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**THE POLITICAL ECONOMY OF INTERNATIONAL MONETARY
FUND SUPPORTED ECONOMIC STABILIZATION PROGRAMS:
THE EXPERIENCE OF THE SUDAN, 1966 - 1984.**

By

AbdelRahman Ahmed AbdelRahman

A DISSERTATION

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ABSTRACT**THE POLITICAL ECONOMY OF INTERNATIONAL MONETARY
FUND SUPPORTED ECONOMIC STABILIZATION PROGRAMS:
THE EXPERIENCE OF THE SUDAN, 1966 - 1984.****BY****ABDELRAHMAN AHMED ABDELRAHMAN**

At the core of this study is an attempt to assess economic performance under International Monetary Fund (IMF) economic stabilization programs in the Sudanese context. The principal purpose of IMF programs is to improve the external payments situation or the balance of payments. This study attempts to evaluate the balance of payments effectiveness of these programs against the situation that would have prevailed in the absence of the programs. This evaluation is carried out in the context of simple empirical regression models.

The basic conclusion of the study in this respect is that IMF programs resulted in short-term improvements in the external payments situation. However, no fundamental improvement was attained.

The study also examines the view that IMF programs are detrimental to social expenditures. This part of this study uses simple comparisons and regression models to examine this question. The finding of the study here is that the experience of the Sudan does not support this view. In some cases, social expenditures had adverse effects on the fiscal effectiveness of some programs.

A third question which this study attempts to answer is whether IMF programs lead to political protests. This part of the study also uses simple comparisons, a regresssion model, and a descriptive account to answer this question. The basic finding of the study in this regard is that certain IMF program austerity measures (notably, increases in the retail prices of subsidized consumer items) do lead to political protests and contribute to political changes.

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sions on the Sudanese Budget. My thanks also go to the Director of the Final Accounts Department and his assistant for providing me with budgetary data.

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INTRODUCTION

Quite recently, the phenomenon of economic stabilization has been the object of increasing attention. This is a reflection of the salience of economic stabilization in recent times. In the 1950s and 1960s, economic modernization or industrialization held the sway. Because the economic growth associated with these did not trickle down as expected, interest shifted then to economic growth with distribution or equity.

The salience of economic stabilization in recent times is a reflection of the supply shocks of the 1970s. The decade witnessed two oil shocks and two recessions in the industrial countries. These have had adverse effects on the external payments position of developing countries (in particular, non-oil developing countries).¹

This salience of economic stabilization is paralleled by an increasing attention from both economists and political scientists. The interest of political scientists stems from the view that economic stabilization programs are not purely economic issues; they are also political or at least not politically neutral. The involvement of an international agency (the International Monetary Fund) in the provision of conditional economic assistance to countries experiencing external payments crises raises the issue of state sovereignty and is thus pertinent to the study of international relations.

However, what has come to be known as the political economy or the politics of economic stabilization has focused largely, if not exclusively, on two

1. Sidney Dell and Roger Lawrence, The Balance of Payments Adjustment Process in Developing Countries, Pergamon Press, New York, 1980, pp. 21-28 and 54-64.

issues; namely, the political sustainability of stabilization programs and their impact on political stability. Both are related to the view that these programs entail political pressures or protests that could undermine the economic adjustment reform initiatives or the regime undertaking them. This view underpins the question that has, initially, been at the core of the politics of economic stabilization. This question, drawn primarily from the experience of some Latin American countries with both IMF non-IMF stabilization programs, asks what regime type, democratic or authoritarian, is capable of successfully implementing economic stabilization programs. This question is based on the argument that the austerity measures contained in these programs generate organized group and popular reactions that make the initiation and successful or effective implementation of these programs too politically costly for regimes based on popular consent (that is, democratic regimes) and that therefore only regimes based on coercion (that is, authoritarian regimes) are capable of successfully implementing these programs.

As a field of study, the politics of economic stabilization is still embryonic. There is a virtual lack of systematic empirical studies on the relationship between these programs and political stability. One objective of this study is to make some contribution to this nascent field. Specifically, the study aims at exploring the question as to whether Fund programs engender political protests and changes and the question as to what policy austerity measures account for these effects.

Interest in the economic stabilization programs of the International Monetary Fund is also centered on the extent to which these programs are effective in terms of achieving their economic objectives. Although empirical research is hampered by the confidentiality of Fund programs (the IMF does not

publish its programs), a number of empirical studies on the payments effectiveness of Fund programs have recently emerged. A major drawback associated with these studies is their assessment of program effectiveness on the basis of a before-after comparison rather than a with-without one. These studies and their conceptual and methodological problems are discussed later. Suffice it here to note that there is a need to evaluate the economic effectiveness of Fund programs against the economic outcomes that would have prevailed in the absence of the programs (that is, the counterfactual outcomes).

The major objective of this study is to do this, with respect to Fund programs in the Sudanese context. The study also provides insider information on Fund-supported economic stabilization programs that, to the best of my knowledge, has not been published. This is made possible by access to confidential information regarding all Fund programs in the Sudan (ten programs undertaken in the period 1966 - 1984).

The third objective of the study is to explore the extent to which Fund stabilization programs are detrimental to social expenditures. It has been claimed that these programs have adverse effects on social expenditures. To the best of my knowledge, this claim is not subjected to any systematic empirical investigation.

Overview of chapters:

The conventional format of having all literature review in one chapter is not followed here. Instead, each chapter has its own literature review as well as the method used for empirical analysis. This format is necessary because each chapter deals with an entirely different issue and uses an entirely different method.

Chapter one describes the context in which the Fund-supported economic stabilization programs were implemented. Specifically, it highlights the admin-

istrative, religious, social, and political impediments to or constraints on the implementation of the programs. It also discusses the relationships among the institutions involved in, or whose activities directly affect, this implementation.

Chapters two and three constitute the core of the study inasmuch as they address the fundamental or core issue of the balance of payments (the target variable) effectiveness of Fund programs. Chapter two describes both the extent of implementation of policies designed to improve the balance of payments position and the actual balance of payments outcomes. Chapter three is an attempt at assessing the independent balance of payments effects of the Fund policy programs.

Chapter four is an examination of the effects of the programs on social expenditures and of the relationship between these programs and commodity subsidies.

Chapter five addresses the question as to whether Fund programs have political effects.

In the following section, the concept of Fund-supported economic stabilization program and other related concepts are briefly explained. This is necessary because reference to them arises repeatedly in the chapters.

Fund-supported Economic Stabilization Program:

The fundamental purpose of a Fund-supported economic stabilization program is to help Fund member countries rectify their balance of payments disequilibria (usually, deficits). This is provided for in the Articles of Agreement establishing the IMF. Thus, Article I (v) states that one of the purposes of the IMF is:

To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards,

thus providing them with an opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

A member country usually seeks Fund assistance (credit) when it is experiencing a balance of payments deficit and is unable to make its external payments. Fund assistance enables the member country to finance its balance of payments deficit or part of it. However, the Fund makes this assistance conditional on the member country implementing a set of policy measures that the Fund believes will help in rectifying the balance of payments maladjustment. The Fund thus combines balance of payments assistance (financing) with balance of payments adjustment policies. The conditional nature of the assistance is a recognition that balance of payments deficits can not for practical and efficiency considerations be financed for ever and that therefore adjustment policies are necessary for rectifying the external resource imbalance.

Adjustment policies are required by the Fund when a member country requests credit from the Fund's upper credit tranches. Fund's credit (which takes the form of a member country purchasing with its own currency the currencies of other members or "special drawing rights") is available to member countries in a range consisting of four tranches (segments). A purchase from the first tranche allows a member to draw credit equal to 25 per cent of its quota. Amounts of credit drawable from the second, third, and fourth tranches amount to 50, 75, and 100 per cent of quota, respectively. These three latter tranches are known as the upper credit tranches.² The conditions associated with the use of

2. Chandavarkar, A. G., The International Monetary Fund: Its Financial Organization and Activities, IMF, Washington, D.C., 1984, pp. 37-41.

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Fund resources are generally the conditions required for drawing from these latter tranches. In the literature, the totality of these conditions is referred to as "upper credit tranche conditionality", which has been the subject of a great deal of controversy.

Drawing from the upper credit tranches requires approval by the Fund Executive Board of a one-year Stand-By or a three-year Extended Arrangement (each one of these is promise from the Fund that a certain amount of credit is available to the member in the course of the period of the arrangement). Both types of arrangement require a member to adopt adjustment policies, the totality of which constitutes an economic stabilization program (the time frame of this is either one year or three years, depending on which kind of arrangement is involved). The member is required to submit a stabilization program to the Fund Executive Board for the approval of a stand-by or an extended arrangement.

A Fund technical mission goes to the member country to negotiate with its government what policies should be included in the economic stabilization program. When agreement is reached, the minister of finance or the governor of the central bank of the member (usually, the minister of finance) sends the text of the economic stabilization program (this text is referred to as "Letter of Intent") to the IMF Managing Director, requesting a stand-by or an extended arrangement.

In the process of negotiations, the mission may require that certain policies be implemented prior to the submission of the text of the economic stabilization program to the IMF Executive Board. Such policies are referred to as "preconditions" or "prior actions". Usually, they include, but are not limited to, exchange rate actions and increases in the retail prices of subsidized consumer items.

On the approval by the Fund Executive Board of a stand-by/extended arrangement, only a portion of the whole amount of credit approved becomes immediately available. The remaining credit amount (usually, the bulk of the whole amount) is broken down into quarterly installments over the period of the arrangement. A member's access to each outstanding installment is contingent on the implementation of some policy intentions included in the Letter of Intent. Such policies are referred to as "performance criteria". Nonobservance of a "performance criterion" leads to the interruption of the flow of credit and renders the arrangement with the Fund inoperative. Principally, policy intentions include quarterly ceilings on domestic credit extendable to the public and private sectors in the course of the economic stabilization period.

CHAPTER I

THE CONTEXT

The Sudan gained formal independence in 1956 after more than a half century of joint colonial rule by Egypt and Britain. Official steps toward independence began three years earlier when in 1953 the two colonial powers enacted the Self-Government Statute. According to this, Sudan was to be formally independent after a three-year transitional period during which an elected Sudanese legislative assembly was to exercise some powers. The statute vested supreme authority in the British Governor-General, who was assisted by a five-member commission which included two Sudanese. The statute instituted a British-type parliamentary system. On the eve of formal independence, the Sudan had no constitution. A transitional constitution was improvised. This constitution kept the parliamentary system and vested supreme authority in a five-member council which was to act as head of state.

Post-independent Sudan has had three problems. These are devising a permanent constitution, the war in southern Sudan, and economic development. The first democratic regime did not address these problems; the regime lasted for little over two years. During this period, a number of coalition governments broke down due to inter-party and intra-party rivalries.

In November 1958, Sudan's first experiment with parliamentary democracy came to an end when General Ibrahim Abboud staged the first military coup in the Sudan. The military regime of General Abboud lasted till October 1964. It did nothing in regard to the question of a constitution. As will later be

discussed, it aggravated the war in southern Sudan. In the area of economic development, the military regime formulated the first long-term economic development plan. This was manifested in the Ten-Year (1960/61 - 1970/71) Economic and Social Development Plan. However, the Plan was abandoned when the military regime was ousted.

After a brief transitional period following the overthrow of the military regime in October 1964, parliamentary democracy was restored. The parliamentary politicians did not make any progress toward solving the three problems. From 1965 when parliamentary democracy was restored and until 1969 when it was abolished by another military take-over, parliamentary governments (which were all coalition governments) were debilitated and at times paralysed by inter-party and intra-party rivalries, party factionalism, and by rival sectarian leaders who had influence over the political parties. Because the behavior of parliamentarians was mainly directed at settling personal and partisan political vendetta, parliamentary democracy in this period was described, aptly, as a game of musical chairs.¹

It was the one-party regime that came to power in 1969 and lasted till April 1985 that made substantial efforts at solving all three problems. On May 25, 1969, a group of army officers (who called themselves the "Free Officers") led by Major-General Jaafar Mohammed Nimeiri overthrew the four-year democratic regime. Calling their coup the May Revolution, the officers set as their goals the solution of the three problems.

1. Peter K. Bechtold, Politics in the Sudan: Parliamentary and Military Rule in an Emergent African Nation, Praeger Publishers, New York, 1976, pp. 240-257.

Much of the discussion below pertains to the period after 1969; in this period seven of the ten Fund-supported economic stabilization programs were undertaken by the leaders of the May Revolution.

The leaders of the May Revolution sought to construct a new political order in the Sudan. The leader of the group clearly stated this when he noted:

Until 24 May this country was on the ground and in crisis...its energies exhausted...its national unity dispersed...and its image of itself distorted...its capacities lost or wasted...and then came May to lift the giant from his fall, restore the glitter to his image and make his national unity a reality and to remove once and for all party divisiveness, the authority of tribalism and the predominance of sectarianism. It was to build in theory and in practice...a new society, populist in origin and revolutionary in organization and practice.²

The leaders of the May Revolution set as their first task the building of new institutions that would transcend the primordial cleavages of sectarianism, tribalism, and regionalism. This was done in the period between 1971 and 1973. This short period witnessed institution-building unprecedented in post-independent Sudan. In this period, they resolved the problem of southern Sudan, made the first permanent constitution in the Sudan, and created other new institutions, both at the national and subnational levels.

Having completed the task of institution-building, the leaders of the May Revolution turned to the question of economic development. They undertook large-scale investment programs and borrowed heavily from abroad to finance the investments. They assumed that the Sudan had the administrative capacities to implement such programs and to manage their fiscal consequences. Their efforts at economic development led to a profound external debt crisis in the early 1980s.

2. Quoted in Mansour Khalid, Nimeiri and the Revolution of Dis-May, Routledge and Kegan Paul, London, 1985, p. 27.

A key point to note here is that while the leaders of the May Revolution were implementing their policy priorities in institution-building and economic development, they were at the same time undertaking economic stabilization programs under the auspices of the IMF. Economic stabilization was not the only policy priority. More important, the two sets of policy priorities; institution-building and economic development on the one hand and economic stabilization on the other conflicted with each other. The former entailed increasing government expenditures whereas the latter sought to contain these expenditures.

The problem for economic stabilization was compounded by administrative, institutional, legal, political, religious, and social constraints on or impediments to the effective implementation of some aspects of the programs.

In the following sections, these constraints and impediments are outlined. The first section is devoted to describing the new institutions built. This description is kept at minimum; it is not the institutions themselves that is of primary importance here but the fiscal consequences of the mere fact of their creation. Nonetheless, this description also provides essential background information because reference to the institutions arises in the other chapters.

The Political and Administrative Systems of the May Revolution:

1. The Problem of Southern Sudan and Regional Autonomy:

The war in southern Sudan has had a profound influence on post-independence politics in the Sudan. As will be shown, it led to the overthrow of the first military regime in 1964 and contributed to the overthrow of the May regime in 1985.

The war began shortly before formal independence when southern members of the national army (at that time, the Sudan Defence Corps) rebelled. In the early 1960s, the rebellion developed into a bloody civil war, claiming tens of thousands of life.

The southern Sudanese constitute one-quarter of the population of the Sudan and live in three adjacent provinces out of Sudan's fourteen provinces. The three provinces are located in the southern part of the country and are referred to as the South; the rest of the country constitutes the North. This division is mainly the product of the fact that the three provinces are difficult to access from the rest of the country because of the roughness of the terrain surrounding them and also because of poor transportation. This and other considerations led the British colonial authorities to pursue from the 1930s on a policy of "separate development" (the so-called Southern Policy) for the Southern provinces. In line with this policy which also aimed at countering the spread of Islam and Arabic from the North, the British colonial authorities encouraged Christian missions to open churches and missionary schools for teaching English in the three provinces.³

The South's rebellion and the subsequent war were the concrete manifestations of fear of Northern domination. According to Bechtold, this fear can be traced to the period of "slave raids one hundred years ago when Northern tribes conducted raiding activities in the South. Many atrocities were committed in the process and memories of the events have been handed down from generation to generation."⁴ Southern fear of northern subjugation is reinforced by broad distinctive cultural cleavages between the Northerners and the

3. P. M. Holt and M. W. Daly, The History of the Sudan: From the coming of Islam to the present day, Weidenfeld and Nicolson, London, 1979, pp. 151-153.

4. Bechtold, op. cit., p. 37.

Southerners. The Northerners are predominantly Suni Muslims, speak Arabic (though many of them are not Arabs), and tend to identify themselves with the Arab world. The Southerners are mainly animists (the educated minority are Christians) and tend to identify themselves with their consanguineous relatives in neighboring countries to the South.

The rebellion was precipitated by the resentment of some Southerners over the allocation of civil service posts. The posts had previously been held by British administrators.⁵ As noted earlier, the rebellion developed into a civil war in the period of the first military regime. The regime attempted to impose the Arabic language and Islam in the South. Thus, Islamic institutes were opened, mosques were constructed and subsidized, Christian missions were prohibited from opening new schools, and the day of rest was changed from Sunday to Friday, which is the day of rest for Muslims. In reaction to these measures, the Southerners formed in 1963 an insurgent guerrilla army (the Anya Nya).⁶ Fighting escalated as the military regime tried to forcibly crush the organized, armed insurgency, which led to the emigration of thousands of Southern refugees to neighboring countries.

After the military regime was ousted and replaced by a democratic regime in 1965, the Southerners demanded regional autonomy. Northern politicians rejected the demand, and civil war continued until the "Free Officers" took over power. In March 1972, the regime of Major-General Nimeiri and the Anya Nya concluded an agreement whereby the three Southern provinces were created as a self-governing Southern Region with a People's Regional Assembly and High

5. In February 1955, a committee known as the Sudanization Committee was set up to consider which posts in the civil service should be given to Sudanese. Out of 800 posts, the Committee allocated only 4 posts to Southerners, Ibid., p. 185.

6. P. M. Holt and M. W. Daly, op. cit., pp. 179-180.

Executive Council. The powers of the regional institutions extend to all areas of public policy except areas such as national defence, foreign affairs, and currency.

The agreement put an end to the civil war. The resolution of the conflict is significant in three respects. First, it allowed the leaders of the May Revolution to focus their attention on the question of economic development. It also affected central government expenditures; the central government set up a special fund, the Southern Region Development Fund, for the rehabilitation of the war-devastated region and for the resettlement of refugees. Third, the political settlement coincided with one of the Fund-supported stabilization programs the government was implementing in the first half of the 1970s. The effect of this coincidence is discussed in chapter four.

2. Political and Administrative Institutions:

(I) National Institutions:

A salient feature of the May Revolution system is the integration of administration with politics. At the core of the system is the Sudanese Socialist Union (SSU), which was created as the only political party in the country. The Sudanese Socialist Union replaced the multi-party system which, operating within a British-type parliamentary framework, produced short-lived coalition governments undermined by personal rivalries, party factionalism, and the influence of rival sectarian leaders.

The Sudanese Socialist Union starts with a village or town neighbourhood where people elect the "Basic Unit". Basic Units are to carry messages of national leaders to the grass-roots and convey local opinion to higher echelons on the Section (District), Area, Provincial, and National Levels.

The supreme political body in the state is the SSU General Congress, which elects a Central Committee and the chairman of the party. The Central Commit-

tee meets annually to debate and determine general policies and political guidelines. The organization's political power is concentrated in the Political Bureau, which is appointed by the chairman of the party.

The SSU and government are integrated in that at the national level the president of the republic is also the chairman of the SSU. The constitution requires that the president (who is elected for a six-year period through a plebiscite) be nominated by the SSU. The SSU has always nominated its chairman, Major-General Nimeiri. The integration of the SSU and government is also manifested in the national legislature, the People's Assembly, whose elected members have to be approved by the SSU.

The constitution concentrates power in the president. The president is the chief executive and supreme commander of the armed forces. Ministers are appointed by him and are responsible to him rather than to the People's Assembly. The judiciary is directly responsible to the president, who appoints its high judges. The president appoints 12 per cent of the members of the People's Assembly and has the power to dissolve the Assembly before it completes its four years' tenure. Finally, the president is empowered to declare a state of emergency and suspend the constitution.

What the leaders of the May Revolution created is an authoritarian one-party system. The authoritarian nature of the system is also indicated by the fact that Major-General Nimeiri was the only presidential candidate, the only President of the Sudan, the only Chairman of the SSU in the period in which this system was in existence (1971 - 1985). On many occasions, President Nimeiri acted extraconstitutionally. For instance, in April 1984 he imposed a state of emergency which lasted for five months. The constitution allows only a maximum of fifteen days. In June 1983, he abolished the institutions of

regional autonomy in the South. The constitution does not empower him to do this.

(II) Decentralization and Local Institutions:

One of the objective of the leaders of the May Revolution is to involve people outside Khartoum in government and through it in social and economic development. The system that the May Revolutionaries sought to replace provided limited public services, mainly of regulatory nature, and gave religious, tribal, and influential family elites substantial control over local affairs. The influence of traditional forces was based on the system of native administration whereby tribal chiefs and religious leaders in rural and semi-urban areas were entrusted with the administration of justice, the maintenance of law and order, and tax collection. The system was introduced by the British colonial authorities in the 1930s and retained by Sudanese governments after independence.

Apart from increasing the number of services, the new system was designed to eliminate the influence of traditional forces in the conduct of local affairs and to integrate politics with administration. The May Regime sought to achieve these objectives through creating modern local administrative institutions that are integrated with the Sudanese Socialist Union.

Institution-building at the local level was centred on the 1971 People's Local Government Act. The Act established provincial (the province is the basic unit of subnational government in the Sudan) institutions consisting of a People's Province Executive Council and a Provincial Commissioner.⁷

7. On this system, see Dennis A. Rondinelli, "Administrative Decentralization and Economic Development: the Sudan's Experience with Devolution," The Journal of Modern African Studies, Vol. 19, No. 4, 1981, pp. 600-608 and M. W. Norris, "Local Governments and Decentralization in the Sudan," Journal of Development Administration, Vol. 3, No. 3, July/September 1983, pp. 210-217.

The People's Local Government system is a hierarchical system, at the top of which are People's Province Executive Councils. Next to these are People's Town and Rural Councils. Below these are the basic units which are Town Neighbourhood and Village Councils, respectively. These are the first to be elected. Members from each lower councils sit on upper councils. Workers, farmers, professionals, and the army are to be represented. The representation of these groups is designed to exclude traditional (tribal and religious) forces from the conduct of local affairs.

The Provincial Councils administer such services as primary and junior secondary education, roads, bridges, community development, social welfare, and public health. Most of these functions were previously the responsibilities of central government ministries. For instance, junior secondary education, health, and the police were previously the responsibilities of the Ministries of Education, Health, and the Interior. Apart from these administrative functions, Provincial Councils are charged with the responsibility for "political enlightenment, people's mobilization, economic and social development"⁸ and with the promotion of the socialist ideology as defined by the SSU.

The Commissioner supervises over and co-ordinates the activities of central ministries in his province. He is head of civil service in his province. He is also ex officio chairman of the Provincial Council and head of the provincial Sudanese Socialist Union. He thus integrates administration and politics.

Essentially, the 1971 Act established provincial administrations rather than provincial governments. Technically, these provincial entities do not govern the provinces but administer them on behalf of the central government.

8. Quoted in Dennis A. Rondinelli, op. cit., p. 602.

This is manifested in that the Provincial Commissioner is appointed by the president rather than elected by people in the province. He is a political agent of the central government and its ruling party. Accordingly, he is not supposed to represent a local or provincial constituency but to organize residents to be "responsive to the general policy of the government".⁹ Thus, it is more appropriate to use local administration rather than local government in describing this system.

What is important for the purpose of this study is the budgetary consequence of this new system of local administration. The system resulted in the integration of provincial budgets into the central government budget. This resulted, as will be shown in chapter four, in substantially increasing annual central government transfers to the provincial administrations. It is important to describe the new central-provincial fiscal relationship; this provides essential background information for chapter four and also provides some insight into one of the key constraints on the government in so far as the control of government expenditures is concerned.

