the Sudan Development Corporation (SDC) and the Industrial Bank of Sudan (IBS).

BIOGRAPHICAL DATA

GENERAL GAAFAR MUHAMMAD NIMEIRY
President

General Nimeiry has been President of Sudan since he staged a successful coup d'etat in May 1969. During the early part of his rule he was influenced by strong left wing sentiment, but he has gradually shifted to a more balanced position. Nimeiry has survived several attempts to remove him from power, the most recent being in September 1975. On each occasion, the Army has asserted itself in Nimeiry's support.

In the last two years, Nimeiry has taken a close interest in foreign policy, visiting many countries in the Arab world and South Asia. He has developed a rather remarkable, open approach to the Sudanese people, which is populist in nature. His monthly broadcasts are suprisingly frank and responsive discussions.

Nimeiry was born in Omdurman in January 1930. He graduated from military school in 1952 and subsequently served in every military district in Sudan. His career was interrupted several times by arrests for participation in anti-government activities. In 1965 Nimeiry came to the United States to attend the Command and General Staff School at Ft. Leavenworth, Kansas. Returning to Sudan in 1966, Nimeiri was assigned first to the Eastern Command and later to the Southern Command, where he distinguished himself fighting the rebels. From early 1969 until the coup he was attached to the Infantry School at Jubayt.

The President enjoys reading history and Arab literature. He was formerly an active soccer player. He is married but does not have any children. In addition to his native Arabic, Nimeiry can speak English. He has travelled extensively and has visited both the Soviet Union and China.

MAMOUN BEHEIRY
Minister of Finance

Born in 1925, Mamoun Beheiry was educated at Victoria College in Alexandria and took a degree in Economics at Oxford. A former Secretary to the Ministry of Finance he founded the Bank of Sudan and was its first Governor (1959-63). He was the Minister of Finance (1963-64) and then became President of the African Development Bank at Abidjan. During the first three years of the Nimeiri regime, Beheiry held no significant post in government, being considered too closely associated with the earlier regimes, and being out of sympathy with the extreme left-wing position of the government. However, soon after the settlement in Southern Sudan in March 1972, President Nimeiri appointed him with ministerial rank as the President of the Board of Trustees for the Special Fund for the relief and rehabilitation of the Southern Region. He was reappointed Minister of Finance in February 1975.

MANSOUR KHALID
Minister of Education

Mansour Khalid was appointed Minister of Foreign Affairs in August 1971. He had previously served since July 1970 as Sudan's Permanent Representative to the United Nations. Prior to that he had a brief term as Minister of Youth and Sports. Khalid is widely respected for his intelligence and integrity.

Khalid was born in January 17, 1931. After graduating from the University of Khartoum in 1957, he attended the University of Pennsylvania where he received an LL.M. degree in 1960 and the University of Paris, where he received an LL.D. degree in 1964. From 1957 to 1959 he was an attorney in Khartoum and served as a legal officer for the United Nations during 1962-63. From 1964 to 1965 he was in Algiers as Deputy UN Resident Representative and from 1965 to 1969 he served with UNESCO in Paris. In 1968 Khalid received a leave of absence to serve as visiting Professor of International Law at the University of Colorado.

He took a leading part in the diplomatic negotiations ending with the settlement of the South and was connected with the international

relief efforts which followed. During the Consultative Group meeting in 1973, he was the leader of the Sudanese delegation rather than the Minister of Finance.

He was appointed Minister of Education in February 1975.

DR. BASHIR AHMED ABADI
Minister of Transportation

Born in 1936 in Omdurman and educated at the University of Khartoum (M.Sc.1961) and in the USA (Doctorate in 1966). He is a mechanical engineer. He lectured for a while at the University of Khartoum and was a member of the Board of Sudan Railways Corporation in 1968 and 1969. He was the Chairman of the Board of Sudan Airways in 1969/70 and Dean of the Faculty of Engineering at Khartoum in 1970/71.

He has written several papers on technical education and manpower training in Sudan.

He became Minister of Transportation and Communications in 1972.

BADRELDIN SULEIMAN
Assistant Secretary General, Sudan Socialist Union
and Minister of Industry

Born in 1933. Took a degree in law at Cairo University. Practised as a lawyer in both the private and public sectors. He rose through the Sudan Socialist Union and has played a major role in developing the ideology of the Sudan Socialist Union. He was overseer of the First People's Assembly and participated in the drafting of the present Constitution of Sudan. Became Minister of Industry in February 1975. Is Chairman of al Ayam newspaper.

DR. FRANCIS MADING DENG
Minister of State for Foreign Affairs

Born in 1938. Studied law at Khartoum, London and Yale, where he received a doctorate. From 1967-72, he worked at the United Nations Headquarters, teaching part time at New York and Yale Universities. In 1972-74 he was Ambassador to the Scandinavian countries and in 1974-76 he was Ambassador to the United States.

He has published several books and articles on the Dinka, his tribe in Southern Sudan.

OFFICE MEMORANDUM

TO: Files

DATE: January 7, 1977

FROM: W. A. Wapenhans *Wg.*SUBJECT: SUDAN - Visit of Ambassador with Mr. McNamara

1. The Ambassador of the Sudan to the U.S., H.E. Omer Salih Eissa, accompanied by the Minister of the Embassy, Mr. El Rashid Khider, called on Mr. McNamara on January 6 at 6:30 pm. I was also present. The visit was essentially a courtesy call, though the Ambassador raised a number of questions, the discussion of which is recorded below.
2. The Ambassador conveyed the appreciation of the Bank Group's work in the Sudan of the President and his Government to Mr. McNamara. He asked that the Bank continue along present lines with as much emphasis on agriculture and infrastructure as possible and hoped for increased levels of support. In this context, he enquired about the possibilities of increased IDA flows to the poorest member countries. Mr. McNamara reviewed the status of the negotiations of IDA V and the complications that might arise for FY1978 because of the time needed for ratification. However, he expressed confidence that the replenishment would be at a level higher than that of the fourth replenishment, which should enable IDA to make commitments at rates exceeding substantially those reached in FY1976 and especially in FY1977.
3. The Ambassador, referring to the meeting between President Nimeiri and Mr. McNamara, also enquired why the recent consultative group meeting had not moved more in the direction of a pledging session. It was explained that donor governments may well react unfavorably to such attempts and that we had not thought it to be in the interest of the success of the consultative group to move in that direction. However, we had allowed for bilateral consultation during the meeting which should have accelerated the process of ascertaining the level of support other donors were prepared to make available.
4. The discussion then turned to the forthcoming informal development seminar called by President Nimeiri. Mr. McNamara expressed regret that he could not participate at this time since the IDA negotiations, as well as other questions of the refinancing of the Bank Group, made his presence in Washington - especially at the time of a change-over in the U.S. Administration - essential. The meeting ended on a cordial note at 7 pm.

cc: Mr. McNamara's Office
Mr. Please
Mr. Tolley

WAWapenhans:rs

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: December 30, 1976

FROM: W. A. Wapenhans

SUBJECT: SUDAN - President Nimeiri's Seminar on Economic Development

1. Attached please find the formal invitation to you from H.E. Mansour Khalid. It also includes a list of invitees, to which has now been added the Italian Minister of Foreign Commerce. The invitation is dated December 9 but it was handed to me by a representative of the Sudanese Embassy only on December 27. We had, however, advanced notification to which we responded on December 20 (copy of my letter attached). Today the Sudanese Ambassador, H.E. Omer Salih Eissa, came to see me also to follow up on this matter. I reiterated that other pressing commitments prevented you from going to the Sudan at this time and that my attendance was unlikely since, in the week following, I have to undergo further medical tests as well as remain in Washington for consultations with BADEA, ODM and Mr. North of RMEA, and also prepare for my first visit to Zaire in response to an invitation from the President of that country. (This visit is preparatory to the Consultative Group meeting agreed on in Manila).