In the old system, most public services were directly provided by central government ministries through their agents located in the provinces. These services included, inter alia, intermediate education (this is the level immediately above primary or elementary education) and health. Funds for the provision of these services and others were included in the budgets of the central ministries providing the services. Services provided by provincial administrations were limited to primary education, the maintenance of law and order, and local sanitation.

9. Ibid., p. 602.

The only fiscal relationships between the central government and the provincial administrations are central grants tied to the provision of primary education and non-recurrent capital grants for minor projects. Provincial administrations finance their other activities from their own local taxes levied on land, buildings, animals, and trees. Apart from the aforementioned grants, they do not receive any other subventions from the central government.

A principal problem that has been attributed to the 1971 Local Government System is that it has resulted in ever increasing central government transfers to provincial administrations to finance the latter's growing annual deficits. This is the result of a combination of several factors. First, provincial administrations are generally known to have inelastic taxes which have generated revenue amounts incommensurate with increased expenditures resulting from the transfer of increased responsibilities from the center. The result of this is that provincial administrations have always had deficits. Second, under the provisions of the 1971 Act, provincial authorities are not required to balance their budgets nor are they permitted to borrow from the banking system or from the nonbank sector through the issue of special bonds.

The combination of these factors has meant that the only source for financing the deficits of the subnational administrations is the central government. This is facilitated by the fact that the new system requires the provincial administrations to submit their annual budgets to the central government (the Ministry of Finance), the assumption being that these budgets are part of the budget of the central government. The fiscal relationship that has evolved since 1971 between the central government and the provincial administrations is that the former has annually transferred funds to the latter to help them finance their deficits. The transfers are not based on any revenue-sharing

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formula that determines amounts transferred on the basis of each province's tax effort. This has created a tendency on the part of the various provincial authorities not to make an adequate tax effort. The fiscal problem of the system is summarized by a World Bank report. The report notes:

Since 1971, the Government has sought to give greater autonomy to local authorities. Local authorities, however, have a highly regressive system of revenue raising, and are prohibited from borrowing. Most of their expenditures, therefore, are financed by transfers from the central government budget, which account for 25 percent of total central government expenditure in 1978/79. Transfers tend to be allocated on the basis of budgetary deficits of the lower authorities, which do not encourage austerity among them or an adequate revenue effort of their own. There is a great need for a rational formula for the transfers...¹⁰

The External Debt Problem:

The external debt problem posed one of the severest constraints on economic adjustment programs, notably those in the late 1970s and early 1980s. Many factors contributed to the emergence and aggravation of the problem. However, the primary source of the problem is the government's attempt to implement large scale investment programs. The programs were part of the 1970/71 - 1974/75 Economic Development Plan, which was extended to fiscal 1976/77. The government relied on external borrowing, mainly of a nonconcessional or commercial nature, to finance its investment programs.¹¹ Between 1974 and 1977 alone, Sudan's loan commitments amounted to US\$ 2,460 million or 35 per cent of Sudan's external debt outstanding at the end of fiscal 1981/82. Of this amount of loan commitments, US\$ 1,670 million (that is, 68 per cent) was on

10. Memorandum on the Economy of Sudan, Report No. 2652 - Su, World Bank, October 1979, 11.

11. This primary origin is common to most African countries which have experienced external debt crises; see Joshua Greene, The External Debt Problem of Sub-Saharan Africa (an IMF Working Paper), International Monetary Fund, Washington, D.C., March 1989, pp. 7-12.

hard terms, with a 7.1 percent interest rate and a maturity of 9.7 years (see, Table 1.1).

Table 1.1: External Debt Structure, 1974 - 1977.

		Maturity Less than 1,670	Maturity More than 790
Total Commitments (\$ million)	2,460		
Average Interest Rate	5.8	7.1	3.1
Average maturity	16.7	9.7	31.5
Average Grace Period	4.5	3.1	7.5

Source: Memorandum on the Economy of Sudan, Report No. 2652 - Su, World Bank, October, 1979, p. 9.

The major factor that facilitated the accumulation of such a large debt in so short a period is that until 1979 there was no one central government unit responsible for authorizing foreign borrowings and for debt management, particularly the assessment of the appropriateness of the terms of loans and the country's capacity to meet future debt obligations. The authority to engage in external borrowings was scattered among different ministries and agencies. As a result, there was no complete record of total external debts nor of future debt obligations. The absence of a central debt management unit also meant that judgements as to the appropriateness of borrowing terms could not be made.

In this period, the IMF and the World Bank began to urge caution. In particular, they impressed on the Government the need to exercise strict control over the contracting of short- and medium-term loans and warned it of the future consequences of the reliance on these kinds of external borrowing. Thus, in July 1974, a Fund staff noted, in a report submitted to the IMF Executive Board:

The Government has contracted large amounts of medium-term loans in recent months and debt service payments are projected to rise substantially over the next several years. The staff feels that the Sudan should exercise strict surveillance over the contracting of new short- and medium-term debts in order to contain debt service within the country's capacity to meet obligations.¹²

In September 1976, a World Bank report recommended that capital inflows in the next five years be in the form of concessional long-term loans to insure that the debt service ratio in the 1980s would be manageable. The report also urged the government to refrain from borrowing on commercial terms and to restrict borrowing to priority investment needs.¹³ The report also urged the Government to set up one unit that would be responsible for centralizing all records regarding external debt.

It was not until 1978 that the government began to take concrete steps toward strengthening external debt management. In that year, the Ministry of Finance was made the sole central agency in charge of the collection of debt information. In addition, sole authority to engage in foreign borrowing was vested in the Minister of Finance.¹⁴ In the course of 1979, a central debt management unit was set up within the Ministry of Finance and became operational. However, the problem of debt management has not been solved; the unit was not fully effective due to a number of factors. The first was the fragmentation of the debt management administrative mechanism. Beside the unit, there are other half a dozen or more units also responsible for various aspects of debt management. These include the Loans Department in the Ministry of Planning, the Foreign Exchange Department of the Bank of Sudan, the Debt

12. Sudan - Request for Stand-By Arrangement (July 1974, p. 19), Documents of the International Monetary Fund, File No. 0 - 1, 316, Vol. 22, Ministry of Finance, Khartoum.

13. Economic Memorandum on Sudan, Report No. 1273a-Su, World Bank, September, 1976, p. 30.

14. Memorandum on the Economy of the Sudan (October 1979), op. cit., p. 9.

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Rescheduling Unit in the Bank of Sudan, and other units within the Ministry of Finance. With this fragmentation, the effective performance of the unit required adequate co-ordination and communication techniques which the unit lacked.¹⁵ Another factor was that the unit lacked the necessary staff and the support of those responsible for contracting external debt.¹⁶

One indication that the establishment of the central debt management unit did not solve the debt management problem was that the size of Sudan's external debt was not known until 1982 after the Government hired an International accounting firm (the London-based Peat, Marwick, Mitchell & Co.) to determine the size of Sudan's external indebtedness and to whom the debts were owed. By this time, however, Sudan's external payments situation was in a profound crisis. As will be discussed in the next chapter, at the core of the this crisis was Sudan's external indebtedness.

Another factor that contributed to the debt problem was that the government neglected existing investments, particularly public irrigation schemes for the production of cotton, Sudan's principal foreign-exchange-earning crop. This point is pursued further in chapter two. On the other hand, implementation problems prevented the new investments from being completed within their time frameworks. This precluded the realization of investment returns before the external debts began to fall due. The two factors were identified and their effects noted by a 1984 World Bank Consultative Group meeting on Sudan.

Sudan's economic performance since 1972 has been heavily influenced by public sector investment activity. The Government rapidly expanded its investment during the 1970s...The investments undertaken led to a major increase in the import of both capital and intermediate goods. At the same time, export volumes declined

15. Sudan - Pricing Policies and Structural Balances (a World Bank Country Study), World Bank, Washington, D.C., 1985, p. 140.

16. Ibid., p. 140.

sharply. This happened in part because the public investment program focused primarily on the development of new production capacity, much of which was not export-oriented, and failed to make adequate provisions for the maintenance of the existing export-oriented public irrigation schemes. The resource gap resulting from the adverse import/export patterns led to a very rapid increase in the level of external borrowing. Project selection and implementation problems generally prevented the investments from generating the anticipated returns in a timely fashion. Consequently, the country was unable to meet the rising debt service obligations, and arrears began to accumulate. After 1978, severe shortages of foreign exchange led to a fall of import volumes. The growth momentum of the mid-seventies, which was based in large part on external borrowing, could no longer be sustained, and the economy began to stagnate...¹⁷

Fiscal Constraints:

The Problem of external debt management is paralleled by an internal fiscal management problem. Before discussing this, it is worth noting that effective fiscal management (in particular, the control of domestic credit) is crucial for the implementation of certain aspects of Fund-supported stabilization programs. Principally, these are the domestic extension credit ceilings of the programs.

In the Sudan, public sector entities depend on central bank credit as a regular (annual) source of funds. This dependence is perpetuated by some institutional arrangements. The origin of this dependence is related to the fact that government borrowing from the nonbank public is extremely limited in the Sudan. Before discussing the institutional arrangements and factors that hamper effective control of bank borrowing, a brief discussion of government borrowing from the nonbank public is in order.

As noted above, nonbank borrowing by the government and other public sector entities is virtually nonexistent. In particular, open market operations (that

17. Sudan - Outline of Current Status (Chapter 1, Introduction and Summary), pp. 1-2, Documents of the International Monetary Fund, File No. 0 - 1, 316, Vol. 26, Ministry of Finance, Khartoum.

is, the buying and selling of government bonds and Treasury Bills) by the non-bank sector are extremely limited. It was only in 1983 that Treasury Bills were sold to the nonbank public. The amount sold was LSd. 20 million, representing merely 3 per cent of that year's fiscal deficit of LSd. 655 million.¹⁸

Government bonds are normally bought and held by commercial banks and are, as such, instruments of government borrowing from the banking system. The key point to note here is that the amounts borrowed by the government through the issue of bonds are very small compared to the size of the fiscal deficit. In fiscal 1980/81, the amount of government bonds held by commercial banks was LSd. 34.9 million, representing only 12.4 per cent of the fiscal deficit of LSd. 280.1 million.¹⁹ As a matter of fact, the government does not rely on the sale of bonds or Treasury Bills to finance its deficits; the amounts of funds raised are tiny in proportion to the fiscal deficit. Moreover, bonds and Treasury Bills are not sold every year whereas the government incurs deficits on an annual basis.

The primary factor that obstructs borrowing from the nonbank public is the limited scope of the capital market which is virtually nonexistent. Religious attitudes also seem to pose a problem; Islam regards income from an interest rate as "riba" (usury) and prohibits it. In view of this, people do not normally put their money in interest-earning investments. Sudanese monetary officials repeatedly raised this point in their meetings with IMF officials when the latter urged more frequent increases in the interest rate, which

18. Statement of the Government of the Sudan on Its Economic and Financial Policies (p. 12), Documents of the International Monetary Fund, File No. 0 - 1, 316, Vol. 25, Ministry of Finance, Khartoum.

19. 1981 Bank of Sudan Report, Bank of Sudan, pp. 82 and 143.

remained unchanged for years. Between 1975 and 1981, for instance, the interest rate remained unchanged. Commenting on this, a Fund staff report (submitted to the IMF Executive Board) noted:

The authorities unwillingness to permit more frequent increases in the interest rate structure partly reflected the desire to contain pressures on prices by controlling the cost of borrowing, and also the view that religious attitudes rendered many banking clients largely unresponsive to interest rate changes.²⁰

Institutional Relationships between Domestic Credit Controllers and Users:

1. The Bank of Sudan and the Central Government:

As the central bank, the Bank of Sudan is the principal entity responsible for the extension and control of domestic credit; the central government is the principal domestic credit user. The key constraint on the Bank of Sudan as an effective controller of domestic credit is that it is the agent of the executive branch of government, the Council of Ministers. The Bank was set up in 1959 by the military regime of General Abboud, which subordinated existing and new central government institutions to the Supreme Council of the Armed Forces and to its executive branch, the Council of Ministers. Under subsequent governments, the Bank has remained as the agent of the Council of Ministers. This point is important because in terms of domestic credit policy the Bank is expected to accommodate the budgetary outcomes (deficits) of the central government rather than to pursue an independent credit policy tailored to serving the purpose of macroeconomic management. In this regard, the Bank of Sudan contrasts with the United States central bank (the Federal Reserve System) which has the legal authority to pursue monetary or financial policies independently of the executive branch.

20. Sudan - Staff Report for the 1982 Article IV Consultation (August 23, 1982, p. 9), Documents of the International Monetary Fund, File No. 0 - 1, 316, Vol. 24, Ministry of Finance, Khartoum.

The 1959 Bank of Sudan Act, which established the Bank, requires it to extend loans to the central government. Thus, section 57 (A) of the Act reads:

The Bank may advance temporary loans to the government, subject to such terms as may be determined by the Bank. The sum total of such loans shall not exceed any time during the fiscal year in which the loans are advanced 10 percent of the current revenues of the central government. The central Government shall repay the loans within a six-month period beginning from the end of the fiscal year in which the loans are extended.²¹

The 10 per cent limit and the short-term or temporary maturity of the loans are intended to control government borrowing from the central bank because this borrowing is potentially inflationary. Central government borrowing from the central bank takes the form of printing money. This leads directly to monetary expansion because it infuses new money into the economy rather real-locates existing money from, for instance, the private sector to the government sector.

The practice that has been followed is that at the beginning of each fiscal year (the fiscal year begins on the first of July and expires on the thirtieth of June the following year) the Ministry of Finance calculates from its estimates of current revenues the total amount of central-bank loans legally extendable to the central government for the fiscal year ahead. Central bank credit has become a permanent and regular (annual) source of funds for the Ministry of Finance acting on behalf of the central government. A more important point to note is that the Ministry of Finance has rarely observed the provisions under Section 57 (A), particularly loan repayments. More often than not, Section 57 (A) of the Bank Act is amended or reinterpreted so as to extend the period of loan repayment by changing the temporary loans into

21. The 1959 Bank of Sudan Act (version amended up to 1984, in Arabic), Bank of Sudan, Khartoum, p.17.

"long-term loans". The latter has resulted in the build-up of ever increasing central government debt arrears with the Bank of Sudan. The amendments are made by the Council of Ministers and are introduced to the Council by the Minister of Finance.

An amendment or reinterpretation usually takes place when the Ministry of Finance is unable to repay outstanding debts within the required time period (that is, within six months after the end of the fiscal year in which the debts are incurred). To illustrate, the ceiling on the amount of temporary loans to the government was fixed at LSd. 19.1 million for fiscal 1972/73. The government borrowed the whole legal amount but was unable to repay it by the end of June 1973 - end of December 1973 legally required repayment period. On December 17, 1973, Section 57 (A) was amended and the outstanding debt was regarded as a long-term loan to the government to be repaid in ten years time. This increased the amount of outstanding long-term loans from LSd. 44.8 million at the end of June 1973 to LSd. 63.9 million at the end of December 1973.²²

The dependence of the central government on the Bank of Sudan poses constraint on the Bank as an effective controller of domestic credit in that the central bank does not fix the legal amount of loans annually extendable to the government. Moreover, the fact that the government can and do often amend Section 57 (A) means that the Bank has little power, as far as government borrowing is concerned, in restraining the monetary expansion implicit in the extension of loan repayment periods. Such an extension contributes to monetary expansion in that it lengthens the period of funds lent (in this case money printed) being in circulation or out of the Bank.

22. 1973 Bank of Sudan Report, Bank of Sudan, Khartoum, pp. 72-73.

2. The Bank of Sudan and Independent-Budget Corporations:

The number of public enterprises increased substantially in the 1970s due to the emphasis on the part of the leaders of the May Revolution on the public sector as the dominant and leading sector in the economy. This led to the nationalization of a large number of private enterprises in 1970. In subsequent years, the government established more enterprises in the manufacturing, agricultural, and tertiary sectors. By 1975, the number of public enterprises increased from less than 10 in 1969 to more than 50.

A traditional problem of public enterprises in the Sudan has been their financial performance. Instead of generating surpluses which they are required to transfer to Treasury, they have usually ended up with deficits which are financed by the central government budget or by credits from the central bank.

In terms of their budgetary relationships with the government, public enterprises in the Sudan can be divided into two kinds. First, there are those corporations whose budgets are part of the budget of the central government. The budgetary operations of these corporations are directly controlled by the Ministry of Finance, which makes regular appropriations to the corporations. The second kind comprises the principal and the largest public corporations in the Sudan. Chief among these corporations are agricultural parastatals, the largest of which is the Sudan Gezira Board (which manages the largest cotton-growing scheme in the Sudan); Sudan Railways; Sudan Airways; and Central Electricity and Water Corporation. These corporations are run as self-financing units. Their budgets are not part of the budget of the central government; they prepare their budgets independently of the Ministry of Finance. Their only fiscal relationship with Finance is that they are required (under the provisions of the 1971 Public Sector Corporations Act later superceded by the

1976 Public Corporations Act) to transfer their surpluses to Treasury and to pay interest to Treasury on the central government share in their equity capital. Treasury also guarantees the external loans these corporations contract.

These corporations also depend on the Bank of Sudan as a regular (annual) source of funds. As is the case with the central government, they are also legally entitled to central bank credit. Section 57 (B) of the Bank of Sudan Act requires the Bank to provide temporary advances and seasonal credits to public sector boards and agencies should the latter request such credits.²³

The dependence of independent-budget corporations on the Bank of Sudan also poses a constraint on the effective control of domestic credit by the central bank. This stems from the fact that the central bank does not control the budgetary outcomes resulting from the corporations' production activities. In addition, domestic credits to these corporations are intrinsically difficult to control because their credit requirements depend on a number of variable factors, some of which are beyond their control. These factors may include, but are not limited to, home and foreign inflation, the corporations' production capacities, and production input and logistical constraints. Fund staff themselves acknowledge that because of such factors it is inherently difficult to control credit to these entities. In one of the reports, a Fund staff pointed out:

Most of these entities, although under the administrative control of the government, are engaged in activities that are carried out by the private sector in most countries. Their borrowings from the banking system depend upon level of activity, stocks and prices, and are therefore difficult to control through the government budgetary apparatus.²⁴

23. Bank of Sudan Act, op. cit., p. 17.

24. Sudan - Request for Stand-By Arrangement (July 1974, p. 12), Documents of the International Monetary Fund, File No. 0 - 1, 316, Vol. 22, Ministry of Finance, Khartoum.

3. The Bank of Sudan and Commercial Banks:

The lending operations of commercial banks has a direct effect on domestic credit and on the effectiveness of control of such credit by the Bank Sudan. In the Sudan, the principal client of commercial banks is the private sector; most credit extended by these banks goes to this sector, mainly for the financing of imports and of export crops.

As the central bank, the Bank of Sudan has the power to supervise over the lending operations of the commercial banks, issue directives to this effect, and impose sanctions on those banks that do not follow the directives. In regard to the control of domestic credit extended by commercial banks, the Bank of Sudan has usually relied on setting periodic ceilings on the amounts of credit extendable by each commercial bank. However, the Bank's annual reports often indicate that credit ceilings are not observed. There are no officially-stated reasons for this. One reason appears to be that the commercial banks themselves have difficulties in controlling the credits they extend. This is apparently the result of two factors. The first is that lending by commercial banks is largely based on personal and family connections. This makes the borrower keep the loaned funds longer than he should. This is reinforced by the social taboo on demanding repayment on the part of the lender. The second factor is administrative and has to do with the fact that court cases involving loan repayment are held up in courts for years. Both factors are identified by a Fund staff member in accounting for the difficulties in controlling commercial bank credit. The staff member pointed out:

In recent years, there have been difficulties in curbing the growth of private credit. This reflects the highly personalized nature of credit extension wherein access to financing is often contingent on personal and family relationships and in which lending, ostensibly done for short-term, self-liquidating purposes, ends up becoming part of the borrower's permanent funds because of

the social inhibitions on demanding repayment and also because of deficiencies in the legal system which result in cases involving commercial debt repayment being held up for years in the courts.²⁵

Before closing this section, it is useful to point out some noteworthy features of the Sudanese budgetary process. One feature relates to the fact that the national legislature (that is, the People's Assembly) has a very limited role in the budgetary process. The constitution only requires the Finance Minister to submit his budget to the Assembly for examination and approval. The Assembly may make recommendations to the Finance Minister to change some aspects of the fiscal policy contained in his budget proposal. However, these recommendations are not binding on the Minister. In addition, the Assembly does not make taxes nor does it approve appropriations for specific areas of public policy such as defence or education. The latter is the result of the fact that the Minister of Finance submits to the Assembly the aggregate or the sum total of proposed expenditures rather than the breakdown of the proposed total. Another feature is that the Ministry of Finance has monopoly over the formulation and execution of the budget of the central government. Budgetary appropriations for central government units and provincial administrations are made solely by the Ministry.

Trade Unions:

The Sudan has a long tradition of militant public-sector-employment-based trade unions. This militancy has manifested itself in the strike being the weapon of first resort rather than the ultimate recourse for obtaining workers' demands.

This tradition goes back to the immediate post Second World War period when declining real wages and the nationalist drive for self-determination and

25. Sudan - Staff Report for the 1982 Article IV Consultation, op. cit., p. 9.

independence from Britain led to the development of a labor movement. The origin of the movement is the formation in June 1946 of a Workers Affairs Association (WAA) by the railway workers in Atbara (Atbara is a town 350 Km. north of Khartoum and is the headquarters of the state-owned railway system). The railway workers went on strike to force the British colonial authorities to recognize the association, which the authorities did.²⁶

The railwaymen's strike and its success established a precedent of the strike being an effective means for the extraction of concessions from the government. As a result, the strike has become a weapon of first resort by the trade unions in dealing with governments. Sudanese trade unions first go on strike and then negotiate.

The problem that this tradition has posed is that the most militant unions are organized around the most vital parts of the public-sector-dominated economy. This is particularly the case with the Sudan Railway Workers Union and the Gezira Tenants Union. The importance of the railway system in the Sudan consists in that it is the principal artery of the Sudanese economy; the railway system transports capital and essential consumer goods from Port Sudan on the Red Sea to urban centers, particularly Khartoum and its two adjacent twin cities of Khartoum North and Omdurman where most productive units are concentrated and most civil servants reside. When the railwaymen go on strike, everybody is alarmed and the government wastes no time in responding.

The Gezira Tenants Union organizes farmers around cotton production in the Gezira Scheme (more information on this Scheme is included in chapter two). In the Sudan, cotton is the principal source of foreign exchange. The Sudanese

²⁶P. M. Holt and M. W. Daly, op. cit. p. 157.

economy has been described as a text-book example of a one-crop economy because of its primary dependence on cotton.

The effects of these two unions on the implementation of IMF-supported economic reforms and their reactions to the initiation and implementation of such reforms are discussed in the subsequent chapters. This discussion is intended to provide minimum background information on these unions because reference to them arises in the subsequent chapters.

With the exception of these two unions, all other principal unions and professional associations are located in Khartoum. Principally, these include the Sudan Doctors Union, the Par Association, Khartoum University Professors Union and the Engineers Union. The political significance of these unions being resident in Khartoum is discussed below.

In October 1964, the military regime of General Abboud was overthrown after six days of mass demonstrations and a general political strike in Khartoum.²⁷ The protests were precipitated by the death of a Khartoum University student when armed police entered the campus of the university and opened fire on a group of students discussing the war in southern Sudan. These protests and their aftermath has since October 1964 been referred to as the October Revolution.

Like the railway workers' strike in 1946, the October Revolution also established a precedent; viz the general strike is a potentially effective means of overthrowing the government. Both Post-October-Revolution governments

27. The events leading to the military relinquishing power were vividly described by Mohamed Ahmed Mahgoub (the Foreign Minister in the civilian government that was overthrown by General Aboud in November 1958), who suggested in a meeting of the Sudanese Par Association the idea of using a general strike to bring down the military regime; Mohamed Ahmed Mahjoub, Democracy on Trial: Reflections on Arab and African Politics, Ander Deutsch, London, 1974, pp. 189-190.

(principally, the one-party regime of President Nimeiri) and trade unions are aware of the potential of the general strike in ousting the government. On two occasions, President Nimeiri used concessionary and repressive measures to break up a wave of strikes that would have otherwise developed into a general strike. These cases are discussed in chapter five. Awareness on the part of the unions is indicated by the fact that a general strike and the threat of a general strike were used, respectively, to oust President Nimeiri's regime in April 1985 and to force a democratically-elected government to rescind an increase in the retail price of sugar in 1988.

The awareness on the part of the government of the politically serious consequence of a general strike has resulted in the preferential treatment of Khartoum residents as far as economic welfare policies are concerned. This seems to be the case in the area of price supports regarding some basic consumption goods, notably sugar and petrol (the importation of these goods is monopolized by the government). The retail prices of these goods are subsidized by the Central Government only for Khartoum, Omdurman, and Khartoum North. In other urban and rural areas, the subsidies do not apply. Throughout the 1970s and 1980s, the retail prices of these goods were much lower in the Khartoum area than in any other urban center. There are no data to confirm this, but it is common knowledge in the Sudan that this is the case. In some urban centers, these goods are available only in black markets whereas in Khartoum no such markets in these goods have ever existed. In my home town, El Fasher (the capital of Darfur Region in western Sudan) petrol stations have remained closed since the 1973 oil crisis, and petrol is available only in the black market, at prices multiple the price in Khartoum.

Another indication of this preferential treatment is the area of price controls which also apply only to Khartoum. In 1981, the Central Government set

up Price Courts only in Khartoum, Omdurman, and Khartoum North to handle violations of administratively-fixed retail prices.

The preferential treatment of urban dwellers through price support and control policies is widely practised in the African context. Students of African politics view it as performing a key political insurance function; namely, the maintenance off fragile governments (in general) and personal rule (in particular) in power. The argument is that such treatment is one way to keep powerful urban groups (principally, civil servants and members of the armed forces) contented - groups whose political disaffection is potentially inimical to the existence of regimes and personal rule.²⁸

In the Sudanese context, a noteworthy problem that this preferential treatment has posed is that it has been an impediment to controlling government expenditures, particularly in times of increases in the international prices of sugar and petrol. This problem is a potential impediment to the fiscal effectiveness of Fund-supported economic stabilization programs; for such programs presuppose and require control of government expenditures in the course of the economic stabilization period. In addition, price control policies run counter to the free market-oriented policies required by the International Monetary Fund for its conditional support.

28. Robert bates made this argument and provided some anecdotal indirect evidence for it; see Robert Bates, Markets and States in Tropical Africa, University of California Press, Berkeley, 1981, pp. 30-44 and Robert Bates, "Economic Reforms in Africa," Report on the Conference on Economic Reform in Africa: Lessons from Current Experience, Center for Research on Economic Development (University of Michigan), December 1988, p. 82. This argument is also evident in Richard Sandbrook's reflections on the economic irrationalities of personal rule in Africa; see Richard Sandbrook, "The State and Economic Stagnation in Tropical Africa," World Development, Vol. 14, No. 3, 1986, pp. 319-332.

CHAPTER II
FUND POLICY PROGRAMS AND
BALANCE OF PAYMENTS OUTCOMES

The Fund-supported economic stabilization programs undertaken between 1966 and 1984 covered three periods with each period having a number of successive programs. The first period covered 1966/67 - 1968/69, the second 1972/73 - 1974/75, and the third 1978/79 - 1983/84.

1. The Programs of the 1960s:

The three annual stabilization programs undertaken in the second half of the 1960s are typically financial programs tailored to improving the external payments position through reduction in excessive domestic credit expansion, mainly due to public sector deficits. Reduction in the volume of domestic credit, coupled with some measures to boost the exports of cotton, was expected to lead to reduction in the external payments deficit and even to the generation of a surplus.

A. The 1966/67 Program:

The objective of the program was to reduce the balance of payments deficit in fiscal year 1966/67. This was to be achieved in part by a substantial reduction in total bank financing of the private and public sectors' needs and also by restraint on imports. Toward the latter objective, a 5 per cent surcharge on all imports was levied. In regard to private and public sector domestic borrowing, the program permitted only LSd. 13.5 million in total domestic credit (LSd. 9.5 million and LSd. 4 million to the public and private

sectors, respectively) compared to LSd.10 million in fiscal 1964/65 and LSd. 20.4 million in 1965/66 (Table 2.1, amounts in LSd. million)

Table 2.1: Domestic Credit Extension, 1964 - 1967.

Fiscal Year	1964/65	1965/66	1966/67	
			Program	Actual
Public sector	21.3	16.4	9.5	10.6
Private sector	-11.3	4	4	3.5
Total	10	20.4	13.5	14.1

Sources: Sudan: Article XIV Consultation 1967, (Minutes of Meeting No. 4, March 6, 1967, p. 1)
Sudan: Article XIV Consultation 1968 (Minutes of Meeting No. 4, January 31, 1968, p. 1) Documents of the International Monetary Fund, File No. 0-1, 316, Vols. 13 and 15, Ministry of Finance, Khartoum.

The program also sought to improve the balance of payments position by promoting cotton sales and exports; slow movements in the sales and exports of cotton was believed to have contributed to the difficult payments position. The slow movement in the export crop resulted from the inability of the Sudan Gezira Board (the principal grower and seller of cotton in the country) to dispose of cotton stocks accumulated over two years. To encourage buyers to purchase and export cotton, the program offered lower prices and a reduced export duty levied on cotton. In this respect, the Minister of Finance noted, in the text of the program, "The government is pursuing a flexible cotton marketing policy...In line with this policy, the Gezira Board has recently reduced its reserve prices by 7 to 12 per cent... As a further inducement to

exports, the government has granted a temporary rebate from the export duty on cotton equivalent to about 4 per cent of the value of such exports."¹

When the stand-by arrangement in support of the program ended in September 1967, credit to the public sector was scaled down from LSd. 16.4 million in fiscal 1965/66 to LSd. 10.6 million. Credit to the private sector was also reduced (Table 2.1).

Apparently, the stabilization program also boosted cotton shipments (exports); shipments reached 781,000 bales as against 585,000 and 624,000 bales in fiscal 1964/65 and 1965/66, respectively.²

Despite the reduction in domestic credit and the increase in cotton exports, the balance of payments position in 1966/67 remained virtually unchanged. The basic balance recorded a deficit of LSd. 6.4 million as against a deficit of LSd. 7 million in 1965/66 (Table 2.2; figures in parenthesis indicate a surplus on the relevant account). This figure, however, hides a basic improvement in the payments position, insofar as the deficit on the current account was reduced by 8 per cent, from LSd. 19 million in 1965/66 to LSd. 17.5 million. This was not reflected in the overall balance because net capital inflow deteriorated by 25.2 per cent.

1. Memorandum on the Stabilization Program of the Republic of the Sudan (September 5, 1966, p. 1), Documents of the International Monetary Fund, File No. 0 - 1, 316, Vol. 13, Ministry of Finance, Khartoum.
 2. 1966 and 1968 Bank of Sudan Annual Reports, pp. 85 and 93, respectively.

Table 2.2: Balance of Payments, 1965 - 1969.

	1965/66	1966/67	1967/68	1968/69
1. Merchandise Trade	5.2	7.5	8.0	1.4
(1) Exports	74.2	74.7	80.7	92.5
Cotton	33.2	34.9	40.1	49.0
Other	41.0	39.8	40.6	43.0
(ii) Imports	79.4	82.2	88.7	93.9
2. Net Invisible Trade	13.8	10	10.4	10.7
A. Current Account (1 + 2)	19	17.5	18.4	12.1
B. Net Capital Inflow	(12)	(11.1)	(11.5)	(4.1)
C. Basic Balance (A + B)	7	6.4	6.9	8

Sources: Bank of Sudan 1966, 1968, and 1973 Reports, pp. 88, 100-101, and 88, respectively, Bank of Sudan, Khartoum.

The result of the program, insofar as the balance of payments is concerned, was summarised by the Minister of Finance in the text of the succeeding program. He pointed out:

The Sudan has in recent years experienced persistent balance of payments difficulties resulting in a sharp decline in external reserves. The stabilization program introduced in September 1966 was designed to improve the balance of payments position by reducing the bank financing of the public sector and increasing the exports of cotton through the adoption of a flexible marketing policy. Although the implementation of the stabilization program reduced the reliance of the public sector on bank financing, the balance of payments position did not improve mainly because exports did not increase as expected but also owing to a fall in receipts of external loans...³

3. Memorandum on the Stabilization Program of the Republic of the Sudan, (August 26, 1967, p. 1), Documents of the International Monetary Fund, File No. 0 - 1, 316, Vol. 14, Ministry of Finance, Khartoum.

B. The 1967/68 Program:

In terms of its basic policy framework, the 1967/68 Program is quite similar to the preceding one; curtailment of bank financing of the public sector and a flexible cotton marketing policy were the basic features of the program.

The objective of the program was explicitly stated by the Finance Minister. "The government intends to continue," the Minister noted, "the implementation of stabilization policies with greater vigor during the fiscal year 1967/68 with the objective of reducing the balance of payments deficit in this year and eliminating it during the next year..."⁴

In regard to its policy content, the program was more restrictive in terms of credit to the public sector. Such credit was to be limited to LSd. 5 million, representing a 12 per cent reduction from the ceiling set in the previous program. The program ceiling on credit to the private sector was set at LSd. 5 million.⁵ Thus, total credit volume was LSd. 10 million, 35 per cent lower than that of the 1966/67 Program.

The program maintained the flexible cotton marketing policy introduced as part of the preceding program. In view, however, of the fact that "...stocks of cotton held by producers still remain high...the government policy," the Minister of Finance stated, "is to adopt any additional measures that might be necessary to increase cotton exports".⁶ Apart from this policy intention, the program did not contain any specific policy measures to promote cotton sales and exports. Moreover, Fund mission reports indicate that no specific policy

4. Ibid., p. 1.

5. Ibid., p. 1.

6. Ibid., p. 1.

measure was taken in the course of the stabilization program in line with this policy intention.

At the end of the period of the stabilization program, the volume of domestic credit to the public sector stood at LSd. 3.1 million as compared to LSd. 10.6 million in fiscal 1966/67.⁷ Credit to the private sector was LSd. 5.7 million, marginally above the ceiling of the program. Total credit (LSd. 8.6 million) was scaled down by 39 per cent from the previous period's level.

There was a substantial increase in cotton exports. The quantity of cotton exported reached 959,000 bales, a 23 per cent increase over the 1966/67 level.⁸

The reduction in domestic credit and the increase in cotton exports notwithstanding, the balance of payments position deteriorated; the deficit increased by 7.8 per cent, from LSd. 6.4 million in 1966/67 to LSd. 6.9 million (Table 2.2). The slight increase in net capital inflow was more than offset by the deterioration of the current account position.

The program thus failed to achieve its original objective of reducing the balance of payments deficit in fiscal 1967/68. This was also admitted by the Minister of Finance. In the text of the succeeding program (i.e. the 1968/69 Program), he pointed:

The program of economic stabilization which the Government of the Sudan has been implementing during the last two years has resulted in a considerable improvement in the financial position of the public sector. The reliance of the public sector on bank financing was reduced from LSd. 16.4 million in 1965/66 to LSd. 10.6 million in 1966/67 and LSd. 3.2 million in 1967/68. However, the balance

7. Sudan: 1969 Article XIV Consultation (Minutes of Meeting No. 5, April 2, 1969, p. 2), Documents of the International Monetary Fund, File No. 0 - 1, 316, Vol. 16, Ministry of Finance, Khartoum.

8. 1969 Bank of Sudan Report, Bank of Sudan, Khartoum, p. 107.

of payments difficulties have persisted and resulted in a further decline in external reserves...⁹

C. The 1968/69 Program:

Unlike the two previous programs, the 1968/69 program aimed at improving the balance of payments position by specific measures to curb import demand and to promote the production of export crops other than cotton. To curtail the demand for imports, the surcharge on all imports introduced as part of the 1966/67 program was increased to 10 per cent. To encourage the production of noncotton export crops, "...virtually all export levies on products other than cotton and gum arabic have been eliminated to provide greater incentives to producers".¹⁰

The balance of payments was also to be improved by further reduction in domestic credit, particularly to the public sector. The program envisaged the elimination of bank financing of the public sector in fiscal 1968/69. In this respect, the Minister pointed out, "The objective of fiscal policy for 1968/69 will be to eliminate recourse to the banking system for financing budgetary expenditures..."¹¹

In line with this objective, the program allowed merely LSd. 0.5 million in credit to the public sector over the fiscal year as a whole. Credit to the private sector was not permitted to rise to more than LSd.4 million. In comparison with previous programs, this program thus envisaged a substantial reduction in the volume of credit.

9. Memorandum on the Stabilization Program of the Republic of the Sudan (November 11, 1968, p. 1), Documents of the International Monetary Fund, File No. 0 - 1, 316, Vol. 15, Ministry of Finance, Khartoum.

10. Ibid., p. 1.

11. Ibid., p. 1.

The one-year stand-by arrangement in support of the program broke down only three months after its inception because credit to the public sector exceeded the ceiling set for the first quarter of the arrangement. At the end of the fiscal year, credit to the public sector reached LSd. 22.1 million, a level which was not reached in any of the four previous fiscal years.¹²

The balance of payments position worsened ; the deficit increased from LSd. 6.9 million in 1967/68 to LSd. 8 million (Table 2.2). This deterioration was largely accounted for by the capital account which registered a smaller capital inflow; the current account, particularly the trade balance, improved considerably. This was probably due to the favorable movement in the terms of trade which increased from 97.1 in 1967/68 to 100.9 in 1968/69. This movement seems to have more than offset the large increase of imports over exports volumes. The quantum (volume) index of imports rose from 91 in 1967/68 to 98 whereas that of exports increased from 86 to 87.¹³

In the last quarter of 1969, a Fund mission visited the Sudan and, after reviewing the economic situation, concluded that the balance of payments position worsened in fiscal 1968/69 principally because of the high demand for imports resulting from the inflationary pressures caused by the large bank accommodation of the public sector. To rectify the external imbalance, the mission recommended not only reduction in inflationary financing but also devaluation of the Sudanese Pound. The mission's recommendation was contained in a memorandum submitted to the Minister of Finance. In the Memorandum, the mission noted:

12. Sudan: Stand-By Arrangement Discussions (Minutes of Meeting No. 3, September 13, 1969, p. 2), Documents of the International Monetary, File No. 0 - 1, 316, Vol. 17, Ministry of Finance, Khartoum.

13. International Financial Statistics, July 1970 and December 1974 issues, IMF, pp. 286 and 332, respectively.

Since the principal cause of the balance of payments deficit is the high demand for imports arising from the inflationary consequences of the budget deficit, it is clearly imperative to achieve quickly a large reduction in bank financing of the public sector as the principal step to restore a situation in which there is no further creation of inflationary pressures. While the need for such a noninflationary position is generally recognized, its achievement can be expected to result only in partial elimination of the payments deficit unless it is accompanied by other measures. There is considerable evidence that, as a consequence of rising domestic costs and prices, imports are relatively cheap at the present exchange rate; the effective demand for imports at this exchange rate even under noninflationary conditions tends to result in greater volume of imports than the economy can afford. At the same time, exports of goods other than cotton have grown very little for some years, indicating a need for greater encouragement than is provided by the present exchange rate. Thus, an adequate program to rectify the balance of payments requires noninflationary domestic policies and a more effective exchange rate policy...¹⁴

The Minister, however, rejected this recommendation. This precluded agreement with the IMF on a Fund-supported program for the next three fiscal years.

2. The Programs of the 1970s:

Undertaken in the first half of the 1970s, these programs faced an unfavorable external environment. This period witnessed the first oil shock and the subsequent recession in the industrialized world. Rising interest rates are also a noteworthy feature of this period. The London Inter-Bank Offer Rate (LIBOR) or Eurodollar London rose from 5.46 in 1972/73 to 9.24 in 1973/74 and to 11.01 per cent in 1974/75. These external factors were bound to be inimical to the Sudanese balance of payments. To begin with, oil was and still is the major import item. Rising oil prices would have an adverse effect on the merchandise trade account. Secondly, in this period the government

14. Memorandum on the Need for Devaluation and its Effects Submitted by Fund Mission to the Minister of the Treasury, (September 17, 1969, p. 1), Documents of the International Monetary Fund, File No. 0 - 1, 316, Vol. 18, Ministry of Finance, Khartoum.

stepped up its economic development efforts and relied in the main on external short-term borrowing on hard terms to finance development projects. As a results, the debt ratio (the ratio of annual interest payments and principal amortization to export proceeds) was mounting. This resulted in a mounting deficit on the invisible trade account. The key point that is worth noting here is that these external factors have to be taken into account when gauging the extent to which Fund-supported programs were effective in regard to ameliorating the external payments position.

A. The 1972/73 Program:

In its approach to solving the balance of payments problem, the 1972/73 Program represents a departure from the previous programs. This program differs from the preceding ones in that exchange rate reform was a basic element in it. Designed to restrain the demand for imports and encourage the exports of crops other than cotton and gum arabic, the reform was a tax/subsidy scheme applied to the fixed (official) exchange rate of LSd.1 - US\$ 2.87516. The tax, LSd. 0.518 per 1 US\$, was applied to all foreign exchange payments. The same amount was applied as a subsidy to all foreign exchange receipts other than export earnings from cotton and gum arabic.¹⁵ The exchange reform resulted in a de facto devaluation (there was no official devaluation) of the Sudanese Pound with respect to the US dollar by 15 per cent, from LSd. 1- US \$ 2.87516 to LSd. 1- US\$ 2.5.

Another basic element in the program was curtailment of domestic credit extendable in fiscal 1972/73. The program envisaged an 11 per cent reduction

15. Text of the Program (in a letter dated March 8, 1972 addressed to Mr. Schweitzer, the IMF Managing Director), Documents of the International Monetary Fund, File No. 0 - 1, 316, Vol. 20, Ministry of Finance, Khartoum.

in the volume of such credit, from LSd. 28.1 million in fiscal 1971/72 to LSd. 25 million (Table 2.3).

Table 2.3: Domestic Credit Extension, 1970 - 1973.

Fiscal Year	1970/71	1971/72	1972/73	
			Program	Actual
Public sector	20.2	29.2	11	22.7
Private sector	12.8	-1.1	14	23.2
Total credit	33.0	28.1	25	45.9

Source: Sudan - Request for Stand-By Arrangement (July 1973, p. 3), Documents of the International Monetary Fund, File No.0-1, 316, Vol. 20, Ministry of Finance, Khartoum.

Actual domestic credit extended over the fiscal year was far in excess not only of the program target but also of the volume of credit extended in the two previous fiscal years. In fact, the one-year arrangement with the IMF (approved in March 1972) became inoperative at the end of January 1973 because bank financing of the public sector exceeded the program ceiling set for the third quarter of the arrangement.

Despite this unfavorable outcome, the external payments position improved considerably, and an external balance was achieved for the second time since fiscal 1960/61. To a large extent, this outcome was accounted for by the substantial improvement in the merchandise trade account which recorded a surplus (Table 2.4; parenthesized figures stand for surpluses on the relevant accounts). This performance was reported to be the result partly of the exchange rate reform and partly of "special factors" related neither to the reform nor to the program. These factors were the clearance of a backlog of

cotton shipments at the beginning of the fiscal year and the imposition of restrictions on import licensing in the last quarter of the year.¹⁶

Table 2.4: Balance of Payments, 1971 - 1975.

	1971/72	1972/73	1973/74	1974/75
1. Merchandise Trade	15.9	(17.7)	3.9	122.2
(i) Exports	104.5	130.8	145.7	157.8
Cotton	56.4	73.5	75.4	63.1
Other	48.1	87.3	70.3	94.7
(ii) Imports	120.4	113.1	149.6	280
2. Invisible Trade (net)	13.3	16.4	26.6	38.1
A. Current Account (1+2)	29.2	(1.3)	30.5	160.3
B. Capital Inflow (net)	(4.9)	1.3	(15.3)	(108.6)
B. Basic Balance (A + B)	24.3	0	15.2	51.7

Sources: 1975 and 1977 Bank of Sudan Reports, Bank of Sudan, pp. 88-91, and pp. 91-93, respectively.

B. The 1973/74 Program:

The policy program for 1973/74 was a recognition that the improvement in the payments position attained in fiscal 1972/73 was not sustainable; for one thing, it was officially recognized that this improvement was the result of "special factors" and, for another, the 1972/73 Program did not succeed in

16. Although import licensing was shortly liberalized, the effect of this liberalization was not, according to the Minister of Finance, reflected in the balance of payments for fiscal 1972/73; text of the 1973/74 Program, (in a letter dated July 28, 1973 addressed to the IMF Managing Director), Documents of the International Monetary Fund, File No. 0 - 1, 316, Vol. 20, Ministry of Finance, Khartoum.

scaling down the amount of domestic credit, the primary source of pressure on the balance of payments.

The 1973/74 Program was basically designed to reduce the volume of bank financing, particularly by improving the fiscal position of the public sector.

In this connection, the Minister of Finance noted:

The balance of payments result in 1972/73 benefited from unusually favorable prices for noncotton exports. Moreover, a part of the increase in cotton exports was attributable to the clearance of a backlog of cotton shipments at the beginning of the fiscal year... Unfortunately, however, due to a number of extraordinary circumstances the imbalance of the financial position in the public sector has continued...the rate of monetary expansion has been very high and consequently inflationary pressures have continued. For fiscal year 1973/74 we have adopted a financial program designed mainly to improve the fiscal position of the public sector.¹⁷

The program envisaged a substantial reduction in the amount of domestic credit. The overall ceiling on the volume of such credit was set at LSd. 24 million as against the 1972/73 actual level of LSd. 45.9 million.

A balance of payments deficit of LSd. 8 million was projected for fiscal 1973/74. The deficit was expected to result mainly from an expansion in imports deemed necessary to replenish inventories and from higher interest payments. On the exports side, the program embodied no measures to increase export volume and earnings. Export volume and proceeds were expected to benefit from "higher foreign prices" of both cotton and noncotton crops.¹⁸

The program failed to achieve its policy objective of reducing domestic credit expansion. The credit ceiling was exceeded by more than 100 per cent, the volume of credit actually extended being LSd. 61.4 million. The one-year arrangement in support of the program lasted for only six months, the reason

17. Ibid., p. 1.

18. Ibid., pp. 1-2.

being once again the failure of the government to limit its domestic bank borrowing to the ceiling set in the program.

As projected, export prices rose sharply in 1973/74. The export price index increased from 117.7 in 1972/73 to 171 in 1973/74. Nonetheless, the projected balance of payments deficit of LSd. 8 million practically doubled; the actual deficit was LSd. 15.2 million (Table 2.4). The trade account which was in surplus to the extent of LSd. 17.7 million in 1972/73 recorded a deficit of LSd. 3.9 million.

A number of factors contributing to this result were identified by the Finance Minister, who stated:

The 1973/74 program had envisaged a balance of payments deficit of LSd. 8 million which is now estimated to be in the neighborhood of LSd. 13 million. The deterioration in the balance of payments in 1973/74 was entirely in the second half of the year and was largely due to a sharp rise in the international prices of essential imports. The sale of a large part of the cotton crop early in the year when prices are relatively low and some delay in shipments in the final quarter were also contributing factors. There was also a slowing down of noncotton exports despite increasingly favorable international prices largely due to withholding of stocks by middlemen in anticipation of further increases in the domestic purchase prices of public exporting companies.¹⁹

C. The 1974/75 Program:

The program aimed at substantially reducing bank financing of the public sector. Credit to this sector was to be reduced by 48 per cent, from LSd. 22.7 million in 1973/74 to LSd. 11 million.²⁰ The overall domestic credit ceiling was fixed at LSd. 32 million, a 48 per cent reduction from the actual level in fiscal 1973/74.