2. Meanwhile, we have made arrangements for Mr. Please to break his home leave and attend the Nimeiri seminar on behalf of the Bank. As far as we have been able to ascertain, it is likely that of those personally invited, Mr. Morse, UNDP, Paul Marc Henry, OECD, Dr. Zaki of the Abu Dhabi Fund, Mr. Kish of Bank Meli, Iran, and the Italian Minister of Foreign Commerce will attend. Mr. LePorts, President of the EIB, has not yet decided and Mr. DuBrul of the Exim Bank is not likely to attend. Most agencies apparently plan to be represented, however.

3. H.E. Omer Eissa has also asked to see you at your earliest convenience. He felt quite reassured that Mr. Please will represent the Bank but may still press for your attendance. At the same time, he will want to pay a courtesy call on you. Since he has only recently assumed his assignment here as the new Ambassador, I recommend that you see him and confirm with him that we will be represented by Mr. Please at the Nimeiri seminar. We will prepare a brief for your meeting with H.E. Omer Eissa. In addition, we suggest that you send a letter along the lines of the attached draft to Mansour Khalid.

1/3
Thani
1/6
at 6:30 PM
OK

Attachments

WAWapenhans:rs

December 20, 1976

Dr. Mansour Khalid
Assistant to the President
for Coordination and Foreign Affairs
Khartoum, Sudan

Your Excellency:

Mr. McNamara has received with pleasure your letter conveying President Nimeiri's invitation to attend the discussion on financial aspects of development in the Sudan on 8-9, January 1977.

He has asked me to inform you that, while he himself will not be able to attend the discussion because of pressing commitments relating to the financing of the Bank and IDA, we will arrange to be represented at the meeting. We are now considering our attendance at the meeting and will be in touch with you as soon as we receive your letter and further information on the planned discussion.

I recall with great pleasure the meeting we had recently during my visit to Khartoum. Once again I should reiterate my sincere thanks for the very kind reception I received in the Sudan.

Sincerely yours,

Willi Wapenhans
Vice President
Eastern Africa Region

cc: Mr. R. McNamara, President (w/incoming)

JTDucker:jt

Meeting with the Sudanese Ambassador
His Excellency Omar Salih Eissa

The meeting was requested by the Ambassador to permit him to introduce himself following his appointment to Washington in November. A biographical summary is attached.

Mr. Wapenhans recently met the Ambassador and discussed a number of topics of current interest. A record of his meeting is also attached.

A number of other matters should be drawn to your attention. Towards the end of this month the Second National Congress of the Sudan Socialist Union will take place. Apart from the selection of senior party officials and possibly some changes in ministerial appointments, the Congress will be asked to approve the Six-Year Plan for the period July 1, 1977 - 1983. The Plan is ambitious; draws heavily on several other major studies, including the ILO-UNDP Comprehensive Employment Strategy Mission (in which Bank staff participated significantly), a Transportation Study and the Arab Fund's Agricultural Study; and is predicated on a continued high level of capital inflows from both Arab and non-Arab sources. The newly established Arab Authority for Agricultural Investment and Development is expected to facilitate financing of the Plan.

Bank Group lending has averaged \$45 million per annum over the last four years, and, apart from \$9 million of Third Window lending in FY76 for the Domestic Aviation project, has consisted entirely of IDA funds. In FY77 lending is likely to be less than this, due partly to the limited IDA funds available, but is expected to be higher again from FY78. You are scheduled to review the Sudan Country Program again on March 23. The third attachment to this note summarizes the projects in the program which are at the most advanced stage of processing.

Attachments

January 5, 1977

Biographic Summary

Omar Salih Eissa
Ambassador of Sudan to the United States

| | |
|--|---------|
| Graduated in Engineering, University of Khartoum | 1963 |
| Masters Degree in Engineering, University of Washington, Seattle | 1966 |
| Private practice in engineering | 1967-72 |
| Member of the People's Assembly | 1976 |
| Member of the Sudan Socialist Union Central Committee | 1974-75 |
| Deputy Minister of Youth | 1975 |
| Ambassador to the United States | 1976 |

OFFICE MEMORANDUM

TO: Files

DATE: January 4, 1977

FROM: Howard E. Tolley, Chief, CP1B, EAN

SUBJECT: Sudan Ambassador's courtesy call on
Mr. Willi A. Wapenhans on December 30, 1976

The Ambassador of Sudan to the US, His Excellency Omer Salih Eissa, accompanied by the Minister of the Embassy, Mr. El Rashid Khider, called on Mr. Wapenhans on December 30. I was also present.

2. Mr. Wapenhans briefly summarized the meeting of the Sudan Consultative Group which was held in Paris on November 4th and 5th, 1976. He noted that from the Bank's point of view the meeting was quite successful and our impression was that the Sudanese delegation led by the Minister of Finance, Planning and National Economy, Mr. Mamoun Beheiry, also felt that it had been a worthwhile exercise. We felt that the Sudanese delegation had been very impressive in its presentation and discussion of Sudan's development plans and policies and financing problems. There was no question that the participants in the meeting went away with a much deeper and clearer understanding of Sudan's problems. While the CG meeting was not a pledging session (and was not intended to be) there were grounds for hoping that the meeting would result in a greater inflow of development assistance to Sudan in due course.

3. The Bank's pipeline of proposed lending to Sudan was discussed. It was pointed out that we are planning to seek approval of two operations during the current fiscal year; one for the Savannah Project - a rural development project in western Sudan - and a fourth loan for the Sudan railways which would include rolling stock (freight wagons), track rehabilitation, communications equipment and support for workshop and maintenance improvements. Looking beyond the current fiscal year the Ambassador enquired whether we were planning to lend for highways and ports. We informed him that we are planning to lend for a second highway project for a road along the White Nile, south of Khartoum for which detailed engineering is underway. Regarding ports, Mr. Wapenhans informed the Ambassador that we are in process of reviewing two feasibility studies - one for the expansion of Port Sudan and one for a proposed new port at Suakin. He noted our understanding that Saudi Arabia and Federal Republic of Germany have agreed in principle to provide financing for Port Suakin. We have tentatively included in our lending program financing for a port project in FY78. Pending the completion of our review of the two feasibility studies, it is premature to say whether this financing will materialize and if so whether it will be for Port Suakin or the expansion of Port Sudan.