19. Text of the 1974/75 Program, (in a letter dated July 8, 1974 addressed to Mr. Witteveen, the IMF Managing Director), Documents of the International Monetary Fund, File No. 0 - 1, 316, Vol. 21, Ministry of Finance, Khartoum.

20. Ibid., p. 8.

Like the previous program, the 1974/75 Program contained no other measures to rectify the external imbalance. Nonetheless, the balance of payments deficit was projected to decline from LSd. 15.1 million in 1973/74 to LSd. 9 million. This deficit was based on various assumptions regarding exports, imports, and capital inflow. On the exports side, the program envisaged robust export performance, expected to result from higher international prices of both cotton and noncotton exports. "A surge in the value of cotton exports," the Minister of Finance indicated, "is projected due to a considerably larger crop this year...it is expected that this year's crop will be marketed at a higher average price than in 1973/74. The performance of noncotton exports, particularly gum arabic, is forecast to be unusually robust due to sharply higher prices."²¹ Export proceeds were estimated to rise by 44 per cent compared to an increase of 11.3 per cent in 1973/74. On the imports side, a higher increase was projected and expected to more than offset this robust export performance. In the words of the Minister, "This impressive export performance...will be more than offset by a near doubling of government imports and about 35 per cent increase in private imports. The projected increase in government imports reflect mainly increased outlays for development goods and higher world prices for sugar and wheat. The estimated rise in private imports is mainly because of higher international prices, particularly those of petroleum products which constitutes more than one-fifth of these imports."²²

The current account was projected to be in deficit; in addition to the implied merchandise trade deficit, the deficit on the invisible

21. Ibid., pp. 6-7.

22. Ibid., p. 7.

trade account was expected to increase owing to increased debt service payments. Net capital inflow which was LSd. 15.1 million in 1973/74 was assumed to double and to partially offset the deficit on the current account.

As projected, import payments nearly doubled (Table 2.4). Thirty per cent of the increase in these payments was attributed to an increase in the petroleum import bill. On the other hand, export receipts increased by merely 8 per cent, from LSd. 145.7 million in 1973/74 to LSd. 157.8 million. The merchandise trade account recorded the largest deficit ever.

Although net capital inflow was more than three times the program projection, this was not large enough to improve the payments position by offsetting the current account deficit which was LSd. 160.3 million (the largest deficit in the 1960s and 1970s). As a result, the balance of payment position worsened considerably, the deficit increasing to LSd. 51.7 million.

Actual overall domestic credit was far in excess of the limit set in the program.²³ For the fiscal year as a whole, the volume of credit extended reached LSd. 99.2 million, nearly three times the program target.

However, the balance of payments outcome was largely the result of unfavorable external price developments. The prices of Sudan's major

23. The one-year Stand-By Arrangement approved in August 1974 became inoperative in the third quarter of the Arrangement when total credit reached LSd. 90 million compared with the program target of LSd. 32 million; Sudan: 1975 Article XIV Consultation, (Minutes of Meeting No. 3, April 23, 1975, p. 7), Documents of the International Monetary Fund, File No. 0 - 1, 316, Vol. 21, Ministry of Finance, Khartoum.

imports (petroleum, sugar, and wheat) rose sharply. Export prices also rose but not so high as to offset the rise in import prices. Consequently, the terms of trade which was already unfavorable declined sharply from 92.7 in 1973/74 to 77.4.²⁴ Over and above this unfavorable movement, the volume of imports rose whereas that of exports declined. The index volume of imports rose from 105.1 in 1973/74 to 108.1 while that of exports decreased from 88.5 to 71.6.²⁵

In sum, the record of the three annual successive programs begun in 1972/73 indicates that these programs were apparently ineffective in terms of improving the payments position; apart from the improvement attained in 1972/73 (an improvement largely due to "special factors" unrelated to the policy program), the payments position did in fact deteriorate. The failure of the authorities to curtail or contain monetary expansion might have contributed to this deterioration. However, special factors, including external price developments, seem to have played a more determining role. The point that can be made at this juncture, and assuming that there is a link between monetary expansion and the balance of payments outcome, is that programs were not effective partly because they were not fully implemented and partly because of the adverse impact of the external environment. A major research task then is to separate the effects, if any, of Fund policy programs from the effects of external or program-unrelated factors.

24. National Economic Conference Committee on Statistics, Economic Indicators (in Arabic), Department of Statistics, Khartoum, March, 1986, p. 15.

25. Ibid., p.15.

3. The Programs of the Late 1970s and Early 1980s:

The programs implemented in this period depart from all previous ones in one basic respect; they are structural adjustment programs designed fundamentally to bring about a sustainable payments position by increasing the output of exportables, particularly cotton. The early programs were in essence financial stabilization programs (demand management programs) that attempted to improve the payments position by containing excessive domestic demand stemming from expansionary monetary policies. In the recent programs, demand management also remained a basic policy objective. The emphasis, however, was more on supply management.

The shift in economic stabilization approach was a product of a multitude of factors which began to surface in the late 1970s and the effects of which were felt in the early 1980s. A fairly detailed description of these factors is essential for the understanding and subsequent evaluation of these programs.

The first of these factors was a downward trend in cotton output and productivity which became particularly precipitous after 1978/79 (Table 2.5).

Table 2.5: Cotton Production, 1976 - 1981.

	76/77	77/78	78/79	79/80	80/81
Area	1030	1139	997	979	932
Output	3268	3901	2758	2287	1998
Yield	3.2	3.4	2.8	2.3	2.1

Note: Area is in thousands of feddans (the feddan is the basic unit of agricultural tenancy in the Sudan and is equal to 1.04 acres). Output is in thousands of Kantars (a Kantar of cotton seeds is equal to 50 kilograms). Yield is in Kantars per feddan.
Source: 1979 and 1981 Bank of Sudan Reports, pp. 126 and 118, respectively.

Cotton production has traditionally suffered from problems associated with irrigation, agricultural pests, availability of production inputs, and labor shortages at picking seasons. The decline in cotton output in the late 1970s was not, however, entirely related to these problems nor to the decline in area cultivated. There were two other factors behind the decline in productivity and production. First, cotton cultivation was not profitable, it was argued, at the foreign exchange rate prevailing at the end of the 1970s and early 1980s. The Sudanese Pound was overvalued. This made cotton less competitive abroad, and thereby discouraged its domestic production and exports.²⁶ The second factor was

26. The problem of cotton production and exports is discussed extensively by Karim Nashashibi, who was a member of various IMF missions to the Sudan in the late 1970s and early 1980s; Karim Nashashibi, "A Supply Framework for Exchange Reform in Developing Countries: The Experience of Sudan," IMF Staff Papers, Vol. 27, No. 1, March 1980, pp. 24-78.

related to the structure of financial incentives facing cotton growers in public irrigation schemes, the largest and most important of which is the Gezira Scheme.

The Gezira Scheme was set up by the British colonial authorities in 1911 and developed in the 1920s. Covering an area of 2 million acres, the Scheme accounts for one-half of Sudan's total irrigated agriculture and more than one-tenth of total cultivated land. The scheme accounts for roughly 10 per cent of GDP. The Gezira Scheme has the reputation of being the largest farm in the world under one management.

The Scheme is a partnership between the Central Government, its management (the Sudan Gezira Board), and tenant farmers. The Central Government provides irrigation water and owns the land. The Sudan Gezira Board manages the planting program for tenants, lays down the times for sowing and is responsible for fertilizing, weeding, irrigation, ploughing, spraying, and the marketing of cotton. The tenant farmers are responsible for growing cotton. Benefits are distributed according to fixed proportions. The tenants get 49 per cent of the net returns from cotton while the Central Government and the Board get the remaining 51 per cent. The tenants are also allowed to grow other crops (wheat, sorghum, and some vegetables) alongside cotton. However, the returns from these crops belong entirely to them.

The decline in cotton production was attributed to the neglect by the tenants of cotton cultivation in favor of the other crops. This neglect was itself attributed to the financial disincentive to grow cotton and the incentive to grow the other crops, present in the structure of financial relationships among the three partners. One feature of this

system is that the costs of water and land provision as well as of agricultural operations for the cultivation of all crops are deducted from the gross proceeds of cotton sales. The costs are distributed among tenants on the basis of average tenant output (that is, the costs are averaged out among tenants; in other words, each tenant bears the costs equally with others irrespective of his output). This is known as the "Joint Account". The system was thought to discriminate against the more efficient tenants; more productive tenants subsidize less productive ones. Another feature which was also thought to be less financially rewarding to the more efficient growers is the "Profit-Sharing" system, a formula on the basis of which half of the net proceeds of cotton sales (net profits) are appropriated, as previously noted, by the Central Government and the management of the Scheme. More importantly, the remaining net profits are apportioned among the tenants on the basis, again, of average tenant output. A third feature is that the two systems are not applicable to the noncotton crops. In the production of these crops, each tenant reaps individually the entire profits from his output. In addition, he incurs no costs associated with the provision of land, water, and agricultural operations in the cultivation of these crops. In other words, all these are provided free, in contrast to the case of cotton where each farmer has to pay for the costs and share his profits with others.

The problem of cotton cultivation goes back to the mid 1960s when tenants were permitted to grow the noncotton crops. Over the years, the tenants became less interested in cotton cultivation and have erected a psychological barrier against cotton, regarding it, as well, as the

Government crop. The problem came to the fore in the late 1970s because of the overvaluation of the Sudanese Pound in this period. This made cotton exports less competitive abroad, and thereby discouraged its domestic production.

Another factor in the environment of these programs was Sudan's external debt crisis. The crisis manifested itself in the inability of the authorities to meet external debt servicing obligations, due to foreign exchange shortages. This led to the emergence of external payments arrears (Table 2.6; amounts are in billion of US dollars).

**Table 2.6: External Debt Arrears,
1979 - 1982.**

Year	Amount
1979	1.3
1980	n.a.
1981	1.1
1982	2.0

Sources: Various Fund Reports.

The size of external debt arrears can be contrasted to actual debt service disbursements. In fiscal 1979/80 and 1980/81, actual debt serviced averaged US\$ 0.2 billion representing 20 per cent of earnings from exports and non-factor services.²⁷ The difference between external debt

27. Sudan - Staff Report for the 1982 Article IV Consultation, (August 23, 1982, p. 15), Documents of the International Monetary Fund, File No. 0 - 1, 316, Vol. 24, Ministry of Finance, Khartoum.

arrears and actual debt service disbursements underscores the low level of Sudan's debt servicing capacity. It was recognized that the magnitude of the country's external debt burden was such that domestic economic adjustment alone was insufficient to contribute to the attainment of a viable balance of payments position. As a result of this recognition, debt relief in the form of debt rescheduling became necessary. In addition to providing debt relief, debt rescheduling was to provide an equally important service; namely, the restoration of the confidence of external creditors in Sudan's willingness and ability to meet its external payments obligations. The restoration of such confidence was deemed essential for capital inflows (foreign investment); the argument was that Sudan's creditworthiness was impaired by the inability of the authorities to discharge debt service payments which led to the accumulation of the debt arrears. To improve Sudan creditworthiness, and thereby restore foreign investor confidence, the build-up of external debt arrears was to be reversed by debt rescheduling. The latter was thus a central element in the economic adjustment programs in these periods.

A third factor was the potential for the balance of payments to benefit from foreign exchange earnings of Sudanese Nationals Working Aboard (SNWA), principally in the Arabian Peninsula. The foreign exchange earnings of SNWA were quite sizable in these periods. However, much of these earnings was said to be diverted to the importation of nonessential consumption goods at a time when the country badly needed foreign exchange to finance the importation of essential consumer goods and production inputs. The use of foreign exchange earnings of Sudanese

expatriates for the importation of nonessential consumer goods was facilitated by the introduction in 1972 of a system known as "nil-value" imports. On the basis of this system, any person was eligible for an import license to import almost anything if he could provide for the foreign exchange he would need to pay for the imports. The system was designed to alleviate pressure on foreign exchange resources with the Bank of Sudan, which until that time was the only source of foreign exchange for external payments purposes, by tapping the foreign exchange earnings of Sudanese expatriates. It was believed that these earnings were the principal source of foreign exchange for "nil-value imports until the system was abolished in September 1979.²⁸

After 1978, remittances increased substantially because of various exchange rate changes (undertaken within the frameworks of the programs in this period) designed to encourage the inflow of remittances (see Table 2.7; because amounts remitted are published in Sudanese pounds rather than in foreign currency, they are converted here into US dollars at the exchange rates applicable to worker remittances in each year). As can be seen from the table, progressive depreciation of the Sudanese pound relative to the US dollar is paralleled in some cases by larger and larger remittances.

28. Siddig Umbadda, Import Policy in the Sudan: 1966 - 1976, Monograph Series No. 17, Development Studies and Research Centre, University of Khartoum, January 1984, pp. 36-46.

[illegible]

**Table 2.7: Worker Remittances,
1975 - 1984.**

Fiscal Year	US\$ Per LSd.	Million	
		LSd.	US\$
1975/76	1.75	6.4	11.2
1976/77	1.75	18.3	32.0
1977/78	1.75	59.5	104.1
1978/79	1.50	130.4	195.6
1979/80	1.25	244.9	306.1
1980/81	1.25	349.8	437.3
1981/82	1.11	369.4	410.0
1982/83	0.77	531.2	409.2
1983/84	0.77	727.0	559.8

Sources: Bank of Sudan Annual Reports
(1976 through 1984).

A. The 1978/79 Program:

The 1978/79 Program was unique in that it was not supported by a Fund Stand-By Arrangement, as was the case with all other programs undertaken between 1966 and 1984.²⁹ The only Fund condition met and which was intended to improve the payments situation was the official devaluation of the Sudanese Pound with respect to the US dollar on June 8, 1978. The pound was devalued by 15 per cent, from LSd. 1 = US\$ 2.87516 to LSd. 1 = US\$ 2.5. The new official exchange rate was applied to cotton exports and government imports (about half of total imports). The foreign exchange tax/subsidy introduced as part of the 1972/773 Program was increased by 25 per cent, yielding another exchange rate of LSd. 1 = US\$

29. The program was supported by the Fund First Credit Tranche, which does not require the institution of a stand-by arrangement and its attendant policy conditions such as ceilings on bank financing of the private and public sectors.

2.0. This more depreciated rate was applied to noncotton exports and to private-sector imports.³⁰

The devaluation was principally designed to make cotton production (mainly in the Gezira Scheme) and exports more competitive and profitable. According to a Fund study on the basis of which the devaluation was undertaken, devaluation would only have its desired effects if the structure of financial incentives in the Scheme was so reoriented as to make the production of cotton more financially rewarding to the tenant. This was to be achieved by replacing the cost-sharing for the production of cotton by land and water charges to be imposed on all crops in the Scheme. In this respect, the Study notes, "...for the devaluation to bear its full impact on the allocation of resources, it is necessary to allow the price mechanism to adequately reflect costs of production. In particular, a land and water charge imposed on all crops grown in the Gezira Scheme should be substituted for the present cost sharing adopted for the production of cotton".³¹ The Fund staff which prepared the study called, in fact, for the dismantling of the financial systems in the Gezira Scheme and for their replacement by land and water charges to be imposed on all crops. This was necessary for the realignment of the cultivation costs of noncotton crops with those of cotton. Coupled with the devaluation, this realignment was expected to provide incentives for the cultivation of cotton relative to the other crops.

30. Sudan - Request for Stand-By Arrangement (January 1982, Appendix V, p. 50), Documents of the International Monetary Fund, File No. 0 - 1, 316, Vol. 23, Ministry of Finance, Khartoum.

31. Quoted in Ali, "The Devaluation Debate: A Documentary Approach," in Ali Abdel Gadir (ed.), The Sudan Economy in Disarray: Essays on the IMF Model, Khartoum University Press, Khartoum, 1985, p. 31. Karim Nashashibi also emphasized the importance of these institutional reforms as being supportive of the devaluation, op. cit., pp. 65-66.

However, this institutional reform was not implemented, most probably due to expected resistance from tenants.³² Perhaps as a result of this, the 1978 devaluation did not increase cotton production in 1978/79; as noted earlier, production did in fact decline in this period. The volume of cotton exports also declined, from 821,000 bales in 1977/78 to 734,000 bales in 1978/79. So much for the 1978/79 Program. This program was intended to set the stage for a more comprehensive three-year adjustment program.

B. The Three-Year 1979/82 Program:

The main objective of the program was to "contain the deficit on the current account to a level consistent with reasonable expectations of capital inflow..."³³. The objective was to be achieved through structural reform of the irrigated agricultural sector (particularly in the Gezira Scheme) accompanied by a restrained domestic credit policy and measures to reform the exchange rate and trade systems and by debt rescheduling.

As was the case with the preceding program, the objective of structural reform was to reorient tenants' incentives toward the production of cotton. Again, this was to be achieved by the termination of the cost-sharing system, the imposition of land and water charges on all

32. The idea of replacing the cost-sharing system with a charge system by which the tenant had to pay for water and land for the cultivation of noncotton crops was entertained as early as 1968 (1968 Bank of Sudan Annual Report, p.55). The idea was not put into effect most probably because it would not be acceptable to the tenants. The Gezira Tenants Union, which has 100,000 members, is the largest union in the Sudan. As noted in chapter one, it is also one of the most militant unions in the country. Because cotton is the backbone of the economy, alienation of the tenants could have serious economic consequences for the country.

33. Sudan - Request for Stand-By Arrangement (January 1982), op. cit., p. 4.

crops in the Scheme, and by devaluation of the Sudanese Pound. The latter was also to help in attracting private capital inflow, particularly foreign exchange remittances by SNWA. Restraint on domestic credit was to reinforce the devaluation by restraining domestic demand and hence inflationary pressures. Debt rescheduling, as has been indicated, was to provide balance of payments relief and, no less importantly, to restore foreign investor and aid donor confidence in the country's economic management policies.

First Year of the Program (1979/80):

The Extended Fund Facility (approved by the Fund on May 4, 1979) required the prior implementation of structural reform in the Gezira Scheme. In line with this, the President of the Republic issued a decree imposing water and land charges on all crops in the Scheme. The Gezira Tenants Union went on a one-month strike, forcing the Government not to collect the imposed charges.³⁴ In addition, the authorities did not terminate the financial systems in the Gezira Scheme in line with the program policy prescriptions; the program had assumed that the systems would be dismantled in fiscal 1979/80. Although preparations for the termination of the systems began in June 1980, the systems were not dismantled, as will be shown, until two years later.

In regard to other policy areas, the Sudanese Pound was officially devalued in September 1979 by 20 per cent with respect to the US dollar,

34. The strike was staged after the failure of four months of negotiations between the Union and the Government to reach agreement in regard to the charge rates. Because the strike coincided with the cotton planting season (June-August), the Government was forced to act. The strike was called off when the Government promised not to collect the charges until after the end of the cotton season (Sudanow, No. 9, Vol 4, September, 1979, p. 19). In fact, the collection of the charges was delayed for three years, as was the dismantling of the financial systems.

from LSd.1 - US\$ 2.5 to LSd.1 - US\$ 2.0. The foreign exchange tax/subsidy scheme was abolished and replaced by the so-called parallel rate fixed at LSd.1 - US\$ 1.25. The official rate was applied to 96 per cent of exports and government imports (about 52 per cent of all imports); the more depreciated parallel rate was applied to private imports and to foreign exchange remittances.³⁵ The "nil-value" import system was also abolished. This was designed to switch the foreign exchange earnings of Sudanese expatriates from financing inessential imported consumer goods to remittances.

In regard to external debt, the Sudan was also able to get its external debt owed to official creditors rescheduled under the auspices of the Paris Club in November, 1979. In the area of domestic credit, actual credit for fiscal 1979/80 did not exceed program ceiling (Table 2.8).

35. Sudan - Request for Stand-By Arrangements, 1982, Appendix V, op. cit, p. 50.

**Table 2.8: Domestic Credit Extension,
1978 - 1984.**

Fiscal Year	Program Ceiling	Actual Outcome
1978/79		229.4
1979/80	269.2	269.2
1980/81	442	659.3
1981/82	511	418.4
1982/83	835	762.9
1983/84	470	431.8

Sources: Sudan - Request for Stand-By Arrangement, (1982), op. cit., Table 7, p. 21, Table 4, p. 10, and p. 64; Sudan - Request for Stand-By Arrangement, (April 1984, Table 3, p. 7) Documents of the International Monetary Fund, File No. 0 - 1, 316, Vol. 26, Ministry of Finance, Khartoum; and 1985 Bank of Sudan Report, Table 5.2, p. 27 (for the 1983/84 actual outcome), Bank of Sudan, Khartoum.

Despite these policy measures, the deficit on the current account increased substantially from Lsd. 77.9 million in fiscal 1978/79 to LSd. 133.3 million (Table 2.9; figures in parenthesis are surpluses). The merchandise trade account deteriorated sharply, from a deficit of LSd. 83.7 in 1978/79 to a deficit of LSd.199.3. Much of this increase was attributed to higher international prices of petroleum and sugar³⁶. In addition, there was an unfavorable movement in the terms of trade which declined from 79.2 in 1978/79 to 75.9.³⁷

36. Ibid., p. 5.

37. National Economic Conference, op. cit., p. 15.

Table 2.9: Balance of Payments, 1978 - 1984.

	78/79	79/80	80/81	81/82	82/83	83/84
1. Merchandise Trade	83.7	199.3	392.1	532	454.7	221.4
(i) Exports	223.5	288.9	376.4	417.8	484.9	698.8
Cotton	102.6	139.2	138.5	111.1	123.7	360.3
Other	120.9	149.7	237.8	305.9	361.2	338.5
(ii) Imports	307.2	488.2	768.5	949.8	939.6	920.2
2. Invisible Trade(net)	(5.8)	(65.5)	(209.2)	(103.7)	(220.4)	(100.9)
A. Current Account (1+2)	77.9	133.8	182.9	428.3	234.3	120.5
B. Net Capital Inflow	(80.3)	(94.8)	(59.9)	(156.1)	(64.1)	(79.7)
C. Basic Balance (A+B)	(2.3)	39	123	272.2	170.2	40.8

Sources: 1980 and 1985 Bank of Sudan Reports, Bank of Sudan, Khartoum, pp. 102-104 and pp. 88-90, respectively, Bank of Sudan, Khartoum.

Second Year of the Program (1980/81):

Most of the policies envisaged in the program for fiscal 1980/81 were not implemented as prescribed. An important policy measure that was not implemented is the unification of the two exchange rates (that is, the official and the parallel rates) by the end of the fiscal year in June 1981, as recommended by the IMF. This unification would entail some depreciation of the exchange rates which was intended to be a continuation of the exchange rate reform embarked upon in the first year of the program.

Domestic credit which was to be limited to LSd. 442 million turned out to be LSd. 659.3. million (Table 2.8), thereby exceeding program ceiling by 49 per cent.

In regard to the policies to promote the production of cotton, the structural reforms in the Gezira Scheme were not also implemented.

In terms of policy results, cotton output and productivity continued their downward trends. Output was believed to have declined to its lowest level in twenty-five years.

The deficit on the current account rose sharply. This was attributed again to the rise in the international prices of major imports (sugar and petroleum) and also to the continued growth of domestic demand for imports which was fueled by the large monetary expansion.

The Third Year of the Program (1981/82):

The Three-Year Program did not last for fiscal 1981/82, its last year. The reason for this was that the authorities and the Fund were unable to reach understandings on some policy initiatives.³⁸ The most important of these was the unification of the official and parallel exchange rates. This unification would have resulted in some depreciation (devaluation) of the Sudanese pound and would have entailed upward domestic price adjustments. The authorities felt that the combination of domestic and external factors that they faced at that juncture made such adjustments undesirable. Because agreement could not be reached, the Three-Year Program was abandoned and replaced, later in the same fiscal

38. The third year of the program was supposed to cover fiscal 1981/82 (July 1, 1981 - June 30, 1982). Negotiations on the policy initiatives began in May 1981 and resumed in mid-July.

year, by a one-year stabilization program supported by the one-year Stand-By Arrangement of the Fund.