Files

January 4, 1977

4. The discussion then turned to a special meeting on financial aspects of Sudan's development which President Nimeiry has called in Khartoum for January 8th and 9th, 1977. Mr. Wapenhans explained that Mr. McNamara would not be able to attend due to prior very pressing commitments. Mr. Wapenhans also pointed out that it would not be possible for him to attend because of medical reasons. Mr. Stanley Please has therefore been asked to represent the Bank at the meeting. The Ambassador, though regretting that Mr. McNamara and Mr. Wapenhans could not attend, indicated that he understood the reasons and he welcomed the participation of Mr. Please.

5. In closing, Mr. Wapenhans agreed that he would seek to arrange an appointment for the Ambassador to make a courtesy call on Mr. McNamara next week.

cc: Mr. Willi A. Wapenhans, RVP, EAN

HETolley/bb

Sudan Projects Under Consideration

Savannah Development

A rural development project designed to start the process of development in a large part of Southern Darfur province in Western Sudan, one of the poorest and most remote parts of Sudan. USAID and the African Development Bank may participate in the financing. Due for Board Presentation in FY77. Total cost \$38 million; proposed IDA contribution \$17 million.

Fourth Railways Project

An essential part of the transportation development plan for the period of the Six-Year Plan. The project will be quite large and involve co-financing with the European Development Fund, Arab Fund and Kuwait Fund. Due for Board Presentation in FY77. Total cost \$122 million; proposed Bank Group contribution \$21 million.

Livestock Marketing Project

A project designed to facilitate the movement of livestock to both domestic and export markets, under the newly established Livestock and Meat Marketing Commission, and to improve the price received by the nomadic producers. Arab Fund participation is expected. Due for Board Presentation in FY78. Total cost about \$40 million; proposed IDA contribution \$15 million.

Agricultural Research and Extension

The outcome of two years work by the Ford Foundation to identify the agricultural research needs of the country. The focus is likely to be on dryland farming in the Western Savannah region. Due for Board Presentation in FY78. Cost not yet established.

Port Development

Necessary expansion of port facilities associated with development of a new port. A difficult investment decision, involving bilateral financing by Germany and Saudi Arabia. Appraisal planned for early 1977 and Board Presentation in FY78. Cost depends on definition of project.

Second Highways Project

Trunk road construction from Jebel Aulia (near Khartoum) to Rabak, with a branch and new ferry to Dueim. A road from Sennar to Roseiries originally included in this project is being financed separately by the Arab Fund and Kuwait Fund. Board Presentation in FY78. Total cost \$80 million; proposed IDA contribution \$20 million.

Third Mechanized Farming Project

Further expansion of mechanized farming in the Southwest of the country, with special emphasis on integration of livestock into the farming system. Board presentation possibly in FY78. Cost depends on more precise project definition.

OFFICE MEMORANDUM

TO: Files

DATE: Sept. 20, 1977

FROM: Stanley Please, Dir., EA CPI

SUBJECT: SUDAN - Visit of Dr. Abdulla Ahmed Abdulla Minister of Agriculture

1. On September 8, 1977 Mr. McNamara met Dr. Abdulla, at the latter's request, to discuss Sudan's agricultural development program. Mr. Burmester, Mr. Ducker and I were present.
2. The Minister summarized the agricultural component of the Six-Year Development Plan (1977-83) recently adopted by Sudan. He described it as having a judicious balance between investment in modern sector agriculture and traditional agriculture. This represented a significant change in emphasis, for which there was political support. However, due to the influence of on-going projects, this change would not be reflected in the pattern of investment expenditures until later in the Plan period. In the aggregate, 28% of funds to be invested in the agricultural sector would be for traditional agriculture, and in the Southern Region the proportion would be 40%. Continued investment in the modern sector would be required for fiscal and balance of payments reasons alone. The Minister considered that the Bank's program in the agriculture sector had been adapted to support the Government's revised priorities. Mr. McNamara congratulated the Minister on what was clearly a most important change in emphasis in Sudan's development program with much significance for the country.
3. The Minister referred to the need for appropriate fiscal and economic planning for the agricultural sector and mentioned recent recommendations for reforms which he had made which are now under consideration by the Sudan Government. He informed Mr. McNamara of the status of establishment of the Arab Authority for Agricultural Investment and Development (AAAID). The Board of AAAID is due to meet on September 20, 1977 and it is expected to start activities shortly thereafter.
4. The Minister raised two matters which he requested the Bank to consider with a view to assistance. The first was a need for investment in the Northern Provinces of Sudan to combat desert encroachment and river erosion on the settlements and agricultural areas bordering the Nile. The second was a need to re-examine the institutional organization of the Ministry of Agriculture, in light of the greater importance to be given to traditional agriculture. Mr. McNamara said the Bank would examine both matters and inform the Government of our conclusions. He requested Mr. Please to keep him informed on the second question.

cc: Messrs. W. A. Wapenhans
H. A. Adler
C. H. Walton
J. F. A. Russell

JTDucker:jt

OFFICE MEMORANDUM

TO: Files

DATE: June 22, 1978

FROM: Sven Burmester, Division Chief, EA2DB

SUBJECT: SUDAN - Mr. McNamara's Meeting with the Sudanese Ambassador on
Wednesday, June 21, 1978 at 5:55 p.m.

1. The Ambassador of Sudan to the United States, Omar S. Eissa, met with Mr. McNamara in his office at 5:55 p.m. on June 21, 1978, for five minutes to convey his Government's invitation to Mr. McNamara to attend the Organization of African Unity Meeting in Khartoum on July 18, 1978.
2. The Ambassador said that a formal invitation had not yet been prepared by the Ministry of Foreign Affairs, but that his Government would be very grateful if Mr. McNamara could attend the meeting. Mr. McNamara said that obligations in Washington during the month of July would prevent him from going to the Sudan on July 18, but that he would be very pleased to send Mr. Burmester as his personal representative to the meeting. The Ambassador regretted that Mr. McNamara could not personally come to the Sudan but said that an invitation to Mr. Burmester would be forthcoming.
3. The Ambassador said that the Sudan would be the Chairman of the OAU for the coming year and that he hoped that Mr. McNamara could visit the Sudan during that period. Mr. McNamara said that if he could fit it into his schedule, he would be very pleased to do so. The Ambassador also mentioned that President Nimeiri would come to the UN General Assembly in the fall of 1978 and that a meeting might be arranged at that time between President Nimeiri and Mr. McNamara. Mr. McNamara said that he would be pleased if such a meeting could be arranged.

cc: Messrs. Wapenhans, EAN
Gue, EA2DR (o/r)
BLinkhorn, EA2DB
Mr. McNamara's office

SB:mm

OFFICE MEMORANDUM

TO: Files

FROM: Sven Burmester, Chief, EAN-CPIIB

SUBJECT: SUDAN - Mr. McNamara's meeting with the Minister of Finance,
Mr. Osman Hashim Abdel-Salam, on July 27, 1978

DATE: July 28, 1978

1. Mr. McNamara met with the Minister of Finance and National Economy for Sudan, Mr. Osman Hashim Abdel-Salam, on July 27, 1978 from 6 p.m. to 6:23 p.m. in Mr. McNamara's office. The Sudanese Ambassador, His Excellency Omer Salih Eissa, the Economic Counselor in the Embassy, Mr. Ahmed Salim, Messrs. Thahane, Gulhati, Koch-Weser and myself were also at the meeting.
2. The Minister brought personal greetings from President Nimeiri to Mr. McNamara, and said that President Nimeiri now had decided that a period of consolidation and financial reforms was required for the Sudanese economy. In this context, the Minister mentioned the June 1978 agreement with the IMF and the conditions attached to this agreement. He was personally very worried about the imbalance in the economy and in particular, the arrears. The Minister said that he had also been dismayed to learn of the late payments on IBRD loans and IDA credits. He had now issued a firm instruction to the Central Bank that all payments to international finance institutions and in particular to the World Bank Group should be kept up to date. He assured Mr. McNamara that there would be no recurrence of late payments for Sudan. He had also assured the IMF that the arrears on all debt would not increase and that measures would be taken to decrease and eventually eliminate them. To this effect, he had obtained agreement with Kuwait and Saudi Arabia for rescheduling of the debt owed to these two countries, and that a mission was presently in Kuwait to work out the details. He hoped to obtain similar arrangements with the United Arab Emirates and commercial banks. It was still the Government's intention to implement the 6-year plan, but the first period of the plan would now be one of stabilization and improvement of existing projects and facilities. This stabilization period would be followed by an accelerated phase. Export earnings and domestic resources would not be sufficient to finance the plan and foreign resources were required. He hoped that the Bank would participate in this effort through calling a consultative group meeting as early as possible and providing an industrial import credit. He asked whether the Bank would be willing to consider these two matters by joining the IMF mission scheduled for October 1978.
3. Mr. McNamara thanked the Minister for his lucid and wise explanation of the state of the Sudanese economy. Mr. McNamara said that the Minister had inherited a poorly managed economy. It would take difficult political decisions to put the economy back on track. The decisions required to do so would be for the Sudanese Government to make but the Bank would be anxious to help Sudan develop its great

July 28, 1978

potential. We would be willing to join the IMF mission in October. But it should be emphasized, it would be in nobody's interest to call a consultative group meeting before the Government had an adequate program with clear indication of current and capital expenditures and investment priorities. We would also be willing to review our lending program to Sudan after the October mission.

4. Mr. McNamara said that he had been shocked by hearing about the disastrous flooding in Sudan in recent days. The minister said that President Nimeiri had been touring the area and had called for international institutions to provide help in the situation. Mr. McNamara said that the Bank could not provide humanitarian assistance but that it would be willing to appraise the rehabilitation needs if so requested.

SBurmester:lrg

cc: Messrs. McNamara, Adler, Gulhati, Maubouche and Maane

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: July 27, 1978

FROM: Hans A. Adler, Acting RVP, EA

SUBJECT: SUDAN - Meeting with Finance Minister

1. The Minister of Finance and National Economy for Sudan, Osman Hashim Abdel-Salam, is scheduled to meet with you in your office at 6:00 p.m. on Thursday, July 27, 1978. Messrs. Burmester and Gulhati will accompany him. Attached is a brief biographical note.

2. The minister is here mainly to discuss with Fund officials the implementation of recent agreements under which Sudan has received IMF approval to draw down a total of 51 million SDR's in two support facilities and to discuss requirements for a full Standby Agreement. He requested an opportunity to apprise Bank officials of these developments and to explore with us (a) the prospects for convening a Consultative Group meeting for Sudan later this year and (b) the possibilities for an industrial imports credit. He will undoubtedly wish to raise these matters with you.

3. As you will note from Mr. Maubouche's memorandum to me (copy attached), these matters were discussed with Messrs. Wapenhans and Gue earlier this year. We have discussed them again during the minister's present visit. While in principle we believe we should be prepared to assist Sudan in these matters, we also feel that progress will depend critically on prior action in the following areas:

- a) Sudan's ability to reach agreement with its major creditors in resolving its very serious arrears problem. Discussions are already underway with Kuwait and Saudi Arabia. As part of this exercise, we would also expect the Government to institute much more effective measures to ensure timely remittance of service payments on existing Bank loans and credits.
- b) Agreement between the Government and the Fund on a draw down of higher tranches of a Standby Agreement. A Fund mission is expected to visit Sudan in October to review progress in implementing the existing agreement for the first tranche and to discuss terms for further support.
- c) Sudan's success in producing a detailed and acceptable public investment program for the next two years. The Government is now working on this and will have to scale down considerably many investment objectives in the present six year plan.

- d) For the Consultative Group meeting, agreement on an agenda and documentation to be circulated to participants.

4. We have informed the minister that any possible future program credit could not be considered "additional" to the proposed Bank lending program. The minister, in noting the Bank's position on these points, requested that we discuss them again at the Annual Meetings. We agreed that Bank staff should visit Sudan in the fall, possibly to overlap with the Fund mission.

5. We would propose to discuss all of these matters at greater length during the Sudan CPP review later this year.

Attachment

TBlinkhorn:jt

BIOGRAPHICAL NOTE

Osman Hashim Abdel-Salam

Minister of Finance and National Economy

Graduated from Cairo University with the degree of B. Comm. and from the University of Chicago in 1960 with a master's degree in economics. Lecturer in economics, University of Khartoum, 1960-62. Economic Commission for Africa, 1962-75, including resident assignments in Rabat and Dakar. Deputy Managing Director, Sudan Development Corporation, 1975-76. Minister of State for National Economy 1976; Minister of State for Finance and National Economy, February, 1977. Minister since early this year.

OFFICE MEMORANDUM

TO Mr. Hans A. Adler, Acting RVP, EA

DATE July 27, 1978

FROM: Robert Maubouche, Acting Dir., EA CP2

SUBJECT: SUDAN - Meeting with Finance Minister

1. The Minister of Finance and National Economy, Mr. Osman Hashim Abdel-Salam, will call on you at noon on Thursday, July 27, 1978. He will be accompanied by Mr. Ahmed Salim, Economic Counselor in the embassy here. Following is background information on recent developments in the Sudan economy, including preliminary findings of the latest economic mission and a synopsis of the Government's recent agreements with the Fund; a brief report on my meeting with the Minister on Tuesday, July 25; a summary of the issues the Minister is likely to raise with you and the Bank's past position on these matters; suggestions for your response to the Minister. Attachments include the current status of Bank Group Operations in the Sudan and the latest approved lending program.

Recent Economic Developments

2. The most urgent and formidable task facing the Government is to bring the very difficult domestic and external financial situation into balance again. Public savings have been negative for a number of years and overall public sector deficits have been largely financed by short-term domestic bank borrowing. The balance of payments has increasingly shown large overall deficits. Official foreign reserves are virtually exhausted, and the Sudan has accumulated arrears in external payments. As of May 1978, total arrears were estimated about \$850 million (see table attached). The shortage of foreign exchange has caused severe problems in obtaining spare parts and other necessary inputs. As a result, there is now considerable underutilization of capacity, particularly in manufacturing and large-scale agriculture.

3. The main cause of the domestic financial situation is the fact that growth in recurrent expenditure has consistently outstripped growth in revenue. The main reasons for this are an inelastic tax system, lack of budgetary discipline, and poor financial results of public enterprises, which instead of contributing to Government revenue, have been a drain on the budget. On the positive side, development expenditures have increased fast. Most of these investments have gone into priority sectors, such as infrastructure, to relieve the constraints posed by the inadequate transport system, and into agro-industries.