The program failed to achieve its principal objective of increasing cotton production. This failure was ascribed to a host of factors in addition to the inability of the government to effect the institutional changes in the Gezira Scheme. The main reasons for this failure were indicated by a Fund staff report which pointed out:

At the core of the extended arrangement was an anticipated large expansion of cotton production. This was to result in a 25 per cent increase in export volume which would have considerably improved the balance of payments...However, the achievement of the production and export targets was frustrated by an underlying deterioration in the capital stock of the irrigated schemes and in their overall management. The situation was compounded by labor shortages, in part reflecting migration to the countries of the Arabian Peninsula. As a result, cotton acreage dropped steadily below its level in 1978/79, the base year for the Three-Year Program. Moreover, yields also declined partly because of the slowness with which the restructuring of incentive patterns was implemented. The delay in removing distortions in the cost structure of cotton relative to other crops was partly due to tenant resistance but also reflected administrative difficulties in replacing the entire system of financial relationships based on a sharing of costs and benefits with a system where individuals bear the full cost of cultivation and reap the full benefits.³⁹

In regard to the effectiveness of the overall program, other factors, mainly increases in the international prices of major imports, also had adverse effects. In this respect the report noted:

In addition to the decline in cotton output, increases in the international prices of petroleum products and sugar contributed to the deviation from program targets. The net oil import bill rose from about one quarter of export earnings in 1977/78 and 1978/79 to more than 80 per cent in 1980/81. In the case of sugar, the program had assumed a virtual cessation of sugar imports with the projected coming on stream of three new sugar mills in 1979/80. However, problems with the completion and operation of the sugar mills prevented domestic output from increasing sufficiently and necessitated a continuation of a high volume of sugar

39. Sudan - Request for Stand-By Arrangement (January 1982), op. cit. p. 14.

imports. Increases in the international prices of petroleum and sugar compounded the balance of payments difficulties...⁴⁰

C. The 1981/82 Program:

The policies implemented within the framework of this program were those that were supposed to have been implemented in the previous two years as part of the Three-Year Program. Thus, in the area of exchange rate reform, the official and the parallel rates were unified (effective November 9, 1981) at the rate of LSd. 1 = US\$ 1.11. This resulted in the devaluation of the official rate by 80 per cent and the parallel rate by 12.5 per cent with respect to the US dollar. The exchange rate reform was to help promote cotton production and exports. In addition, it was intended to terminate the subsidization of imports through their proper valuation. In this respect, a Fund mission noted, "As a result of the unification at the depreciated level, the exchange rate structure is now more rational, thereby serving to strengthen the balance of payments performance as well as reducing internal distortions stemming from the considerable undervaluation of a large proportion of imports".⁴¹

In regard to the restructuring of financial and production relationships in the Gezira Scheme, the authorities undertook to dismantle the Joint Account and Profit-sharing systems in the 1981/82 agricultural season starting in July 1981. The authorities also imposed water and land charges on all crops in the Scheme and undertook to revise them on a yearly basis to match them with rising costs. In these respects, the Minister pointed out, in the text of the program (dated January 5, 1982):

...in June 1980, we launched a restructuring of production relations in agriculture to eliminate distortions in

40. Ibid., p. 14.

41. Ibid., p. 29.

farmers' incentives which had resulted in the neglect of cotton cultivation. Toward this end, preparations began for the realignment of the costs of cultivation of other crops with cotton and for the termination of the joint account and profit-sharing systems in the Gezira Scheme. Effective the 1981/82 season, these systems will be replaced by individual accounts whereby each tenant would be charged the cost for the separate crop services and reap the full benefits of his productivity in each crop...To complete the restructuring of financial relationships in the agricultural sector and to provide the proper allocation of production costs among the various crops, we have imposed charges on tenants in the irrigated schemes ...We are setting up a mechanism whereby these charges are collected directly from the proceeds of their respective crops...This will avoid using cotton as a cost recovery ..instrument with the concomitant disincentive to its cultivation. We will reach by May 31, 1982 understandings with the Fund concerning the minimum level of collection from land and water charges in the period ending August 31, 1982.⁴²

To make sure that the charges would be collected, the IMF made the relevant policy intention in the Minister's letter a policy condition (a "performance criterion") written into the text of the approved Stand-By Arrangement. As it turned out, all these policy intentions were implemented, thereby eliminating the financial disincentive to cotton cultivation.⁴³

In the area of external debt rescheduling, an agreement was reached (December 30, 1981) with some private creditors (a consortium of foreign commercial banks) under the aegis of the London Club. In view of its effect on the balance of payments for fiscal 1981/82, it is important to provide some

42. Ibid., p. 61.

43. The joint account and profit-sharing systems were dismantled and replaced by an individual charge system. On the basis of this system, each tenant was required to pay individually a land charge based on the size of his holding. Each tenant was also required to pay a flat per feddan overhead water charge to cover the cost of water delivery and the costs of agricultural services rendered to him; Sudan - Staff Report for the 1982 Article IV Consultation, (August 23, 1982), op. cit, p. 4. To ward off tenant resistance, the Government had offered the tenants several concessions. These included the rescheduling of tenants' debts and the payment on delivery of their cotton (hitherto, the practice was that tenants were paid some time after the delivery of their harvests). Moreover, the on-delivery payment was to be based on procurement prices announced in advance; 1980 Bank of Sudan Report, Bank of Sudan, p. 10.

details of this agreement. The agreement rescheduled US\$ 496 million (US\$ 398 million in principal and US\$ 98 million in interest) out of US\$ 776 million of outstanding arrears. Although the agreement provided a repayment schedule with grace periods (3 years for the principal and 1 year for the interest) that covered fiscal 1981/82, it required a down payment of the interests in the unrescheduled portion of the arrears. The down payment amounted to US\$ 106 million and was to be made in fiscal 1981/82.⁴⁴ Another debt rescheduling agreement was reached (March 1982) with official bilateral creditors under the aegis of the Paris Club. The Paris Club agreement covered US\$ 1.8 billion of debt service payments (including some outstanding arrears) between the end of June 1981 and the end of December 1982. The repayment schedule covered 90 per cent of the total debt to be paid in eleven annual equal installments after a grace period of seven years.⁴⁵ Thus, the agreement did not require any payment in fiscal 1981/82.

In the area of domestic credit, credit was to be reduced by 22.5 per cent over the actual level in fiscal 1980/81 (Table 2.8). Actual credit extended in the fiscal year was well below the program ceiling (Table 2.8).

In terms of policy results, there was a substantial increase in cotton output; the downward trend in output and productivity was reversed. Thus, output rose by 56 per cent, from 1,998,000 Kantars in 1980/81 to 3,122,000 Kantars. The increase in output occurred despite a 7.5 per cent reduction in the area of cotton cultivation (from 932,000 feddans in 1980/81 to 863,000 feddans).⁴⁶ The rise in output notwithstanding the decline in the area cultivated was attributed to the rise in feddan productivity (which rose from 2.1 Kantars in

44. Ibid., p. 29.

45. 1982 Bank of Sudan Report (in Arabic), Bank of Sudan, Khartoum, pp. 71-72.

46. Ibid., p. 13.

1980/81 to 3.6 Kantars in 1981/82) brought about by the new cotton cultivation incentives and also by a high level of land preparation, improvement in farming operations, and high rates of fertilizer and pesticide utilization.⁴⁷

Despite the large increase in cotton output and the other policy initiatives, the current account recorded the largest deficit ever (see Table 2.9). Both the merchandise and invisible trade accounts contributed to this unprecedented deficit. Although net capital inflow rose sharply, it was not sufficient to offset the large deficit on the current account. Consequently, the balance of payments also recorded the largest deficit ever (Table 2.9). These large deficits were to some extent attributable to two special factors. The first of these was the particularly pronounced decline in cotton output in the last season (that is, 180/81). This affected the balance of payments for fiscal 1981/82 (July 1, 1981 - June 30, 1982) because exports in a fiscal year relate to production in the preceding year. This is because cotton is picked between January and March and, consequently, given the time required for ginning and baling, very little is available for exporting in the fiscal year during which the crop is harvested. As a result of this, the good cotton output in fiscal year 1981/82 was not reflected in the year's balance of payments. The second factor was the burden of debt service payments (in particular, the down payment made to foreign commercial banks as a result of the December 1981 debt rescheduling agreement) resulting from the November 1979 and December 1981 debt reschedulings. In regard to the effect of the down payment on the external payments position, the Staff Report for the 1982 Article IV Consultation notes, "Preliminary data indicate that the current account widened in 1981/82 reflecting continued growth of imports and the down payment

47. Ibid., p. 13.

of the debt rescheduling agreement negotiated with foreign commercial banks at the end of 1981."⁴⁸

The balance of payments deficit would have been larger had the Sudan been able to discharge its external debt service obligations due in fiscal 1981/82. At the end of the fiscal year in June, outstanding debt arrears (including debts under the 1979, 1981, and 1982 reschedulings) amounted to US\$ 2 billion. Thus, the Minister of Finance, referring to the debt relief generated by the previous three debt reschedulings, pointed out, "Despite the debt relief afforded, however, the continuing shortage of foreign exchange has impaired Sudan's ability to meet all debt servicing obligations with the result that new arrears, including arrears on previously rescheduled amounts, have been accumulated. As of June 30, 1982 the amount of external arrears is estimated at about US\$ 2 billion." When converted into Sudanese pounds at the official exchange rate of LSd. 1 = US\$ 1.11, this dollar amount of debt arrears (equal to LSd. 1.801 billion) would exceed the 1981/82 export earnings (equal to LSd. .4178 billion; see Table 2.9) by more than 400 per cent. As of June 1982, Sudan's external debt was estimated to be in excess of US\$ 7 billion⁴⁹.

The Program had, in fact, underestimated the size of the external debt and of debt servicing obligations due in 1982; at the time the Stand-By Arrangement was prepared (January 1982), Sudan's official external debt was estimated to be in the range of US\$ 4.0 - 4.5 billion and debt servicing obligations projected at US\$ 520 million. The latter was estimated to be US\$ 1 billion, even if the outstanding arrears at the end of June were rescheduled. This

48. Op. cit., p. 11.

49. Ibid., p. 15.

amount would exceed total receipts from exports of goods and nonfactor services.⁵⁰

The reality of external debt obligations influenced the strategy of economic adjustment for fiscal 1982/83. It was realized that the external payments crisis was so profound as to require domestic adjustment policies that might not be consistent with political stability. To moderate otherwise radical domestic adjustment policies, substantial debt relief and external assistance were to be part of the adjustment strategy. This was explicitly stated by the Finance Minister in the text of the 1982/83 Program sent to the IMF, requesting a Stand-By Arrangement in support of the program. The Minister pointed out:

The Government of Sudan is now convinced that the magnitude of Sudan external obligations is now such that domestic adjustment must be supplemented by sufficient external support from Sudan's friends over a long enough duration to permit the adjustment to reach fruition without generating excessive social strain in the process.⁵¹

D. The 1982/83 Program:

The program for 1982/83 had two principal elements. The first one was external debt restructuring designed to secure debt relief. As was the case with the two previous programs, agreement with Fund facilitated debt rescheduling agreements with official and private international creditors. In regard to debt relief from official creditors, an agreement was reached (February 1983 after the approval by the Fund of a Stand-by in January) with Paris Club members to consolidate all arrears outstanding at the beginning of 1983, all principal payments falling due in 1983, and one half of interest payment

50. Ibid., p. 9.

51. Statement of the Government of Sudan on Its Economic and Financial Policies (January, 1983), op. cit., p. 9.

due in the year into a sixteen-year loan with a six-year grace period. Private creditors accepted an offer of US\$ 30 million as against US\$ 160 million in debt service payments due in 1983.⁵² Balance of payments support aid donor groups also responded to the agreement with the Fund by pledging to disburse US\$ 514 million in cash and commodity assistance and US\$ 300 million in project assistance in 1983.

The second principal element was fresh exchange rate reform. The Sudanese pound was officially devalued (November 15, 1982) by 44 per cent with respect to the US dollar, from LSd. 1 = US\$ 1.11 to LSd. 1 = US\$ 0.77. The devaluation was designed to provide further incentives to cotton production and exports and to increase the flow of foreign exchange remittances by Sudanese expatriate workers. The exchange rate depreciation was also intended to close the differentials in official and free market exchange rates. Before July 1981, the only legal market in foreign exchange was the official market administered by the Bank of Sudan. Following the second official devaluation of the Sudanese pound in September 1979, a black market in foreign exchange emerged alongside the official one. To counter this, the authorities instituted in July 1981 a free market in foreign exchange for the first time in the Sudan by legalizing the opening of free market exchange houses in downtown Khartoum. However, due to instability in the market (attributed to a temporary suspension of some dealers' licenses and to official interference in the market in the form of setting purchasing and selling prices for the US\$ dollar), the black market re-emerged with a rate more depreciated than both the official and free market rates. In the meantime, the free market rate

52. Sudan: Pricing Policies and Structural Balances (A World Bank Country Study), op. cit., p. 89.

began to depreciate below the official rate. The divergence in the different rates contributed, it was argued, to export smuggling, capital flight, and generally to misallocation of foreign exchange resources.⁵³ The November 1982 devaluation was hoped to close the differentials in the rates, and thereby contribute to solving the problems arising from divergence in the rates.

The program had two other minor elements. The first one was an imposition of a ban on the importation of some commodities. This was designed to switch the composition of imports to more intermediate and capital goods needed for the alleviation of shortages in imported production inputs. The second one was the usual program restriction on the volume of domestic credit extendable in the program period. The program permitted LSd. 835 million as the amount of credit for 1982/83, nearly double the actual level in fiscal 1981/82 (Table 2.8).

In terms of policy results, cotton output and productivity continued their upward trends. Output increased by 31 per cent, from 3,122 thousand Kantars in 1981/82 to 4,099 thousand Kantars; productivity rose from 3.6 Kantars per feddan in 1981/82 to 4.4 Kantars.⁵⁴ Cotton exports (which relate to output in 1981/82) increased by 11 per cent (reflecting the increase in output in 1981/82) compared to a 20 per cent decrease in 1981/82 (Table 2.9). The decline in imports (attributed to lower international prices of petroleum and sugar, to a smaller volume of sugar imports due to increased domestic production, the import ban, and to the November 1982 devaluation) coupled with the increase in exports sharply reduced the deficit on the merchandise trade

53. Staff Report for the 1983 Article IV Consultation and Review Under the Stand-by Arrangement (August 16, 1983, pp. 13-14), Documents of the International Monetary Fund, File No. 0 - 1, 316, Vol. 25, Ministry of Finance, Khartoum.

54. 1986 Bank of Sudan Report, Bank of Sudan, p.98.

account. The reduction in this deficit together with the large increase in the surplus on the invisible trade account (ascribed to increases in foreign exchange remittances by Sudanese expatriates and in grants from aid donor balance of payments support groups) significantly reduced the deficit on the current account (Table 2.9). Although net capital inflow dropped precipitously (attributed to the substitution of grants for loans on the part of aid donors), the overall balance of payments deficit declined by more than three times the level in fiscal 1981/82, reflecting the substantial improvement in the current account situation.

The external payments position would have been better, it was pointed out, had it not been for two factors. The first of these was the burden of debt service disbursements resulting from Sudan being able to meet its external debt servicing obligations due in 1983; the country incurred no external debt payments arrears during the year. The second factor was an unprojected increase in domestic demand. This was attributed to an increase in the rate of inflation to 50 per cent against a projected rate of 30 per cent. The rise in the rate of inflation resulted, it was noted, from the excess of monetary expansion (fostered by the large domestic credit extension, though the amount of credit actually extended was well below the limit stipulated in the program; Table 2.8) over the growth of GDP. This declined by 2 per cent compared to a projected growth rate of 3.5 per cent.⁵⁵

In the mid-program review in July 1983 when this information became available, the program (which began with the November 1982 devaluation and was supposed to be in effect until March 1984) was still effective. Because the

55. Staff Report for the 1983 Article IV Consultation, op. cit., pp. 4-5. The decline in GDP was mainly attributed to a sharp drop in rain-fed agricultural production due to drought.

remaining period of the program would still cover part of fiscal 1983/84, it was decided in the mid-program review that domestic credit be severely restrained in fiscal 1983/84 to contain the growth of domestic demand in the remaining period of the program. Consequently, a ceiling of LSd. 470 million was set as the amount of credit extendable in the new fiscal year. This represents a 38 per cent reduction relative to the actual level in fiscal 1982/83 (Table 2.8).

The balance of payments recorded further improvement in fiscal 1983/84. Cotton exports nearly trebled and more than offset the decline in noncotton exports which were adversely affected by drought in the rain-fed sector of agriculture from which noncotton export crops come (Table 2.9). Because imports continued their downward trend, there was a sharp drop in the merchandise trade deficit. The reduction in this deficit more than offset the smaller surplus on the invisible trade account. As a result, the current account deficit was reduced by nearly half its size in fiscal 1982/83. Coupled with an increase in net capital inflow, the improvement in the current account position led to a significant reduction in the overall balance of payments deficit which decreased by more than three times its size in the previous fiscal year (Table 2.9).

The 1982/83 Program effectively marked the end of Fund-supported stabilization programs begun in 1966. Despite the improvements attained in fiscal 1982/83 and 1983/84, the external payments situation was expected to be under severe stress for the rest of the decade. The reason for this is the heavy burden of external debt service obligations projected to be in excess of US\$ 1 billion per annum for the rest of the decade. This was expected to exceed earnings from exports and nonfactor services.

Continuous external support as well as fresh domestic adjustment policies over a number of years were deemed essential for the attainment of a viable external payments position. The principal elements of a prospective adjustment strategy were identified in a Fund staff assessment of the payments situation in 1984. The staff noted:

The staff agrees with the authorities that in order to gradually achieve a fundamental improvement in the balance of payments, Sudan's medium-term economic policy should continue to aim at realizing a high rate of growth of output and moderation in inflationary pressures. The policies aimed at increasing output and reducing inflation should be supplemented by relative price adjustments that encourage exports and inflow of remittances and reduce imports and leakages of foreign exchange abroad. In this regard, pursuit of active interest rate and exchange rate policies is of major importance.⁵⁶

Elsewhere, the staff pointed out, "The fundamental weakness of Sudan's balance of payments will require exceptional foreign assistance and debt relief over a number of years. The Fund's role in the circumstances will of necessity have to be catalytic essentially serving to maintain the confidence of the donors and the creditors."⁵⁷

At the end of 1983, the Sudan was unable to meet external debt servicing obligations to bilateral private and official creditors. With the passage of time, external payments arrears began to build up again.

Postscript:

A program, containing some of the aforementioned elements of economic adjustment strategy, was formulated for 1984/85. The program envisaged fresh exchange rate reform and tighter financial demand restraint policies.

56. Sudan - Request for Stand-By Arrangement (April 1984, p. 31), Documents of the International Monetary Fund, File No. 0 - 1, 316, Vol. 26, Ministry of Finance, Khartoum.

57. Ibid., p. 33.

The November 1982 devaluation did not succeed in closing the official, free, and black markets' exchange rate differentials. In the first half of 1984, the free market rate ranged between LSd. 1.75 and LSd. 2.0 - US\$ 1, the official rate remained at LSd. 1.3 - US\$ 1, and the black market rate ranged between LSd. 2.10 and LSd. 2.30 - US\$ 1. The exchange rate reform proposed called for the unification of the free and official market rates.⁵⁸ In regard to demand restraint financial policy, the program permitted LSd. 320 million in domestic credit for fiscal 1984/85 (a 26 per cent reduction from the actual level of LSd. 431.9 million in fiscal 1983/84).

A Stand-By Arrangement was approved, in principle, in April 1984 and became effective in June. However, the Arrangement lasted for only a few days. The principal reason was that the Sudan began for the first time to incur debt payments arrears to the International Monetary Fund itself. Unlike the case with bilateral private and official creditors, payments arrears to a multi-lateral creditor like the IMF can not be rescheduled, and the organization's Articles of Agreement preclude it from extending credit to a member country in arrears to it.

During the second half of 1984, payments arrears to the IMF began to accumulate. Toward the end of the year, the IMF Executive Board began to institute procedures to declare the Sudan ineligible to use the resources of the IMF. Toward this end, the Board took a decision on February 8, 1985 to limit Sudan's use of the organization's resources. The text of the decision reads:

The Fund decides pursuant to Rule K-2 of the Fund's Rules and Regulations that the Sudan shall not make use of the general resources of the Fund until such time as Sudan is current in its

58. Ibid., p. 10.

obligations under the Articles of Agreement relating to repurchases and the payments of charges...⁵⁹

In the meantime, shortages in essential consumer goods brought about by a combination of the cumulative effects of a three-year drought (which led to a decline in GDP by 2, 1.3, and 3 per cent in 1982/83, 1983/84, and in 1984/85, respectively) and import shortages caused by a severe shortage of foreign exchange at the Bank of Sudan contributed to an inflation rate in excess of 50 per cent. Fearing further price increases, the authorities did not implement the exchange rate reform in due time (the program had called for unification of the prevailing exchange rates accompanied by "immediate and full transmission of the effects of the proposed exchange reform into domestic prices"). When the authorities moved to implement the exchange rate unification and its price aspects in February/March 1985, massive and unprecedented protest demonstrations in Khartoum and a general strike followed, resulting in the overthrow of President Nimeiri's sixteen-year-old regime.

At present, the Sudan is denied full access to the use of Fund resources (the Sudan owes US\$ 0.7 billion in overdue financial obligations to the Fund, according to officials in the Office of the Minister of Finance). Since the 1982/83 Program, there has not been any Fund-supported stabilization program in the country.

59. Sudan - Overdue Financial Obligations, (Executive Board Decision - February 8, 1985), Documents of the International Monetary Fund, File No. 0 - 1, 316, Vol. 26, Ministry of Finance, Khartoum.

CHAPTER III
THE BALANCE OF PAYMENTS
EFFECTIVENESS OF FUND PROGRAMS

Literature Review

The empirical literature on the effectiveness of Fund programs with respect to the target variable (i.e. the balance of payments or its current account portion) has two principal features. First, empirical works are in the nature of cross-sectional multi-country studies. Second, most of these studies employed a before-after method to evaluate the contribution of these programs to improving the current account and/or the balance of payments position. Studies using this method were in the main undertaken by independent researchers or non-IMF staff members. Studies by IMF staff members compared post-program results with program targets. Before reviewing these studies in some detail, a discussion of why it is important, when evaluating program effectiveness, to examine both the balance of payments and its current account portion is in order.

The current account is equal to the net balance on the visible or merchandise trade account (i.e. the value of exports minus the value of imports) plus the net balance on the invisible trade account (i.e. the difference between payments for and receipts of services plus net unrequited transfers such as grants and donations). The common measure of the balance of payments is the "basic balance" which is the net balance on the current account plus net capital inflow from abroad. It is the current account rather than the overall balance of payments that is supposed to be influenced by the specific

policies embodied in the Fund program. This is because capital inflow is not policy manipulable as it depends on external factors. That it is the current account position that is supposed to be changed by Fund policy programs is implicit in the "viable payments position" that these programs are expected to help developing countries attain.

The concept of a viable BoP typically means, especially for developing countries, a current account deficit that can be financed, on a sustainable basis, by net capital inflows on terms that are compatible with the development and growth prospects of the country.¹

Nonetheless, in evaluating Fund programs, the balance of payments as a whole is also taken into account. This is related to the argument that the mere presence of a Fund program helps restore or increase foreign confidence in domestic economic management, and thereby attract capital inflows that could otherwise be hampered by a low level or lack of such confidence. This is the so-called "confidence effects" or "inducement effects" of Fund programs. The possibility of such effects is accepted by the Fund itself. In one of its reviews, the Fund notes:

In several cases the programs were expected to result in a restoration of confidence in the management of the economy both at home and abroad, so that other sources of balance of payments assistance would contribute to a more gradual adjustment effort...²

To take such effects into account, empirical works made use of the basic balance since it should also capture inflows induced by any confidence generated by the presence of a Fund-supported program.

1. The concept of a "viable" payments position represents an adaptation of Fund programs to the payments problems of developing countries since the mid 1970s when persistent current account deficits have become a characteristic feature of these countries' external payments positions; see IMF Pamphlet No. 38, 1981, p. 24.

2. Quoted in Tony Killick, "The Impact of Fund Stabilisation Programmes," in Tony Killick (ed.), The Quest for Economic Stabilization: The IMF and the Third World, St. Martin's Press, New York, 1984, p. 230.

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The pioneering independent empirical work was undertaken by Thomas Connors. Connors' study applied a nonparametric test to 31 stabilisation programs supported by Fund Stand-by Arrangements approved during 1973-1977 to test the impact of the programs on the current account as well as on GDP growth rates and the inflation rate.³ The study found that there was a tendency for the current account to improve (in almost all cases meaning a reduced deficit) but that this tendency was not statistically significant at the 95 per cent level.⁴

Another empirical study, carried out by Tony Killick and associates, covered 38 programs agreed with non-oil developing countries in the post oil-crisis years, 1974-1979.⁵ Unlike the Connors Study, this study examined both the current account and the basic balance. Moreover, it examined effects for both one and two years after program inception.⁶ The principal finding of the study was that there was a tendency for the current account and the balance of payments deficit to increase in the first year after program inception. By the second year, this tendency remained but to a diminished extent.⁷

A third major independent study was carried out for the North-South Institute. The study was based on a previous study conducted by an IMF staff member. Known as the Donovan Study, the latter study covered programs between 1971 and 1980 and examined effects on the basis of comparing the position of the target variable one year and three years before program inception with its

3. Values for these variables were taken for one year each before and after approval of the Stand-By Arrangement. Connors' study is reported in Killick, *ibid.*

4. This result was true for both countries which complied and for those that did not comply with program credit ceilings.

5. This empirical work, referred to as the ODI Tests, is reported in Killick, *ibid.*, pp. 229-234.

6. *Ibid.*, pp. 228-229.

7. *Ibid.*, p. 232.

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position during the one-year program period and its position during the three years after program inception. Unlike the two previous studies, this study attempted to control for the exogenous factors that might have played a key role throughout the ten-year period. This was done by comparing the target variable of program countries with that of all non-oil developing countries (NODCs) in the ten-year period. The Donovan Study also differed from the other two in that it did not use significance tests and in that it scaled the current account by GNP and the balance of payments by exports.⁸

The study found that program countries tended, on average, to achieve some significant improvement in the current account and the overall balance ratios in the short run (as based on the one-year preprogram-postprogram comparison) and in the long run (as based on the three-year preprogram-postprogram comparison). Moreover, this improvement occurred both in an absolute sense and in relation to the average trends experienced by all NODCs.

The study for the North-South Institute, conducted by John Loxley, also covered the period 1971 - 1980 and used the one-year and the three-year before-after comparisons. Unlike the Donovan Study, The Loxley Study examined the performance of least developed countries (LLDCs). The study investigated effects for LLDC program countries relative to the performance of all LLDCs over the same time period, the performance of Donovan program countries, and the performance of all NODCs used in the Donovan Study. The Loxley Study also differed from Donovan's in that it employed significance tests.⁹

8. Donal J. Donovan, "Macroeconomic Performance and Adjustment Under Fund-supported Programs: The Experience of the Seventies," IMF Staff Papers, Vol. 29, No. 2, June 1982, pp. 171-198.

9. John Loxley, The IMF and the Poorest Countries: The Performance of the Least Developed Countries Under IMF Stand-by Arrangements, the North-South Institute, Ottawa, 1984.

In regard to the current account performance (measured as a ratio of GNP), the findings of the study were that for LLDC program countries there was, for the period as a whole, an average decline in the ratio on both the one-year and the three-year measures; that the performance of LLDC program countries was worse than the performance of Donovan program countries and the performance of all NODCs; and that the performance of LLDC program countries was better than the performance of all LLDCs on the one-year basis but worse on the three-year basis.¹⁰ With respect to the performance of the balance of payments, the finding of the study was that the performance of LLDC program countries was on average better than the performance of all LLDCs on both the one-year and the three-year bases.¹¹ The difference between the two sets of findings is probably due to salutary program "confidence effects". Notwithstanding the latter finding, the study concludes, "LLDC program countries did not exhibit strong improvements on any of the measures and, in relative terms, their performance...cannot be said to have been significantly better than that of all LLDCs."¹²

Fund staff members also undertook some studies to assess the results of their programs. The earliest study covered programs between 1963 and 1972. The study, conducted by Reichmann and Stillson, used changes in net foreign assets as a measure of the balance of payments position and measured program impact by comparing the payments position in the four quarters before the program to

10. Ibid., p. 8.

11. Ibid., pp. 8-9.

12. Ibid., p. 29.

the position in the four quarters following the program. The study tested for statistical significance.¹³

Out of the 75 programs examined, the study found that net foreign assets increased (i.e. the balance of payments position improved) in only 18 cases; that is, 24 per cent of the cases. Improvement in these cases was statistically significant.¹⁴

Unlike the case with the previous studies, this study attempted to relate balance of payments outcomes to the implementation of program policies; namely, devaluation and deceleration of domestic credit. The 18 cases of statistically significant improvement included 10 cases in which devaluation was undertaken.¹⁵ In all cases (32) where domestic credit was scaled down in line with program targets, net foreign assets increased. However, only 6 cases were statistically significant.¹⁶

Reichmann also carried out a review of twenty-one programs during 1973 - 1975, with a view to assessing results in the light of the unfavorable external environment characteristic of this period.¹⁷ According to him, 14 programs achieved their balance of payments targets. However, these improvements were not the result of program policy implementation; for, in only three

13. The study used the nonparametric Mann-Whitney U-test; Thomas M. Reichmann and Richard T. Stillson, "Experience with Programs of Balance of Payments Adjustment: Stand-By Arrangements in the Higher Tranches, 1963 - 1972," IMF Staff Papers, Vol. 25, No. 2, June 1978, pp. 293-310.

14. *Ibid.*, p. 300.

15. *Ibid.*, p. 301.

16. *Ibid.*, Table 7, p. 304.

17. The two external factors that were thought to have adverse effects on the external accounts of developing countries were the sharp rise in import prices (principally, the prices of oil) and the recession in the industrialized countries. The latter affected the demand for primary exports from the developing countries; T. M. Reichmann, "The Fund's Conditional Assistance and the Problems of Adjustment, 1973 - 75," Finance and Development, Vol. 15, No. 4, December, 1978, pp. 38-41.

cases were adequate program policies put into effect. In the remaining 11 cases, the improvements were due, according to Reichmann, to temporary increase in exports, heavy restrictions on international transactions, or large inflows of short-term capital.¹⁸

Another study by a Fund staff member attempted to evaluate the impact of exchange rate actions, mainly devaluations, on specific balance of payments components; namely, exports and imports. In the twelve cases examined, the exchange actions were the principal program policy feature; the major reason for undertaking the actions was the emergence of significant balance of payments pressures attributed to the overvaluation of the exchange rate which resulted in the discouragement of exports and in the encouragement of imports.¹⁹ This study also used the before-after method to assess program effects; performance in the program year and average performance of the three years beginning with the program year was compared, respectively, to that of the preprogram year and to average performance of the three years preceding the program. Moreover, the performance of program countries was compared to "average world performance" over the same period.²⁰

On the export side, the finding of the study was that the volume of exports for program countries grew, on average, significantly both in absolute terms

18. Ibid., p. 41.

19. Donal J. Donovan, "Real Responses Associated with Exchange Rate Action in Selected Upper Credit Tranche Stabilization Programs," IMF Staff Papers, Vol. 28, No. 4, December 1981, pp. 698- 704.

20. Average world performance was defined as the the average performance of non-oil developing countries except for Israel and South Africa (two of the twelve cases) whose performance was compared to the average performance of industrial countries. This comparison was intended to control for the "special factors" that might have affected, in particular, import performance. Because the programs were undertaken between 1970 and 1976, these "special factors" were specifically the oil shock and the recession in the industrial countries; p. 711.

and relative to the average performance of the rest of the world and that growth occurred in both the short and the long runs.²¹ On the import side, the study divided programs into those in which the exchange rate adjustment was intended to restrain import demand and those in which the adjustment was accompanied by import liberalization. For the latter group, the adjustment was expected to result initially in increased imports. For this group, the finding of the study was that real imports grew sharply for both the short-run and the long-run comparisons. For the former group, the growth of real imports was restrained in the short run and curtailed in the long run.²²

The Donovan Study, covering the programs during the period 1971 - 1980, also provided the basis for a third major study by a Fund staff member. The objective of the study was to see the extent to which improvement or deterioration in the current account and the balance of payments as reported in the Donovan Study was associated, respectively, with reductions or increases in the government deficit (in the case of the current account) and (the domestically financed government deficit in the case of the balance of payments).²³

The main findings of the study were that reductions and increases (relative to GNP) in the current account/overall balance of payments deficit in the year of Fund programs tended to be associated with reductions and increases (relative to GNP) in the overall government deficit/domestically financed govern-

21. Ibid., pp. 712-713.

22. Unlike the case with exports, the study did not compare import performance of program countries to that of the world; p. 716.

23. Fiscal imbalances (in particular, domestic bank financing of the public sector), are considered by the Fund as a major source of external payments difficulties; Margaret R. Kelly, "Fiscal Adjustment and Fund-Supported Programs, 1971 - 80," IMF Staff Papers, Vol. 29, December 1982, p. 562.

ment deficit.²⁴ Kelly then concluded, "Insofar as such reductions in external deficits in program years are considered necessary for effective external adjustment, the results of this paper reinforce the importance attached to fiscal targets and fiscal performance clauses in Fund programs."²⁵

A quite recent study examined the effectiveness of adjustment lending programs supported jointly by the IMF and the World Bank.²⁶ The study examined the impact of Bank-Fund adjustment lending on several external payments performance indicators and on other macroeconomic performance indicators. The external payments performance indicators include real effective exchange rate, current account deficit measured as a ratio of GDP, and external debt measured, first, as the ratio of gross external debt to earnings from exports of goods and nonfactor services and, second, as the ratio of total debt service payments to earnings from exports of goods and nonfactor services.²⁷

To assess the macroeconomic effectiveness of Bank-Fund adjustment lending, the study divided countries receiving credit simultaneously from the two institutions into high-credit recipients and low-credit recipients. The latter group is to serve as a control group, the intent of assessment being whether intensive adjustment lending makes a difference to macroeconomic performance. Values of macroeconomic performance indicators were calculated for both groups of recipients before adjustment lending (1978 -81) and after adjustment lending (1982 - 86). Thus, each performance indicator has two values: one for the

24. Ibid., p. 563.

25. Ibid., p. 563.

26. Riccardo Faini (et. al.), Macro Performance Under Adjustment Lending, (Policy, Planning and Research Working Papers), World Bank, Washington, D. C., April 1989, pp. 1-33.

27. The other macroeconomic performance indicators include GDP growth rate, investment as a proportion of GDP, government budget balance as a proportion of GDP, and inflation.

pre-lending period and one for the post-lending period.²⁸ Effectiveness was assessed by comparing the pre-post-lending performance indicators' values for high-credit recipients to the corresponding values for low-credit recipients.

Thus, like most of the aforementioned studies, this study evaluated effectiveness on the basis of a before-after comparison. However, it differs from all of the above studies in two respects. First, it took into account recipient countries' capacities to adjust. This was done by dividing the group of high-credit recipient countries into middle-income recipients and low-income recipients to control for the "potential influence of institutional characteristics on programs' effectiveness".²⁹ Second, it used a parametric test of statistical significance.

With respect to external sector performance, the study found that both middle- and low-income high-credit recipients significantly improved their current account performance relative to low-credit recipients. The study also found that high-credit recipients experienced significant improvements in export growth, debt service performance (though, these improvements were significant only for low-income countries), and in real exchange rate depreciation (this improvement was significant only for middle-income countries) relative to low-credit recipients. However, both middle- and low-income high-credit recipients experienced deterioration in gross external debt performance relative to low-credit recipients. This deterioration was, however, insignificant.

In regard to the rest of the macroeconomic performance indicators, high-credit recipients experienced a reduction in inflation (though, this was

28. For each of the two periods, the value of the performance indicator is an average value for the period as a whole.

29. Ibid., p. 6.

insignificant for both low- and middle-income countries), deterioration in investment (this was significant only for middle-income countries), and an improvement in GDP growth (this was also significant only for middle-income countries) relative to low-credit recipients. The significant improvement in GDP growth for middle-income high-credit recipients notwithstanding the significant deterioration in their investment was made possible, the authors argued, by an increase in import growth which was, in turn, made possible by the relaxation of the foreign exchange constraint and, concomitantly, the inflow of essential imported production inputs.

The overall conclusion of the study is that Bank-Fund adjustment lending programs appear to improve economic performance mostly by alleviating the foreign exchange constraint and thus allowing for the inflow of crucial imported production inputs.³⁰

These empirical studies provided the ground for some tentative generalizations on the record of Fund programs. Killick, who also reviewed some of these studies and examined some Fund reviews, proposed the following generalizations.³¹ First, there is a general tendency for programs to be associated with a reduced basic or overall balance of payments deficit, though the achieved improvement often falls short of program targets. Second, the statistical significance of this tendency is slight. Third, there is no evident trend in the results over time, even though the period studied covers both pre- and post-oil crisis years.³² Noting the intrinsic difficulties of carrying out adequate tests, Killick then concluded that Fund programs appear to make little dif-

30. Ibid., p. 17.

31. Killick reviewed all of these empirical works except the works by Loxley, Donovan (1981), and Kelly; Killick, op. cit., pp. 229-236.

32. Ibid., p. 235.

ference to anything. However, he qualified this conclusion by pointing out the possibility of the absence of strong results as being an artefact, a product of the test applied.³³

Various propositions were advanced as explanations for this record. One explanation was that programs were not well implemented.³⁴ Another explanation which had to do with the decade of the 1970s was an unfavorable external environment which manifested itself in the two oil shocks and recessions in the industrial countries.³⁵ One of the principal factors that had to do with the oil shocks and that was found to have adversely affected the external accounts of, in particular, non-oil developing countries was deterioration in the terms of trade (that is, the ratio of export prices to import prices). Another factor was the upsurge in external real interest rates for borrowing developing countries.³⁶ A third proposition has to do with the IMF monetary approach to economic stabilization, particularly the focus on domestic credit restraint to correct balance of payments deficits. It is argued that this focus contributed to a neglect on the part of the Fund of "real" variables

33. Ibid., p. 250.

34. In proposing this explanation, Killick drew on a number of studies undertaken both by independent researchers and Fund staff members to demonstrate that programs had little impact on the instrument variables, particularly domestic credit; *ibid.*, pp. 251-259.

35. Ibid., p. 259.

36. The impact of unfavorable movements in the terms of trade on the external payments position of some non-oil developing countries was empirically analysed for the 1973-1977 period by Sidney Dell and Roger Lawrence, *op. cit.* pp. 21-28 and pp. 54-64. Mohsin Khan and Malcolm Knight found a statistically significant relationship between the deterioration of the current account of non-oil developing countries in the 1970s and unfavorable movements in the terms of trade. They also found significant relationships between current account balances and foreign real interest rates and recession in the industrial countries; Mohsin Khan and Malcolm Knight, "Determinants of Current Account Balances of Non-oil Developing Countries in the 1970s: An Empirical Analysis," IMF Staff Papers, Vol. 30, No. 4, December 1983, pp. 819-841.

which are necessary for the rectification of imbalances, particularly, "structural deficits".³⁷

While it is possible that each one of these factors could have influenced results and that they could have been at work at the same time, the empirical studies themselves suffer from conceptual and methodological problems.³⁸ A major problem is related to the use of the before-after method. The obvious drawback of this method is that it does not control for nonprogram factors. These could be the external factors just discussed and/or domestic "special factors" such as restrictions on imports to ease pressure on the external payments situation. Another problem has to do with the relative importance and implementation of program policy components; most of these studies did not address this question and did not therefore shed light on whether this made any difference. Those studies that paid some attention to this question limited the investigation to macro-policy variables such as domestic credit; the relative importance and the extent of implementation of policies at the micro level and the effect of this on the final balance of payments outcome was not addressed. As will be demonstrated in the case of the Sudan, micro policies (especially institutional and structural reforms) are such critical program policy ingredients that program effectiveness is regarded as largely dependent not only on their implementation but on their timely implementation as well. That these studies did not largely address this question is understandable in view of the confidentiality and hence unavailability of IMF documents, in particular, to independent researchers.

37. Ibid., p. 264.

38. For some discussion on the methodological problems associated with the multi-country or cross-sectional approach to the assessment of Fund program effectiveness, see Morris Goldstein and Peter Montiel, "Evaluating Fund Stabilization Programs with Multicountry Data: Some Methodological Pitfalls," IMF Staff Papers, Vol. 33, No. 2, 1986, pp. 314-344.

A third problem has to do with the aggregative nature of the studies. The multi-country approach conceals variations in individual country experiences. It is possible that programs were more effective in some countries than in others. However, such programs are lost in the aggregation involved. To the extent that this is true, the studies and the inference drawn from them are biased against individual success stories. A more important bias consists in disregarding the economic performance outcomes that would or might have prevailed in the absence of Fund program policy intervention. It has of late been suggested that the most appropriate method of gauging Fund program effectiveness is to compare economic performance with Fund program (the "what is" or the factual) with the economic performance that would or might have prevailed without the Fund program (the "what would have been" or the "what might have been" or generally the counterfactual). The difference between the two versions of the counterfactual; that is, the "what would have been" and the "what might have been" is that the latter bases the counterfactual on the economic stabilization policies that would have been adopted in the absence of the Fund program while the former does not.³⁹ Interesting and perhaps compelling though it is, assessment of program effectiveness against a constructed counterfactual is most likely to be controversial. This stems basically from the conjectural or judgemental element involved in any attempt at constructing a counterfactual. Specifically, assumptions (which might not be realistic) must of necessity be made. This might well explain why researchers have avoided it. It might as well explain why most empirical works used the before-after method which is straightforward; it is essentially a mere comparison of preprogram and postprogram sets of factual information.

39. Manuel Guitian, Fund Conditionality: Evolution of Principles and Practices, International Monetary Fund, Washington, D.C., 1981, pp. 36-38.

These problems aside, the empirical works are useful in that they have highlighted some of the factors that could affect results independently of the Fund policy program. Some of these factors are, in particular, the terms of trade, foreign real interest rates, and "special factors". In any assessment of program effectiveness, these factors have to be controlled for if any meaningful assessment of program effectiveness is to be undertaken.

Program Balance of Payments Effectiveness

Empirical work on the assessment of Fund-supported programs in the Sudan is extremely limited, both in terms of the programs covered and of the scope of assessment. To the best of my knowledge, no work on the evaluation of the programs of the 1960s and those in the first half of the 1970s exists. The work that exists is confined to some of the programs in the late 1970s and early 1980s. Even here, researchers examined the effect of one aspect of the IMF policy package (principally devaluation) in isolation from other aspects. This is particularly the case with the assessment of the effect of devaluation on the production of export crops, particularly cotton. It should be recalled that a principal objective of Fund programs from 1978 onwards was to increase cotton production and exports and that this was to be achieved by devaluations and institutional reforms in cotton-growing schemes. Researchers focused exclusively on devaluation and limited the period of study to the 1978 - 1981 period; that is, the period before the effectuation of the institutional reforms in the Gezira Scheme and other cotton-growing schemes. As should be expected, they found that devaluations in the 1978 - 1981 period did not have any positive effect on the production of cotton.⁴⁰

40. Mohamed Nur El Din Hussain, "Devaluation, Export Profitability, and the Balance of Payments," In Ali Abdel Ghadir, op. cit., pp. 146-162; and Siddig Umbadda and Elfatih Shaael Din, "IMF Stabilization Policies: The Experience of Sudan, 1978-82," In Ali Abdel Ghadir, *ibid.*, pp. 124-135.

Some even went further to assert that the Programs did not contain any measure to increase the production of exports. In this respect, Mustafa wrote, "...a stabilization and economic recovery programme is proposed, containing not a single specific measure for enhancing production, particularly of those material goods that are of critical importance, both for domestic and export use".⁴¹

Because the IMF policy program is a totality, program assessment is not completely meaningful without taking into account all of its aspects. Equally important is the question of what would have been the situation without the programs. In the following section, an attempt is made to answer this question.

Evaluation of program effectiveness is made difficult by two factors. To begin with, there is the question of program implementation. Program evaluation presupposes full program implementation or, at minimum, implementation of program basic policy components. We have seen that in a number of programs ceilings on domestic credit, a crucial program policy ingredient, were not observed. We have also seen that this led in some instances to the breakdown of the Stand-by Arrangement with the IMF. Secondly, the balance of payments outcome in some cases was apparently the function of "special factors" independent of the IMF policy program. In assessing program effectiveness, some of these factors are taken into account. Those factors that are not amenable to empirical quantification are left out. A case in point is the lack of implementation of institutional changes in the Gezira Scheme.

41. Quoted in Richard Brown, "International Responses to Sudan's Economic Crisis: 1978 to the April 1985 Coup d'Etat," Development and Change, Vol. 17, No.3, July 1986, p. 502.

Simple Empirical Models:

The models proposed here aim at exploring independent program effects with respect to the target variable. The primary intent of assessment here is to find out whether program policy intervention nudges the target variable in the desired direction rather than to determine the precise size of program effects, assuming that this is possible.

As the preceding descriptive account has shown, in nearly all Fund program periods the deficit on the current account deteriorated rather than improved. Part of this might be due to the fact that not all program policies were implemented and policy targets met. These periods also experienced unfavorable movements in external variables that have some effects on the current account. Specifically, there was some deterioration in the terms of trade. In addition, foreign interest rates kept increasing in some of the periods of the programs implemented in the first half of the 1970s and in the late 1970s and early 1980s.

Since the current account position worsened despite program policy interventions, deteriorating terms of trade and rising interest rates might have been to some extent responsible for neutralizing otherwise salutary program effects. Therefore, control for these two factors is necessary for ascertaining the extent to which the policy programs contributed to improving the payments position. Against this background, the current account and the balance of payments outcomes in any program period are given by the following models:

Current account = f (policy program and external factors)

Balance of payments = f (policy program, external factors,
and program confidence effect)

The model for the current account takes account of program policy components and, as such, is sufficient for exploring the effects of program

policy intervention. However, Fund programs also help, as has been suggested above, through increasing confidence in the economy the result of which will be reflected in more capital inflow. This "confidence effect" or "inducement effect" should be reflected in the balance of payments (as indicated by the basic balance) rather than in the current account.

Variables:

a. Program Policy Variables:

(i) Domestic Credit:

The rationale for the inclusion of domestic credit into the model consists in that it is a principal policy instrument through which Fund programs are expected to influence the external payments outcome. The theoretical underpinning of the link between domestic credit and the balance of payments is based on the monetary approach to the balance of payments. This approach, it is argued, lies at the core of Fund programs. The origins of this approach, according to William Cline, lie with a 1957 article written by Jacques Polak, a long-time Fund staff member.⁴² In the Polak model, income equals money supply times the velocity of circulation of money; money supply equals domestic credit plus international reserves. In equilibrium, this year's income equals last year's and hence this year's money supply must equal last year's.⁴³ Any growth in domestic credit must therefore be offset by a reduction in reserves to hold money supply constant. Reduction in reserves means a balance of payments deficit. Such a deficit may therefore be corrected by reduction in domestic credit.⁴⁴ The general argument is that domestic credit

42. William Cline, "IMF Stabilization Programs in Developing Countries: in Theory and Practice," in John Williamson (ed.), IMF Conditionality, Institute for International Economics, Washington, D.C., 1983, p. 176.

43. Ibid., p. 176.

44. Ibid., p. 176.

extension leads to monetary expansion which, if unmatched by a commensurate growth in output, increases inflation. The latter increases domestic demand, including the demand for imports. This argument is evident in the case of the Sudan where Fund staff often claimed that inflationary financing of fiscal deficits had adverse effects via the growth of domestic demand on the external payments outcome.