4. The main reasons for the unfavorable balance of payments situation 1/ are:

- a) the already mentioned expansionary fiscal policies and a decline in net external assistance;
- b) a sluggish export performance;
- c) injudicious borrowing in 1974/75 with short maturities, which is causing heavy debt service obligations now.

5. As for the disappointing export performance, the system of incentives, including taxes, subsidies, exchange rate etc., have worked against export growth. In irrigated agriculture, the main source of exports (cotton), there is an additional disincentive. The present system of burdening only cotton with cost of inputs causes tenants to neglect cotton, for which the Sudan has the greatest comparative advantage. Instead, they have concentrated on other crops, some of which have no international comparative advantage, but yield greater cash incomes.

6. The present high debt service obligations are very worrisome. Outstanding disbursed external public debt increased from \$360 million at the end of 1972 to more than \$1.7 billion at the end of 1977, as a result of which the debt service ratio increased from 11 percent in 1973 to 36 percent in 1978. In the absence of a debt rescheduling arrangement, debt service obligations will remain very high for the next four or five years. The Government is aware of the necessity to reschedule its debt and is pursuing bilateral agreements.

7. Recently, there has been much greater awareness by Government officials of the seriousness of the economic and financial situation. There seems to be a realization at the highest levels that for the next few years the government's highest priority will be to help restore financial stability, domestically and externally. Over the last few years the Bank and the Fund have had various discussions with Government on the measures necessary to obtain this objective. The main thrust of the recommended policy action has been as follows:

- a) An exchange rate adjustment.
- b) Reforms in the existing tax structure of the agriculture sector to increase the relative profitability of export crops.

1/ The overall balance of payments deficit, which amounted to some \$100 million in 1975/76 is estimated to have increased to more than \$500 million in 1977/78.

- c) Measures to ensure greater bouyancy of revenue and to curb the rise of recurrent expenditure.
- d) Rationalization of the existing foreign trade taxes (including export taxes).
- e) A more realistic public investment program, taking into account the expected availability of domestic and foreign resources.

Agreement with the IMF

8. In June 1978, the Government, in requesting an IMF Trust Fund Loan and a purchase in the first credit tranche (totalling SDR 51 million), agreed to an economic and financial program, incorporating some of the measures outlined above. It is expected that this agreement will be followed by a full stand-by agreement later this year, involving a more comprehensive program covering a period up to mid-1980.

9. The June 1978 IMF agreement involved a devaluation of the Sudanese Pound, effectively by 20 percent, and declarations of intent by Government to keep deficit financing within certain limits, to limit short and medium-term foreign borrowing, to introduce by September 1 land and water charges in major public irrigation schemes, not only for cotton but also for other major crops, and to abolish the export tax on cotton, also by September 1. If implemented, the last two measures, in conjunction with the devaluation, would be an important step towards restructuring the incentive system in agriculture.

10. In the framework of the stabilization program, it seems inevitable that development expenditures for the next few years will have to be maintained at levels below those envisaged in the six year development plan 1977/78-1982/83. The Ministry of Planning is now engaged in making the necessary adjustments for 1978/79 and 1979/80. In this regard the Government recognizes that it is necessary to concentrate on development expenditures that will contribute as quickly as possible to the growth of production, exports and revenue, and on investment in infrastructure that support this growth.

Meeting with Minister and Regional Staff

11. At a meeting with myself and regional staff Tuesday afternoon, the Minister briefly discussed the background of the recent agreements with the Fund, and explained, in general terms, his recent efforts to consolidate and reschedule government to government debt with Sudan's

two largest creditors—Kuwait and Saudi Arabia. He said he had been achieving some success in this regard, that agreement with Kuwait seemed imminent and that a similar type arrangement was being finalized with Saudi Arabia. The minister indicated that the net result of these arrangements would be a moratorium on debt service payments to Kuwait and Saudi Arabia for two to three years plus easier grace and amortization schedules. He indicated that he next wanted to discuss the possibility of easier debt repayment programs with certain commercial banks and felt confident of enough success in these efforts to shun completely the possibility of convening a Paris Club meeting.

12. We reviewed some of the preliminary findings of the recent economic mission and provided the Minister with a table showing our provisional estimates of external public debt outstanding. He requested, and we agreed to consider sympathetically continued Bank assistance in strengthening the debt management unit in the Ministry of Finance.

13. We noted that the revised public investment program for the three years 1978/79-1980/81 had been promised to us but not received. This information was vital for the economic mission to complete its report. The Minister said that the 1978/79 development budget is now being prepared, and that he would press his colleagues in the Ministry of Planning to produce the 1979/80 development budget soon after that. He also noted that the economic mission's findings with respect to future resource availability would be essential for the Government's exercise in this regard.

Issues Likely to be Raised by the Minister

14. The Minister has indicated that he wants to raise with top management the prospects for convening a Consultative Group meeting and for obtaining what he terms an industrial imports credit. These matters have been discussed previously, most recently with Mr. Wapenhans in January of this year and again with Mr. Gue during his visit to Khartoum in late February. The stated Bank position on these matters, as enunciated at those meetings, is summarized below:

a) Consultative Group Meeting

- Last meeting convened by Bank in Paris in November, 1976.
- Bank current position is that it would not be wise to move too quickly to convene another meeting until
 - (i) Sudan can demonstrate progress in resolving its serious arrears problem with major creditors;
 - (ii) agreement is reached on a specific agenda and documentation, including the Agriculture Sector Report which has been regarded for some time as a priority item to be discussed and for which substantial external assistance will be required. Even under most optimistic assumptions, meeting

could not be convened until early 1978, although announcements could be sent out earlier.

b) Industrial Imports Credit

- Mr. Gue informed Government in February that Bank Group would in principle be willing to consider program credit of US\$30-50 million.
- Such a credit could not be considered "additional" to anticipated lending program, however. It would have to substitute for contemplated projects, although in the event Sudan were to become creditworthy for Bank lending, future loans could make up for IDA resources used for program credit.
- In order for Bank Group to even consider such a lending operation, certain steps by Government would be essential:
 - (i) Sign Agreement with IMF to draw down higher support tranches;
 - (ii) Implement necessary measures under Fund program to begin to restore financial balance and fiscal discipline.
 - (iii) Formulate a detailed investment program, including public expenditure requirements for priority development efforts and associated corrective policy actions over next two or three years.
 - (iv) Adjust public expenditure program to be in line with expected available financial resources. With respect to recurrent budget, emphasis should be placed on maintaining an adequate level of development related recurrent expenditures.
 - (v) Formulate an orderly program for elimination of arrears with major creditors.
 - (vi) Develop a better mechanism for repaying service payments on outstanding Bank loans and credits.

15. In light of the fact that less than two months has elapsed since Sudan announced its stabilization program with the Fund (June 8), you may wish to suggest to the Minister that we should review the situation again at the Annual Meetings and, if Government agreed at that time, we would be prepared to have staff overlap with Fund mission expected to visit country in October.