Some empirical studies used the government budget or the overall fiscal deficit to investigate the effect of growth in aggregate demand on the balance of payments or on some of its components. Khan and Knight examined the effects of changes in the fiscal deficit on the current account balances of non-oil developing during the 1970s and found that deterioration in the fiscal deficit had an adverse effect on the current account balance.⁴⁵ As discussed earlier, Kelly investigated the impact of changes in the government budget deficit on changes in the current account and the impact of changes in the domestically-financed government budget deficit on changes in the balance of payments. She also found positive relationships between the variables.⁴⁶ Tahari examined the effect of the size of the government deficit in developing countries on the size of the trade deficit and found no conclusive evidence of a direct link.⁴⁷ In the case of the Sudan, it is more appropriate to use the growth of domestic credit rather than the fiscal deficit or just the domestically-financed fiscal deficit to examine the impact of growth in demand on the payments position. This is because domestic credit to the private sector also contributes to the growth of demand. In fact, every program set a ceiling on domestic credit to

45. Op. cit., p. 834.

46. Op. cit., p. 563.

47. Reported by Jennifer Sharpley, "The Potential of Domestic Stabilization Measures," in Killick, op. cit., p. 56.

the private sector. Moreover, credit to the private sector is used partly for importation purposes.

In the regression models, this variable is lagged because the link between domestic credit extension and payments outcomes is indirect. As has been discussed above, the growth of domestic credit affects the external payments situation through increasing domestic inflation which increases the domestic demand for imports and eventually the volume of imports. An increase in the volume of imports leads to the reduction in international reserves or to their leakage abroad. This adversely affects the external payments accounts. This is the central argument of the monetary approach to the balance of payments. This approach posits that under a fixed exchange rate an increase in domestic credit leads to a reduction in international reserves and that such a reduction constitutes an external payments deficit.

The argument presupposes the absence of foreign exchange and import restrictions which could neutralize the adverse external payments effect of an increase in domestic credit. The implication here is that an increase in domestic credit may not lead to an adverse external payments outcome if such an increase is accompanied by the imposition of foreign exchange and/or import restrictions. This point is particularly significant in the Sudanese context where the government has traditionally relied on foreign exchange and import restrictions to alleviate pressures on the external payments situation.⁴⁸

(ii) Real Exchange Rate:

48. In this regard, see Adnan Mahhouk and Franz Drees, "Domestic Policies and Payments Problems of the Sudan, 1947 - 62," IMF Staff Papers, Vol. XI, No. 1, March 1964, pp. 150-174.

Exchange rate here refers to the value of foreign currency in terms of Sudanese pounds or simply the price of foreign currency expressed in Sudanese pounds.

The models proposed are inadequate without taking into account the exchange rate (which was claimed by Fund officials to be overvalued as from the first half of the 1970s and up to the early 1980s) and the various devaluations undertaken in order to correct it. An overvalued exchange rate means that the official fixed exchange rate is below the rate that, according to the Purchasing Power Parity Theory of exchange rates, produces (in the absence of corrective balance of payments policy measures) an equilibrium in the balance of payments.⁴⁹ Given this rate, the official fixed exchange rate becomes overtime overvalued or appreciated in real terms if the fixed rate is maintained when domestic prices rise faster than foreign prices.

Exchange rate overvaluation or appreciation (meaning decline in the domestic price of foreign currency or rise in the value of the domestic currency relative to the foreign currency) should have an adverse impact on the current account. This happens because when domestic prices rise faster than foreign prices and the exchange rate remains unchanged, foreign goods become cheaper. This tends to increase domestic demand for imports. At the same time, exports become more expensive to foreign buyers or importers (and hence less competitive abroad). This tends to reduce foreign demand for exports. In addition, the production of import substitutes is discouraged as imports become cheaper. In sum, appreciation of the exchange rate encourages imports and dis-

49. Lawrence Officer, "The Purchasing Power Parity Theory of Exchange Rates: A Review Article," IMF Staff Papers, Vol. XXIII, No. 1, March 1976, pp. 2-3; and Edouard Maciejewski, "Real Effective Exchange Rate Indices: A Re-examination of the Major Conceptual and Methodological Issues," IMF Staff Papers, Vol. 30, No. 3, September 1983, pp. 501.

courages exports and import substitutes. Exchange rate appreciation should thus have an adverse impact on the merchandise trade balance. By discouraging exports and import substitutes, an overvalued exchange rate also depresses the export and import substitute producing sectors of the domestic economy.

Devaluation attempts to reverse this situation. What it is supposed to do is to discourage imports by making them more expensive. This happens because devaluation increases the domestic price of foreign currency (it depreciates the exchange rate) which means that importers and consumers must pay higher prices for imports in domestic currency. This tends to reduce domestic demand for imports. On the other, it increases exports because, first, exports become less expensive to foreign importers (and hence more competitive abroad) and, second, domestic producers or exporters receive more domestic currency per unit exported.⁵⁰

Devaluation or exchange rate depreciation should thus improve, at least in theory, the merchandise trade position. In the case of the Sudan, this was the objective behind the various devaluations implemented. These devaluations were also intended to increase foreign exchange remittances by Sudanese expatriates who, like home producers or exporters, should receive after devaluation more domestic currency per unit of foreign exchange (e.g. US dollar, Saudi riyal etc.) they remit to the country. Devaluation should thus have positive effects on both the merchandise and the invisible trade balance or on the current account balance.

Appreciation of the exchange rate over time is measured in terms of adjusting the nominal rates for domestic and foreign inflation, starting from a given (base) period. An upward deviation from the rate of the base period

50. Cline, op. cit., p. 177.

(100) indicates the extent of appreciation or overvaluation; a downward deviation indicates the extent of depreciation or undervaluation. The effect of exchange rate appreciation in developing countries on their current account balances has recently been examined. Khan and Knight have found that an increase in the real exchange rate has a negative effect on the current account balance.⁵¹

For the purpose of this analysis, real exchange rates are calculated for the period 1972 - 1984; in this period, it was claimed, the exchange rate was overvalued. Table 3.1 presents the current account balances in million of Sudanese pounds (the figure in parenthesis is the only surplus; all other figures are deficits) and the factors affecting them. In the Table, real exchange rates are presented in index form with 1971 as the base period. As can be seen, the exchange rate was increasingly appreciated during the period. As can be seen from both the Table and Figure 3.1, increased appreciation is paralleled in some cases by increased current account deficits.

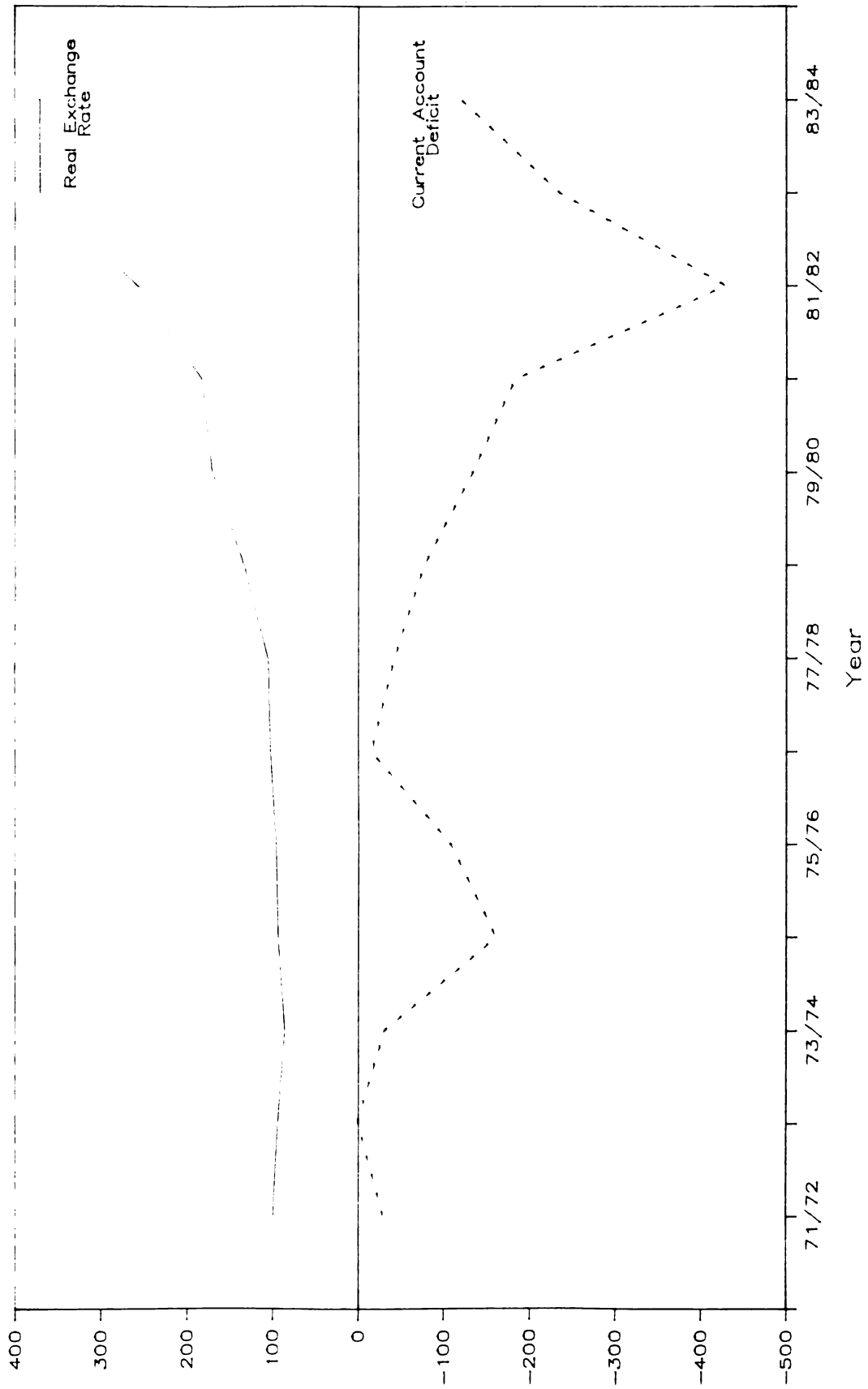
51. Op. cit., p. 834.

Table 3.1: Current Account Balances and Factors Affecting Them, 1963 - 1983/84.

Period	Current Account Balances	Domestic Credit Growth	Real Exchange Rates	Terms of Trade	Foreign Real Interest Rates
1963/64	36.5	19.0		0.0	
1964/65	29.9	-3.1		22.1	
1965/66	19.0	20.7		-2.6	
1966/67	17.5	18.9		-27.5	
1967/68	18.4	5.3		-3.8	
1968/69	11.9	29.0		4.8	
1969/70	4.1	10.2		-0.7	
1970/71	23.1	21.1		-3.3	
1971/72	29.2	16.4	100	-2.3	
1972/73	(1.3)	23.2	107	-3.4	7.9
1973/74	30.5	30.4	91	0.5	10.5
1974/75	160.3	33.8	101	-15.3	12.9
1975/76	107.6	43.1	105	-14.2	7.3
1976/77	15.1	25.0	109	7.9	5.3
1977/78	42.8	18.6	113	7.2	6.1
1978/79	77.9	32.0	134	0.9	9.3
1979/80	133.8	22.0	171	-3.3	10.0
1980/81	182.9	56.0	183	0.8	10.7
1981/82	429.0	27.0	257	8.5	14.5
1982/83	234.3	40.0	371	-8.3	12.9
1983/84	120.5	14.1	371	2.6	9.0

Sources: Appendices A and B.

**Figure 3.1: Real Exchange Rates and Current
Account Deficits, 1971 - 1984.**

**Figure 3.1**

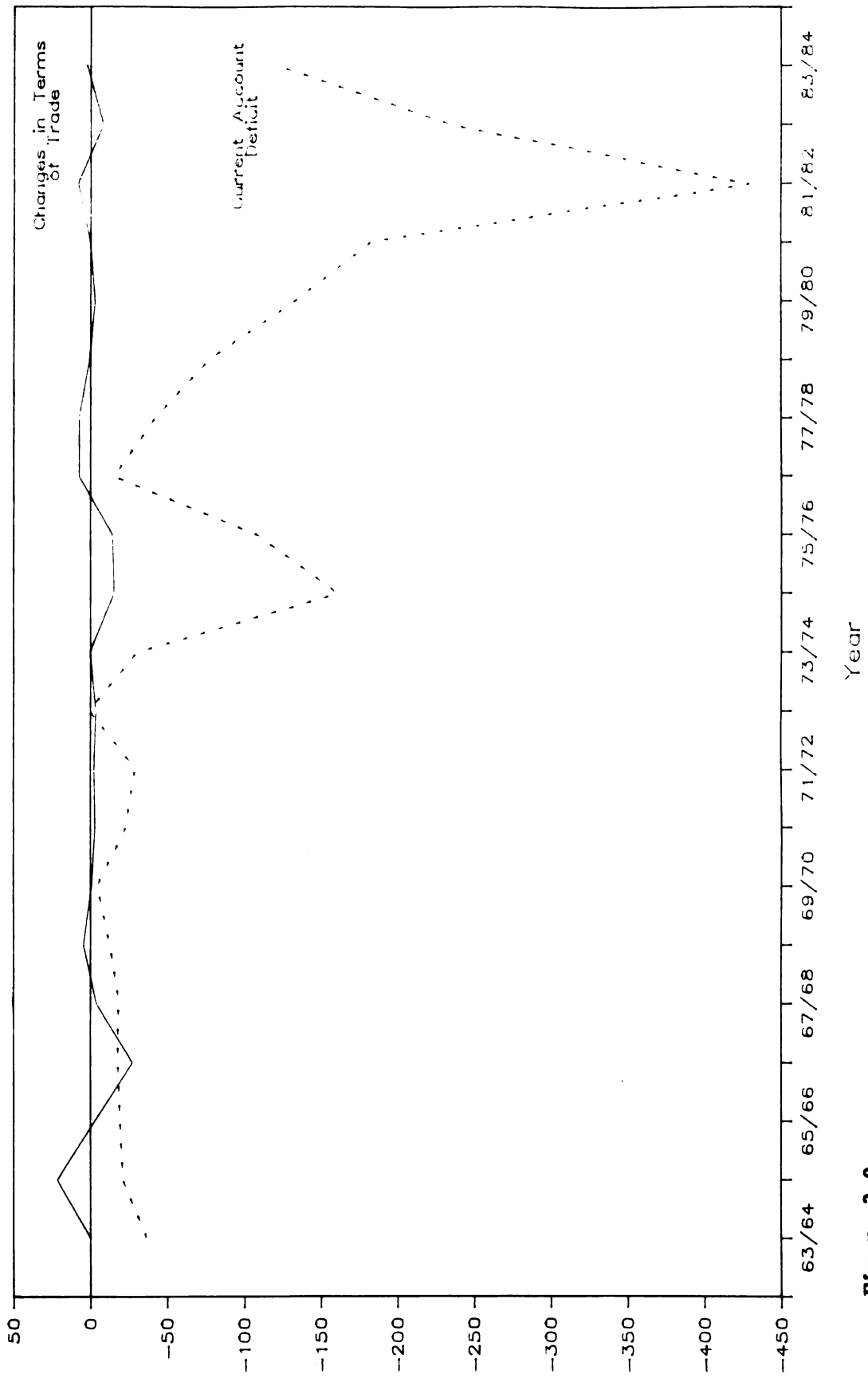
b. External Factors:

(i) Terms of trade:

The terms of trade directly affect the merchandise trade portion of the current account. A sharper rise in the prices of imports than of exports negatively affects this account. This occurred in the periods of some programs and seems to be instrumental in determining the current account outcomes in these periods. For the Sudan, a rise in the prices of imports that is not matched by a commensurate rise in export prices or volume is most likely to worsen the merchandise trade position. This is because the bulk of imports consists of basic consumption goods (notably, Sugar, petroleum, and wheat) the demand for which is inelastic. This means that a sharp rise in import prices is unlikely to be matched by an offsetting decline in import volume (import quantity is price inelastic).

Intuitively, there should be an inverse relationship between the terms of trade and the current account deficit. A decrease in the terms of trade should worsen or increase the deficit on the current account. The reverse is true in the case of an increase or improvement. Figure 3.2 indicates this in some cases (in particular, the periods 1973/74-1976/77, 1978/79- 1980/81, and 1982/83) increases/decreases in the terms of trade are associated with decreases/increases in the current account deficit.

**Figure 3.2: Changes in Terms of Trade and Current
Account Deficits, 1963 - 1984.**

**Figure 3.2**

(ii) Foreign Real Interest Rates:

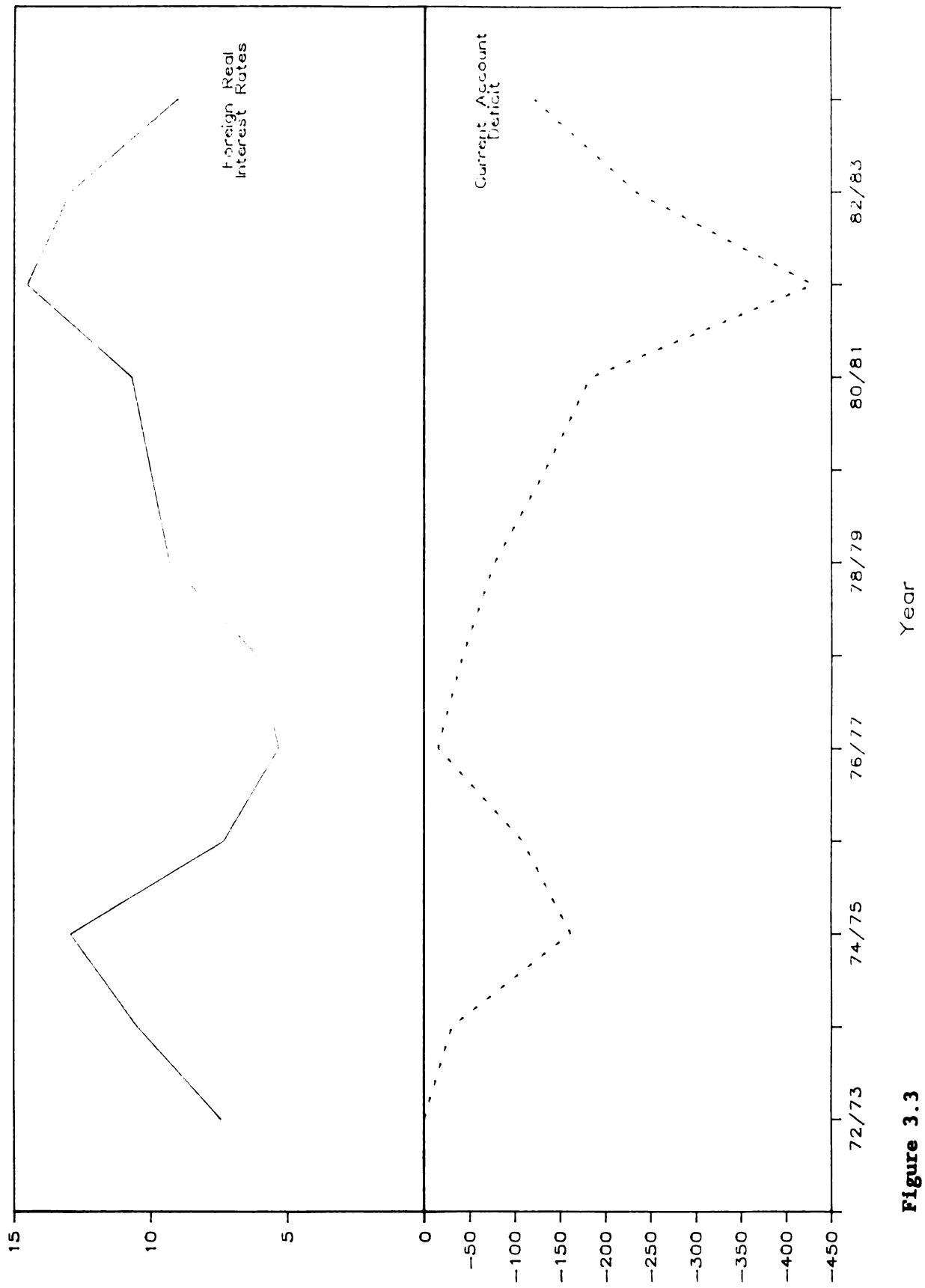
Foreign interest rates are important because of the existence since the early 1970s of an external debt and hence annual interest payments. Evidently, the latter appears on the payments side of the current account.

Foreign interest rates do not increase interest payments over time if the rates are fixed, assuming that the size of the external debt is also fixed. Because interest rates are variable, the amount of interest payments in a given time is subject to the level of the rate at that time. A lower interest rate results in a smaller amount of interest payments. The reverse is true in the case of a higher rate. By augmenting annual interest payments, higher interest rates worsen the current account position.

As has earlier been alluded to, the government resorted to external borrowing, starting from the early 1970s, with a view to financing the importation of basic consumption and capital or development goods. This recourse was facilitated by readily available private international credit generated by the so-called recycling of petrodollars following the substantial upsurges in oil prices after 1973 and by the nonexistence in the country of a central entity for external debt management.

Two features of the debts incurred since the early 1970s are that they are of short-term maturity and bear free market interest rates. These were suggested as being mainly responsible for the rise in the size of the debt service ratio. Between 1973 and 1978, this ratio rose from 11 to 35 per cent of total export earnings.

**Figure 3.3: Foreign Real Interest Rates and Current
Account Deficits, 1972 - 1984.**

**Figure 3.3**

As can be seen from Table 3.1 and Figure 3.3, there are two episodes which witnessed upsurges in foreign interest rates. These two episodes covered most of the periods of Fund programs undertaken between 1972 and 1984. In these program periods, rising external interest rates were paralleled by rising current account deficits. The period prior to 1971 is not considered because the Sudan began short-term borrowing only at the beginning of the 1970s and because an external debt was known to have been existent as from the first half of the decade.

c. Program Confidence Effect:

The inclusion of this variable is based on the argument, as noted earlier, that having an "Arrangement" (Stand-by or Extended) with the IMF is by itself helpful in that it restores or increases foreign confidence in domestic economic management which may in turn attract capital inflows that would have otherwise been hampered by lack of such confidence.

In regard to the case of the Sudan, Fund staff made repeated reference to the question of confidence and its positive effects. For instance, a Fund mission, impressing on the authorities the need for a new comprehensive program after the failure of the 1968/69 Program, notes:

A comprehensive program of the type proposed...would not only provide a basis for financial support from the Fund, but would help to convince the international financial community of the determination of the authorities to deal adequately with the economic and financial problems facing the Sudan. Such a restoration of confidence would be helpful in obtaining support for the development effort.⁵²

52. Sudan - 1969 Article XIV Consultation (Executive Board Decision - November 10, 1969, p. 3), Documents of the International Monetary Fund, File No. 0 - 1, 316, Vol. 18, Ministry of Finance, Khartoum.

In the light of the foregoing discussion, the following regression models are specified :

$$CAD = b_1 + b_2LDC + b_3RER + b_4TOT + b_5FRIR + U$$

$$BOPD = b_1 + b_2LDC + b_3RER + b_4TOT + b_5FRIR + b_6PROGCON + U$$

Where :

CAD	- Current Account Deficit
LDC	- Lagged Domestic Credit
RER	- Real Exchange Rate
TOT	- Terms of Trades
FRIR	- Foreign Real Interest Rate
BOPD	- Balance of Payments Deficit
PROGCON	- Program Confidence
U	- Error Term

When estimated, these equations yield the current account and the balance of payments balances with Fund programs. The estimated equation results are then compared to counterfactually-based results with the object of exploring program effectiveness or independent effects. The methods used and the assumptions made are discussed later. Prior to this, the results of the above equations are presented and briefly discussed. Discussion of variable measures is in order.

Measures:

Data used for the regression equations cover the period 1962/63 - 1983/84.