Cleared with & cc: Messrs. Burmester, Maane, Blinkhorn, Amoako

SUDAN - ESTIMATED ARREARS

ON EXTERNAL DEBT,

As of end of May 1978

(US\$ million)

| | |
|--|------------|
| Government and Public Entities | 350 |
| Bank of Sudan (overdue letters of credit) | 280 |
| Private Sector | <u>220</u> |
| TOTAL | <u>850</u> |
| (of which due to major Arab creditors) | (240) |

STATEMENT OF BANK LOANS AND IDA CREDITS - SUDAN
(as of May 31, 1978)

| Credit No. | Year | Borrower | Purpose | Amount (US \$ million) (Net of cancellation) | | |
|---|------|----------|-------------------------------------|---|-------|-------------|
| | | | | Bank | IDA | Undisbursed |
| Six Loans and one Credit fully disbursed: | | | | 127.2 | 12.4 | |
| Credit 122 | 1968 | Sudan | Education I | | 8.5 | 1.4 |
| Credit 311 | 1972 | Sudan | Mechanized Farming II | | 11.3 | 5.9 |
| Credit 331 | 1972 | Sudan | Highway I | | 7.0 | 1.0 |
| Credit 364 | 1973 | Sudan | Rahad Irrigation | | 42.0 | 3.8 |
| Credit 364-1 | 1975 | Sudan | Rahad (supplement) | | 20.0 | 20.0 |
| Credit 447 | 1973 | Sudan | Industrial Bank of Sudan I | | 4.0 | 0.2 |
| Credit 457 | 1974 | Sudan | Railways III | | 24.0 | 6.6 |
| Credit 476 | 1974 | Sudan | Agricultural Rehabilitation Project | | 10.7 | 5.2 |
| Credit 547 | 1975 | Sudan | Education II | | 10.0 | 9.5 |
| Credit 564 | 1975 | Sudan | Power II | | 23.0 | 6.0 |
| Credit 589 | 1975 | Sudan | Industrial Bank of Sudan II | | 7.0 | 4.1 |
| Credit 614 | 1976 | Sudan | Technical Assistance | | 4.0 | 3.6 |
| Credit 643 | 1976 | Sudan) | Domestic Aviation | | 9.0 | 8.9 |
| Loan 1287T | 1976 | Sudan) | | 20.0 | | 20.0 |
| Credit 718 2/ | 1977 | Sudan | Savannah Development | | 17.0 | 17.0 |
| Credit 727 2/ | 1977 | Sudan) | Railway IV | | 8.0 | 8.0 |
| Loan 1467T 2/ | 1977 | Sudan) | | 12.0 | | 12.0 |
| Credit 781 3/ | 1978 | Sudan | Ports | | 22.0 | 22.0 |
| Credit 782 3/ | 1978 | Sudan | Livestock Management | | 25.0 | 25.0 |
| Credit 804 4/ | 1978 | Sudan | Mechanized Farming III | | 16.0 | 16.0 |
| Total | | | | 159.2 | 280.9 | 196.2 |
| of which repaid | | | | 69.1 | 4.0 | |
| Total now outstanding | | | | 90.1 | 276.9 | 5/ |
| Amount sold | | | | 5.8 | | |
| of which repaid | | | | 5.8 | | |
| Total held by Bank and IDA 1/ | | | | 90.1 | 276.9 | |
| Total Undisbursed | | | | 32.0 | 164.2 | 196.2 |

1/ Prior to exchange adjustments.

2/ Not yet effective.

3/ These credits were signed in June 1978, and are not yet effective.

4/ This credit was signed in July 1978, and is not yet effective.

5/ This total does not include US \$ 15 million for the Agricultural Research Project approved on June 29, 1978.

STATEMENT OF IFC INVESTMENTS

(as of June 30, 1978)

| <u>Fiscal Year</u> | <u>Obligor</u> | <u>(Amount in US \$ million)</u> | | |
|------------------------|--|----------------------------------|--------------------|---------------------|
| | | <u>Loan</u> | <u>Equity</u> | <u>Total</u> |
| 1964 and 1972 | Khartoum Spinning and Weaving Co. (textiles) | 1.87 | .34 | 2.21 |
| 1976 | Cotton Textile Mills | 8.71 | 1.27 | 9.98 |
| 1978 | Seleit Food Production Ltd. | 11.16 | 1.22 | 12.38 |
| 1978 | Gezira/Managil Textile Co. Ltd. | 6.69 | 1.39 | 8.08 |
| | Total gross commitments | 28.43 | 4.22 | 32.65 |
| | Less cancellations, terminations, repayments and sales: | 6.74 | .09 | 6.83 |
| | Total commitments now held by the IFC | <u>21.69</u> | <u>4.13</u> | <u>25.82</u> |
| | Total undisbursed by the IFC | <u>12.19</u> | <u>2.03</u> | <u>14.22</u> |

July 26, 1978

SUDAN LENDING PROGRAM ^{1/}
 (Fiscal Years 1979 - 1983)

| <u>Fiscal Year</u> | <u>Projects</u> | <u>US \$ million</u> <u>IDA</u> |
|--------------------|---|------------------------------------|
| 1979 | Education III ^{2/} | 10.0 |
| | Highways II ^{2/} | 30.0 |
| | Industrial Bank of Sudan III ^{2/} | 8.0 |
| | Technical Assistance II | 4.0 |
| | So. Region Crop and Livestock I ^{2/} | 15.0 |
| | | <u>67.0</u> |
| 1980 | Power III | 27.0 |
| | Pump Scheme Rehabilitation I | 10.0 |
| | Urban Water Supply * | 10.0 |
| | | <u>47.0</u> |
| 1981 | Mechanized Farming IV | 20.0 |
| | New Halfa Irrigation * | 20.0 |
| | Railway V | 20.0 |
| | Smallholder Package * | 7.0 |
| | | <u>67.0</u> |
| 1982 | Highways III * | 25.0 |
| | Ports II * | 15.0 |
| | Rural Water Supply * | 10.0 |
| | Savannah II | 20.0 |
| | | <u>70.0</u> |
| 1983 | Livestock III | 15.0 |
| | Power IV * | 15.0 |
| | Rahad II | 30.0 |
| | So. Region Crops and Livestock II | 15.0 |
| | Sudan Development Corporation I * | 10.0 |
| | | <u>85.0</u> |

^{1/} This Program will be subject to change in the coming weeks.

^{2/} These are projects which have already been appraised.

* Standby projects.

SUDAN LENDING PROGRAM

Reserve Projects

(Fiscal Years 1979 - 1983)

| <u>Fiscal Year</u> | <u>Projects</u> | <u>US \$ million IDA</u> |
|--------------------|----------------------------|------------------------------|
| 1979 | Forestry | 20.0 |
| 1981 | Roseires/Gezira Irrigation | 30.0 |
| | Telecommunications | 15.0 |
| 1982 | Population | 10.0 |
| | Domestic Aviation II | 20.0 |
| 1983 | Urban I | 20.0 |

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OFFICE MEMORANDUM

TO: The Record

DATE: October 6, 1978

FROM: André R. Gue, Director, E. Africa II

SUBJECT: SUDAN: Meeting Between Mr. McNamara and President Nimeiry

1. Mr. McNamara, accompanied by Messrs. Wapenhans and Gue, met the President of the Sudan at Blair House on September 22, 1978 at 3:30 p.m. for about 40 minutes. The Sudanese party included the Ministers of Finance, Planning, Agriculture, the Vice President, the Ambassador to Washington and other officials.

2. President Nimeiry, speaking through the Ministers of Finance and of Planning, made the following points:

- 10/17
- a) Sudan had recently reached an agreement with the IMF on a program to begin reestablishing financial equilibrium which included changes in the agricultural incentive system and the devaluation of the pound. Next month an IMF mission will visit Sudan to work towards a standby agreement which would build on the present program and move the Sudanese economy further towards financial equilibrium.
 - b) This program would not however stop investment and development since Sudan will continue to pursue the objectives laid out in its Six-Year Plan. Within the framework of this Six-Year Plan, annual tranches would be worked out in order to keep investments and resources in balance on an annual basis. Essentially, stress would be laid on consolidation and rehabilitation but investments would also have to include new infrastructure development. Recent floods which had cut off parts of Sudan had indeed shown that additional investments in transportation and telecommunications were essential.
 - c) Sudan needed urgent help from the Bank in the form of program assistance to finance spare parts and essential inputs. Also, Sudan wished the Bank to assist in building a plant to produce spare parts because much Sudanese equipment was very old and spare parts were no longer available from outside sources and in financing an important power development program.

3. Mr. McNamara reminded President Nimeiry that the Bank could only give program assistance on the basis of exceptional circumstances. This meant that Sudan had to satisfy the following three conditions before program assistance could be considered:

- a) Gain access to the extended facility of the IMF (higher tranches) through a standby agreement;
- b) Prepare a three-year investment program that would match investments with available resources; and
- c) Reach agreement with major creditors in rescheduling outstanding debt in order to solve the serious arrears problem.

Mr. McNamara said that he realized Sudan had recently been moving in the right direction but had not yet satisfied the above three pre-conditions. He added that the Bank would support the power program and be ready for a first phase operation in about a year from now. The Bank would also be prepared to work with Sudan on the spare parts plant assuming the economics of the project would be satisfactory.

4. Minister Mustafa asked whether Sudan could be eligible for Bank lending. Mr. McNamara replied that unfortunately Sudan was not credit-worthy, which was a great pity, because Bank funds were not really limited while IDA funds were scarce. He added that if Sudan took the right policy measures and solved its debt problem, it might become creditworthy again.

5. Minister Osman Hashim stressed that Sudan appreciated Bank support and cooperation in general but particularly for its technical assistance support of important studies like that of parastatals. He hoped Bank support would also be given to the pricing study he wished to undertake shortly. The Minister also expressed appreciation of IFC involvement noting that IFC had financed three operations in FY78. Mr. McNamara replied that the Bank would give all the technical assistance help it could and that IFC would try to expand its operations further.

6. Minister Mustafa explained that Sudan had a Six-Year Plan and was preparing annual investment programs in accordance with existing procedures. He thus foresaw practical difficulties in preparing an investment program covering three years. Mr. McNamara replied that one year was not enough and that the Bank required at least a three-year program. Moreover, the three-year program would have to be consistent with available resources that can realistically be budgeted over the three-year span. In reply to the Minister's plea that Sudan needed

additional investment resources, Mr. McNamara replied again that such resources could only come from IDA at this time. This is why it was so important to make sure that IDA VI would be replenished at a higher level in real terms than IDA V and invited the President to refer to IDA VI in his forthcoming UN speech.

cc: Messrs. Stern
Koch-Weser
Qureshi
Wapenhans
Adler
Burmester
Maubouche/Maane
Farag

ARGue:cj

OFFICE MEMORANDUM

TO: Files

FROM: Sven Burmester, Division Chief, EA2DB

SUBJECT: SUDAN - Minister of Agriculture's Meeting with Mr. McNamara

DATE: February 8, 1980

1. Mr. McNamara met with the Sudanese Minister of Agriculture, Dr. Abdalla Ahmed Abdalla, on February 7, 1980, at 5:15 p.m. in Mr. McNamara's office. Messrs. Madinga, Abdulai, Wapenhans, Gue, Koch-Weser and myself were also present.

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2. After exchange of the usual courtesies, the Minister of Agriculture said that Sudan now had firmly addressed its economic, financial and structural problems which were caused by both internal and external factors. Many decisions had already been taken to move the economy towards recovery. He mentioned the agreement with the IMF and the rehabilitation effort in the irrigated subsector to make full use of sunk capital for increasing Sudan's agricultural exports. The traditional agriculture sector was also important but priorities had to be established as was done in the Three-Year Investment Program and the Export Action Program and this led to less emphasis on the traditional sector. The proposed Agricultural Rehabilitation Program (ARP) should be seen in the context of the Export Action Program to help the irrigated subsector become more productive. Sudan had suffered from exorbitant increases in prices of oil, pesticides and fertilizers while Sudan's products had not had similar increases and the productivity in the agriculture sector had gone down. It was in this situation that Sudan now had approached the international financial institutions and the bilateral donors for help to make its own efforts successful. This was the background for President Nimeiri's request to Mr. McNamara in September 1978 for support in the form of program lending. Mr. McNamara had on that occasion mentioned certain conditions for program lending and these had largely been fulfilled. At this stage, the Minister of Agriculture wanted to raise four points with Mr. McNamara: (1) while he realized that broad macro-economic policy changes were relevant to the ARP, he was not convinced that the ARP should be linked to Sudan having access to the Extended Fund Facility. Such a conditionality could prevent speedy implementation of the ARP; (2) the proposed tranching of the ARP, which he incidentally hoped could be increased to US\$67 million, could also hamper the speedy implementation of the ARP since the tranching might lead to legal and other problems with procurement. He realized that tranching was a point for negotiation but would still wish to leave his concern with Mr. McNamara; (3) the Minister was concerned about the Bank's intention to cut the Western Savannah project. He referred to Mr. McNamara's Nairobi speech in 1973 on rural development and said that the Western Savannah project fitted perfectly into the strategy that Mr. McNamara had then proposed. The

project would help increase production in the isolated western part of Sudan and would prevent environmental degradation. He stressed that the project was socially, economically and politically important to the Government; and (4) he hoped that further assistance to Sudan would be forthcoming on a sector-lending basis in either agriculture or other sectors after the ARP.

3. Mr. McNamara said that Sudan had a very poor record of managing its economy. He said that the Bank was looking to people like President Nimeiri and the Minister of Agriculture himself to change that record. He said that he was puzzled by this poor record since Sudan had large resources in both land and water, and people. He personally admired President Nimeiri for his handling of the North South conflict in Sudan, but he still wanted to stress that we in the Bank found that the Sudanese economy was poorly managed. The records of late service payments to the Bank were symptomatic of this and definitely influenced our attitude toward Sudan. With respect to the specific points raised by the Minister, Mr. McNamara said that: (1) although there was no direct linkage as such to the EFF, access to the IMF was essential to the success of the economic recovery of Sudan and therefore of the ARP which is an integral part of the policy package necessary for recovery. The economic environment in Sudan could simply not be improved without IMF assistance; (2) although Mr. McNamara did not address the tranching issue directly, he said that he did not wish to interfere in the ongoing negotiations; (3) Mr. McNamara said he knew very little about the Western Savannah project but he was puzzled that a project which had been approved by the Board in 1977 had not yet started. In any event, a revised project should contribute to a satisfactory economic rate of return in future projects and should be replicable in other parts of the country. We should also make sure that a revised project could be speedily implemented; and (4) the Bank was anxious to help the Sudanese, but Sudan had to show it had the capacity to handle the various economic and structural problems within its own control.

4. Mr. McNamara ended the meeting by asking the Minister to give his best wishes to President Nimeiri, but also remind the President to "pay (the service payments) on time."

Cleared with and cc: Messrs. Wapenhans, RVP, Gue, EA2

cc: Mr. McNamara's office
Messrs. Stern, Adler, Gulhati, Walton

SBurmester:RGue:mm

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
THROUGH: Mr. Willi A. Wapenhans, RVP
FROM: Sven Burmester, Division Chief, EA2DB

DATE: February 7, 1980

SUBJECT: SUDAN - Your meeting with the Minister of Agriculture

1. You are scheduled to meet with the Sudan Minister of Agriculture, Dr. Abdalla Ahmed Abdalla, today at 5:15 p.m. Mr. Wapenhans and I will accompany him to your office.
2. The Minister is here as head of the Government delegation negotiating the proposed Agricultural Rehabilitation Program (ARP). You may recall having met him here on September 8, 1977, during the meeting of the Consultative Group for Food Production (ref. Mr. Please's memorandum to files, dated September 20, 1977). Since then the financial and economic crisis has worsened in the Sudan and our lending is now concentrated on directly productive investment with much less emphasis on traditional agriculture than envisaged at the Minister's last visit with you. A brief biographical note, some basic data and the covering memorandum submitting the ARP to the Loan Committee are also attached.
3. The Minister, who holds a PhD in plant physiology from the University of California (Davis) is one of the most articulate officials in the Government. He is close to President Nimeiri and just before coming to Washington was elected to the elite political committee of the Sudan Socialist Union. We have a close and candid relationship with the Minister; he grasps the issues quickly, is thoughtful and decisive in his decision making and is a chief proponent within Government of many of the long-overdue policy and structural reforms that the IMF and the Bank have been recommending for Sudan's agriculture sector--e.g. different systems of cost recovery in the large irrigated subsector designed to improve incentives to farmers for growing cotton and thereby enhance Sudan's comparative advantage in this key export commodity; abolishing or restructuring the deficit-ridden public corporations in the agriculture sector.
4. This is essentially a courtesy visit. However, since the ARP negotiations are for the first program-type lending operation proposed for Sudan, with the proceeds of the US\$60 million Credit targeted almost exclusively for the irrigated subsector (cotton and groundnuts), the conversation may also touch on more substantive issues.
5. Although the negotiations have gone quite smoothly so far, the Minister is clearly concerned about certain key conditions of Board presentation that were approved by the Loan Committee at its meeting on January 21, 1980: (a) the need for Sudan to have continued access to the IMF's Extended Fund Facility (200 million SDR's); (b) confirmation by Government that new land and water charges in the large Gezira

irrigation scheme, introduced last year as part of the understanding with the Fund but not collected because of tenant resistance, are still in force and are being collected. The Minister is also concerned about a proposed tranching feature of the Credit: US\$30 million to be made available upon effectiveness; the remaining US\$30 million to be made available later in 1980 after a mid-term review of Government performance on agreed macro-economic and sectoral policy changes. He feels that this aspect could severely jeopardize the tendering and procurement operations under the program, given the long lead times required for purchasing and delivery in the international market.

6. You may wish to indicate that the technical details of these proposals are still subject to negotiations; however, the basic principles behind the key conditions of Board presentation are extremely important for Sudan's long term economic recovery. We have reminded the Minister that access to IMF resources was emphasized by you in your meeting with President Nimeiri here in September, 1978. Indeed, it was stipulated as a condition for even considering a lending operation of this type. Sudan has taken significant measures since then (negotiations would not have been possible otherwise) but we have stressed that given Sudan's balance of payments problems, the country must continue to take the steps that will help release the more substantial financial resources from the Fund. Otherwise, the relatively smaller amounts of IDA assistance are not likely to have the maximum impact.

7. We are also concerned about the continuing delays by the Sudanese in remitting service payments to the Bank Group. At the moment about 2.3 million dollar is overdue. We will, of course, not bring the ARP to the Board without Sudan being up-to-date in its payments to us.

8. One other issue may be raised by the Minister. This concerns the Savannah Development Project, for which a US\$17 million Credit was approved by the Board in May, 1977. The project is based in western Sudan, some 1,000 kilometers from Khartoum. Because of logistical problems and other difficulties, there has been very little progress and we are now considering a Government proposal to merge the project (co-financed by the Saudi Fund) with another in the same area financed by the Abu Dhabi Fund and the ODA (United Kingdom). We feel that the merged project should be scaled down to a fairly simple pilot undertaking; otherwise it would be very hard to justify. Government attaches great importance to the project, which it views as laying the foundation for future livestock development in a part of the country that, to date, has been largely ignored. Government clearly prefers a larger project; estimated total cost of the proposed merged project would be about US\$57 million. We believe further scaling

Mr. Robert S. McNamara

- 3 -

February 7, 1980

down is possible and we have informed the Government that the choice may very likely be a reduced project or none at all. Details are now being negotiated and we will inform you and the Loan Committee of the results in form of a memorandum to the Board.

Attachments: (4)

cc: Messrs. Stern, VPO, Gue, EA2, Adler, EAP, Koch-Weser, EXC

TABLinkhorn:SBurmester:mm

Biographical Note

Sudan Minister of Agriculture, Abdalla Ahmed Abdalla

Dr. Abdalla is 47 years old and comes from the north of Sudan. He was Vice-Chancellor of the University of Khartoum before being appointed Minister of Agriculture three years ago. He holds a PhD. degree in plant physiology from the University of California at Davis. On February 1, 1980 he was elected to the political committee of the Sudan Socialist Union, the highest political group in the country. He strongly supports agriculture research and has been attempting, since becoming Minister, to broaden the scope of Sudan's research efforts (traditionally focused on irrigation development along the White and Blue Niles) to encompass the problems of arid and desert regions as well as livestock development, which he believes is one of the keys to the country's future economic diversification. In the last year or so he has been chiefly instrumental in (a) affecting the total dismantling of the old deficit-ridden Public Agricultural Production Corporation, the parent organization of some 10, largely ineffectual public agricultural corporations and replacing the 10 with restructured, semi-autonomous entities; and (b) instituting a controversial land and water charge system in the Gezira irrigation scheme (Sudan's largest), designed to help provide greater incentives for tenants to grow cotton, the country's major export crop.

Agricultural Rehabilitation Program

Basic Data

Amount:

US\$60 million

Purpose:

To support the new Export Action Program of the Government, designed to increase cotton production, by (a) Providing foreign exchange financing for high priority imports (spare parts, replacement equipment, various inputs) to help increase utilization of productive capacity in the irrigated subsector from whence Sudan derives the bulk of its export earnings; (b) Encouraging and supporting macro-economic and sectoral policy reforms aimed at alleviating the underlying causes of Sudan's balance of payments problems; (c) Providing financing for special studies and technical assistance to help implement the program.

Board Presentation:

Tentatively March 25, 1980