1. Dependent Variables:

The current account is measured in terms of the monetary value of the actual balances which are, in nearly all cases, deficits. The balance of pay-

ments is measured as the monetary value of the "basic balance". This balance, as indicated earlier, is equal to the balance on the current account plus net capital inflow. In balance of payments terminology, the latter is referred to as long-term capital and direct foreign investment (or non-monetary capital).⁵³ There is no need to scale these values by gross domestic product, as usually done in cross-sectional multi-country studies, in order to insure comparability. Data on both balances cover the fiscal year and are published as such by the Bank of Sudan.

2. Independent Variables

a. Domestic Credit:

This is measured as the rate of credit extended over the fiscal year as a whole.

b. Real Exchange Rate:

The nominal fixed rates are adjusted for prices in the Sudan and prices abroad.

Real exchange rates are calculated using the formula based on the Purchasing Power Parity Theory of exchange rates. The formula is as follows:

$$\text{Real exchange rate} = \frac{\text{domestic prices}}{\text{foreign prices}} \times \text{nominal exchange rate}$$

Since in the case of the Sudan the exchange rate is fixed, the values of the real rate over time are the function of changes in domestic and/or in for-

53. Monetary capital or "monetary movements" (also referred to as financing, accommodating, or below-the-line items) represents changes in official reserves (gold and foreign currencies held by a country's central bank), private sector reserves, and in the country's net position with the IMF. The sum total of these changes is referred to as "net foreign assets". This sum exactly offsets, allowing for "errors and omissions", the basic balance. Because the balance of payments is essentially an accounting balance sheet, the sign of the sum total of these changes must be the opposite of the sign of the basic balance; see any Balance of Payments Yearbook, published by the IMF.

foreign prices. The formula gives a measure of average overvaluation or undervaluation of the country's currency.⁵⁴ Real exchange rates are calculated for all fiscal years covered. In cases of devaluations undertaken within the context of Fund programs, the nominal devaluation-adjusted exchange rate is not adjusted for domestic and foreign inflation because we want to see the effects of this program measure.

The exchange rate is the domestic price of the US dollar; the Sudanese Pound was pegged to the US dollar. For domestic prices, the Consumer Price Index is used. The US Wholesale Price Index is used for foreign prices. Both the CPI and WPI are published in the IMF International Financial Statistics. For any period, both indices have the same base period and are thus comparable.

The real exchange rates are indexed with, as noted earlier, 1971 as the base period. The indexed values are used as data for the regression equations. For the period before 1971 (that is, 1962 - 1970), zero is entered for each of the years. This is because we want to examine the effect of the exchange rate on the external payments situation in the 1970s and early 1980s; the claim was that the Sudanese pound was overvalued in these periods. It is assumed here that the exchange rate before 1971 was not overvalued and had no effect on the external payments situation in this period.

c. Program Confidence Effect

54. This formula was applied by William Cline to the Peruvian exchange rate. He used it to examine the responsiveness of Peruvian exports and imports to the real exchange rates of the Sol with respect to the US dollar; see William Cline, "Economic Stabilization in Peru, 1975 - 78," in William Cline and Sidney Weintraub (eds.), Economic Stabilization in Developing Countries, the Brookings Institution, Washington, D.C., 1981, pp. 312- 315. The formula was also applied to the Sudanese exchange rate to evaluate the IMF's claim of an overvalued exchange rate; see M. N. Hussain, "IMF Economics in the Sudan: A Preliminary Evaluation," in Ali Abdel Gadir, op. cit., pp. 80 -84.

A dummy variable that takes the value 1 in program periods and 0 otherwise is used to capture the confidence effects, if any, of the programs. The use of a dummy variable is justified in that it is the mere presence of these programs, as argued, that is helpful in terms of restoring foreign investor and aid donor confidence in domestic economic management, thereby increasing the inflow of capital investment (loans) and assistance.

d. Terms of Trade

As conventionally defined, the terms of trade is the ratio of export unit value to import unit value. The ratio, expressed in percentage form, is measured as the index of export prices over the index of import prices. Both indices and the terms of trade are calculated and published by the Ministry of Finance Department of Statistics.

The indices and the terms of trade are calculated on a calendar year basis. As indicated, the balance of payments is calculated on a fiscal year basis (starting on the first of July and ending on the thirtieth of June the following year, the fiscal year covers equal halves of two calendar years). The terms of trade percentages are converted into fiscal year ones by averaging two calendar year percentages in each case.

e. Foreign Interest Rates

For this variable, the London Inter-Bank Offer Rate (LIBOR) on one-year US dollar deposits is used. The choice of a one-year rate rather than a three-year one is intended to capture the short-term nature of external borrowing that the Sudan has usually resorted to. LIBORs are published by the IMF in its International Financial Statistics. To be consistent with the fiscal year, two calendar year rates are averaged in each case.

Nominal interest rates are usually adjusted by the export prices of the borrowing country in order to obtain real rates. A cotton export price index

is constructed and used to adjust the nominal rates (cotton export prices are used because cotton is the principal export of the country). Values for this variable cover the 1972/73 - 1983/84 period. For the period before 1972/73 (that is, 1962/63 - 1971/72), zero is entered for each one of the years. The reason for is twofold. First, before 1972, an external debt was virtually non-existent. Second, the Sudan borrowed at concessional interest rates before 1972. Thus, foreign interest rates before 1972 could not be said to have affected the external payments situation, due to these two reasons.

Presentation) and Discussion of Regression Results:

(1) Presentation:

The Role of Special Factors:

As has been discussed, the current account and the balance of payments outcomes in some cases were probably the result of special factors independent of the IMF policy program. Specific cases in point are the 1972/73 and the 1981/82 outcomes. In fiscal 1972/73, both the current account and the balance of payments were in balance. As indicated, these outcomes were in part the result of the "clearance of a backlog of cotton shipment" and of the institution of more restrictions on the import licensing mechanism. In fiscal 1981/82, both the current account and the balance of payments recorded unprecedented deficits. These resulted from the "down payment" of more than US\$ 100 million following the rescheduling of external debt arrears in December 1981 and from the pronounced cotton crop failure in 1980. Clearly, these factors need to be controlled in order to determine the independent effect of the IMF policy programs in these periods. A separate dummy variable for each of these fiscal years are incorporated into each equation to capture the effects of these two special factors.

The regression results are presented in Table 3.2 and Table 3.3 for the current account and the balance of payments equations, respectively.

Table 3.2: Summary of Regression Results

Dependent Variable	Independent Variables	Coefficients	T-Ratio	Sig
	Constant	25.9 (19.0)	1.4	.2
Current Account	Domestic Credit	-1.2 (0.9)	-1.3	.2
Deficit	Terms of Trade	-1.2 (0.8)	-1.5	.16
	Foreign Interest Rate	7.4 (2.7)	2.9	.01
	Real Exchange Rate	0.29 (0.11)	2.6	.02
	Special Factor72	-98.8 (36.9)	-2.7	.02
	Special Factor81	297.5 (44.8)	6.6	.00
R-Square = .93		Durbin-Watson statistic = 2.02		

Table 3.3: Summary of Regression Results

Dependent Variable	Independent Variables	Coefficients	T-Ratio	Sig
BoP Deficit	Constant	30.6 (21.8)	1.4	.18
	Domestic Credit	-1.3 (0.9)	1.4	.18
	Terms of Trade	-1.3 (0.9)	-1.5	.16
	Foreign Interest Rate	3.5 (2.8)	1.2	.2
	Real Exchange Rate	0.27 (0.12)	2.3	.04
	Special Factor72	-46.3 (37.1)	-1.2	.2
	Special Factor81	230.9 (45.7)	5.0	.0003
	ProgCon.	-22.6 (21.1)	-1.1	.3
R-Square = .84,		Durbin-Watson statistic = 2.01		

(ii) Discussion:

In each case, the model explains most of the variation in the dependent variable; the R-square in each case is more than 0.8.

In regard to the current account equation, all co-efficients are in the expected direction and different from zero, with the exception of the co-efficient for domestic credit. The significance levels of the co-efficients range from .000 to .2. For the balance of payments equation, all co-efficients

except the one for domestic credit rate remain in the expected direction and are different from zero, the levels of significance ranging from .0003 to .3.

The signs of the co-efficients for "Special Factor72" are in the right direction, though only the one for the current account is significantly different from zero. The negative sign suggests that the payments positions (which are virtually zero deficits; the current account recorded a surplus of LSd. 1.3 million and the balance of payments LSd. 0.0 million) would have deteriorated had it not been for the special measures (that is, the clearance of a backlog of cotton shipment and the import restrictions) taken. Simply put, the negative signs mean that the deficits would have been larger than zero in the absence of these measures; the measures reduced otherwise larger deficits. This deficit-reducing effect is intuitive in so far as the measures imply an increase in exports and restraint on imports.

The signs of the co-efficients for "Special Factor81" are also in the right direction and different from zero. The positive signs mean that the deficits would have been smaller had it not been for the external debt "down payment" and for the 1980/81 cotton crop failure which adversely affected cotton exports in fiscal 1981/82. The values of the co-efficients, LSd. 297.5 million for the current account and LSd. 230.9 million for the balance of payments, represent the effects of these factors on the payments deficits. Both values are smaller than the actual or observed deficits which are LSd. 429 million for the current account and LSd. 272.9 million for the balance of payments. The actual deficits would have been smaller by these values if the two special factors had not been there. This deficit-augmenting effect is intuitive inasmuch as the special factors imply a reduction in external revenue (as is the case with the reduction in cotton exports) and an increase in external expenditure (as is the case with the external "down payment").

The co-efficient for program confidence effect "ProgCon" is different from zero at 0.3 significance level. The negative sign of the co-efficient suggests that the balance of payments deficit tends to be reduced in Fund program periods; the presence of Fund-supported programs had some confidence-restoring or enhancing effects, thereby resulting in the inducement of capital inflows. These would have remained abroad if it had not been for the "seal of approval" given to foreign investors by having concluded an agreement with the IMF. This effect should be expected, in particular, for the programs undertaken in the late 1970s and early 1980s. The agreements with the IMF in these periods were followed by balance-of-payments debt rescheduling reliefs granted by foreign investors and balance-of-payments support given by aid donors.

Table 3.4 presents the partial correlation co-efficients of the two estimated regression models. In a multi-variate regression model, the partial correlation co-efficient represents the correlation between each one of the independent variables and the dependent variable when the linear effects of the other independent variables have been removed from both the dependent variable and the independent variable in question.⁵⁵ It is useful for exploring the relative importance of the independent variables and for examining the nature of the relationship between a particular independent variable and the dependent variable.

55. For some discussion on the partial correlation co-efficient, see Robert Pindyck and Daniel Rubinfeld, Econometric Models and Economic Forecasts, McGraw-Hill Book Company, New York, 1981, pp. 91-94.

Table 3.4: Partial Correlation Co-efficients

Independent Variables	Current Account Deficit	BoP Deficit
Domestic Credit	-.34	-.38
Terms of Trade	-.38	-.39
Real Interest Rate	.62	.34
Real Exchange Rate	.58	.55
Special Factor ⁷²	-.60	-.34
Special Factor ⁸¹	.88	.82
ProCon		-.30

For the purpose of the present analysis, the partial correlation co-efficient for domestic credit is used to investigate the nature of the relationship between this independent variable and the dependent variables (that is, the current account and the balance of payments deficits).

Prior to doing this, a brief discussion of the implications of the partial co-efficients for the other independent variables is in order. As can be seen from the Table, all the other independent variables retain the directions of their relationships with the external payments variables; the sign of the partial correlation co-efficient for each variable is the same as the sign of the variable's partial regression co-efficient.

Equally important, the partial correlation co-efficients for real exchange rate, real interest rate, special factor⁷², and special factor⁸¹ confirm the statistically significant relationships, indicated by the estimated regression models, between each one of these variables and the payments variables, particularly the current account deficit. Thus, in the case of the current account, each one of these independent variables has a value of partial correlation co-efficient larger than 0.5. This implies that these variables are relatively more important factors affecting changes in this payments variable.

However, this is not the case in regard to the balance of payments; only real exchange rate and special factor⁸¹ have partial correlation co-efficients with values larger than 0.5. This is also consistent with the estimated regression model for the balance of payments. These values suggest that these two variables are the most important determinants of changes in the balance of payments. So much for what the values of the partial correlations imply for the relative importance of independent variables other than domestic credit.

What does the partial correlation co-efficient for domestic credit imply? The theoretical argument presented above points to a positive relationship between this variable and the dependent variables. However, the empirical regression results (Tables 3.2 and 3.3) indicate negative relationships. These negative relationships may be due to the linear effects of the other independent variables on the dependent variables and on domestic credit.

As can be seen from Table 3.4, the partial correlation co-efficients for domestic credit have negative signs, which indicate inverse relationships between this variable and the external payments variables. The relatively small values of the partial correlation co-efficients for domestic credit suggest that this variable is one of the least important factors affecting the external payments outcomes.

The negative relationship between domestic credit and the external payments deficits (as indicated by the partial correlation co-efficients) implies that the negative relationship between this variable and each one of the dependent variables in the regression models (this relationship is indicated by the partial regression co-efficients) is not the result of the linear effects, if any, of the other independent variables on the external payments deficits and on domestic credit.

The relationship indicated by the estimated regression models suggests that an increase/decrease in domestic credit tends, eventually, to have favorable/unfavorable effects (though, these effects are insignificant) on the external payments accounts, contrary to the theoretical argument. A most probable explanation for this is that in cases of relatively large increases in domestic credit, import and foreign exchange restrictions are imposed to alleviate the resulting pressures on the external payments situation and that in cases of relatively small increases such restrictions are relaxed. This means that relatively large increases in domestic credit should eventually have a favorable effect on the payments outcomes inasmuch as they lead to the imposition of import and foreign exchange restrictions and hence to the curtailment of the volume of imports. On the other hand, relatively small increases in domestic credit should eventually have an unfavorable effect on the payments outcomes. This is most likely to be the case because in those cases where increases in domestic credit are relatively small, the authorities, anticipating that such increases do not entail leakages of foreign exchange abroad, are likely to relax foreign exchange and import restrictions imposed in a preceding period in order to neutralize the payments pressures of a relatively large increase in domestic credit. The relaxation of such restrictions should have unfavorable payments effects because it facilitates the inflow of imports and leads to larger volumes of imports than will be the case in the presence of restrictions.

The imposition/relaxation of foreign exchange and import restrictions is, in all probability, the crucial intervening variable between changes in domestic credit and external payments outcomes. This is most likely to be the case because, as noted earlier, the government has traditionally relied on

foreign exchange and import restrictions to influence payments outcomes. However, because imports constitute the main source of government revenues (the largest government revenue item is import duties), the government needs to relax, when there are no pressures on the external payments situation, foreign exchange and import restrictions to ease the flow of imports. For this reason, the government has also traditionally pursued liberal foreign exchange and import policies, except for those situations where there are pressures on foreign exchange reserves. So much for the relationship between domestic credit and the payments deficits.

The basic conclusion that can be drawn from the regression results is that non-program factors (both domestic and external) were also responsible for the current account and the balance of payments outcomes. In other words, the Fund policy programs were not the sole determinants of these outcomes. In passing, it should be noted that the results of these two regression equations constitute the current account and the balance of payments performance under Fund programs.

The Independent Effects of Fund Programs:

A simple exercise is undertaken here to gauge the independent contribution of Fund programs to the improvement or otherwise of the payments positions. As has been noted earlier, this kind of exercise entails comparing performance under Fund programs (the "what is" or the factual) with the performance that would have prevailed had these programs not been there (the "what would have been" or the counterfactual).

Apart from the confidence effect (which is applicable to the balance of payments rather than to the current account), Fund programs are supposed to influence the external payments position by changing the values of the instru-

ment variables; that is, domestic credit and the exchange rate. Indeed, reduction in the volume of domestic credit and devaluations constituted the basic policy components of the programs. In nearly all cases, the programs required the scaling down of domestic credit, with preprogram levels as the bases for the reductions required. In the case of devaluations, the domestic price of foreign currency (that is, the pound price of the US dollar) was raised above the preprogram price (this is what devaluation results in; it increases the domestic price of foreign currency).

A simple method to construct the counterfactual is to substitute these preprogram values for the values used to estimate the equations and then to calculate, by plugging these values into the estimated equations, the current account and the balance of payments outcomes for each program period. The counterfactual here will then be what the positions of the current account and the balance of payments would have been if the authorities had maintained the higher preprogram volume of domestic credit and had not changed the exchange rate; that is, if the devaluations had not been carried out. The method thus assumes no domestic credit and exchange rate policy changes. Consequently, the resulting counterfactual is "what would have been" rather than "what might have been".

The assumption of no policy change and the related use of past historical levels, in particular, of domestic credit is rather unrealistic. This is so because in any fiscal year the volume of domestic credit is determined by a multitude of variable factors. These include, but are not limited to, the cash or liquidity position of the central government which in turn depends on tax revenue collection lags and on unanticipated increases in expenditures during the fiscal year. The volume of domestic credit also depends on the credit

needs of public enterprises. These needs are determined by these entities' production capacities which are themselves variable and by changes in the inflation rate in the course of the fiscal year. The overall volume of credit also depends on the amount of credit the private sector needs. Credit needed by this sector is in the main used for financing the purchase and transportation of export crops to the port of the country. The amount of credit varies with crop yields which are susceptible to weather vagaries and with the level of operational capacity of the principal transportation system in the country; that is, the railways. External factors also affect the volume of credit. An unfavorable movement in the terms of trade increases the amount of government expenditures on imports and/or reduces its revenues from exports proceeds, thereby necessitating increased domestic borrowing to meet the resulting excess of expenditures. Because these factors are variable, the volume and rate of growth of domestic credit is also variable. Therefore, rather than determining the level of credit for a certain period by assuming it to be the previous level (and thus treating it as an exogenous variable; that is, a variable whose values are determined outside the model), it will be more appropriate to treat it as an endogenous variable. This is, however, impossible to do in view not only of the multiplicity of the factors involved but also of the fact that some do not readily lend themselves to empirical quantification. As will shortly be explained, except for the first two programs, the counterfactual is based on the assumption of no change in the exchange rate rather than on assumed values of pre-program credit levels.

The counterfactually-based calculated payments outcomes can then be compared to those predicted or estimated by the original regression equations (that is, payments outcomes with Fund programs). For each program period, the predicted

payments outcomes are also calculated by plugging the original values of the independent variables relevant for each program period into the estimated regression equations.

Even with the no policy change assumption, there still remains a problem. This is the fact that in most cases the programs were not implemented as envisaged. Specifically, domestic credit was not reduced in line with program targets, as can be seen from Table 3.5 (nonprogram periods are in parenthesis).

Table 3.5: Program and Actual Domestic Credit Growth Rates

	Program	Actual
(1965/66)		20.7
1966/67	17.1	18.9
1967/68	10.7	5.3
1968/69	5.0	29.0
(1970/71)		21.1
(1971/72)		16.4
1972/73	14.0	23.2
1973/74	11.0	30.4
1974/75	11.0	33.8
(1977/78)		18.6
1978/79		32.0
1979/80	22.0	22.0
1980/81	33.4	56.0
1981/82	33.0	27.0
1982/83	44.0	40.0
1983/84	18.0	14.1

Source: Appendix A, Table 6.1.

In regard to the three programs of the 1960s, the programs permitted lower rates of growth of credit relative to the rate in fiscal 1965/66. Actual rates in the two first programs (that is, the 1966/67 and the 1967/68 Programs) were in line with program-permitted rates and were lower than the rate in fiscal 1965/66. Although the actual rate in 1966/67 was higher than the program-

permitted one, it was consistent with it. This is so because the actual rate included credit extended to some public-sector entities, the extension of credit to which had not been included in the overall program-stipulated volume of credit. For these two programs, the payments outcomes are assessed, assuming that credit in these two program periods grew at the 1965/66 rate. The payments outcomes for the 1968/69 Program are not assessed simply because this program had no effect on the 1968/69 domestic credit, the actual rate of growth of which was not only higher than the program-allowed one but also the actual rates in the previous three fiscal years. It should be recalled that the one-year Stand-By Arrangement in support of this program lasted for only three months. Such being the case, it is not realistic to assess the effect of a program that was largely not implemented.

In regard to the three successive programs in the first half of the 1970s (that is, the 1972/73, 1973/74, and 1974/75 Programs), these programs also had no effects on reducing the growth of domestic credit in these periods; the actual growth rates were far in excess of the programs' rates and of the actual rates of the two preceding nonprogram periods (Table 3.5). As was the case with the 1968/69 Program, all three one-year arrangements with the Fund broke down, due to the failure of the authorities to reduce credit as envisaged in the programs. Nonetheless, the payments effectiveness, if any, of these programs should be assessed. This is because reduction of domestic credit was only one element of the programs, particularly the 1972/73 Program. Another more important element was, as noted earlier, the March 1972 15 per cent de facto devaluation of the Sudanese pound through the application of the tax-subsidy scheme to the official fixed exchange rate. Although this de facto devaluation was specifically intended to influence the payments outcomes for

1972/73, the tax/subsidy action remained in effect during the succeeding 1973/74 and 1974/75 Program periods. Therefore, this action can be regarded as intended to improve the payments positions in all three periods.

To determine the payments effects of this action, the pre-devaluation exchange rate is substituted for the devaluation-adjusted exchange rate. To secure real exchange rates, the pre-devaluation exchange rate is adjusted for domestic and foreign inflation according to the formula used before. This procedure assesses the effects of the programs on the assumption of no change in exchange rate policy.

With respect to the programs of the late 1970s and early 1980s, the programs are varied in terms of the restrictiveness of the growth of credit. As can be recalled, the first program (the 1978/79 Program) did not require any restriction on the volume of credit in fiscal 1978/79. The succeeding program allowed a much lower rate of growth. The actual growth rate was in line with the program target and was lower than the one in fiscal 1978/79. The 1980/81 Program was less restrictive; it allowed a higher growth rate than both previous rates (program and actual). The program, however, had no effect on the growth of credit, the actual rate of which was pronouncedly higher than all previous program and actual rates. In all succeeding programs, the growth of credit was contained below program and preceding actual rates with the exception of the 1982/83 Program which had allowed a higher growth rate relative to the previous actual rate (Table 3.5). For the purpose of evaluating the payments effectiveness of these programs, no values of domestic credit are assumed. Instead, the actual growth rates are used, and the effectiveness of these programs is assessed on the basis of the devaluations undertaken. There are two reasons for this exclusive focus on the devaluations. First, not all

programs required the reduction of domestic credit from its previous level; some programs permitted greater volume of credit relative to that of the preceding programs. The second, and more fundamental, reason is that wherever devaluation and restraint on domestic credit are simultaneously the policy components of a Fund program, devaluation is the more important one. In such cases, the onus of correcting the external imbalance rests with the devaluation, and restraint on credit is to reinforce the exchange rate action; if credit is allowed to grow, the resulting monetary expansion puts pressure on domestic prices which may rise faster than foreign prices, and thereby neutralize or sterilize the devaluation. As noted earlier, devaluation rectifies the external imbalance through increasing the domestic currency price of internationally traded goods (imports, import substitutes, and exports) to re-align them with foreign prices, thereby discouraging imports and encouraging exports and import substitutes. When domestic prices are allowed to rise faster than foreign prices due to the inflationary consequences of unrestrained domestic credit growth, the exchange rate becomes overvalued again despite the devaluation. This encourages imports and discourages exports and import substitutes. In other words, unrestrained growth of domestic credit neutralizes the desired salutary effect of devaluation on the trade balance. Thus, restraint on credit plays, in the presence of devaluation, an adjunct, albeit supporting, role in the rectification of a payments imbalance.

Fund officials themselves argue for the primary and relative importance of devaluation in the correction of payments disequilibria. Such an argument was made by the Fund mission that made the case for devaluing the Sudanese pound following the breakdown of the 1968/69 Program. It can be recalled that the mission pointed out, in its memorandum, that reduction in domestic credit was

inadequate for the correction of the balance of payments deficit and that the elimination of the deficit would require an upward adjustment of the exchange rate or devaluation. Manuel Guitian, a Fund staff member, puts a general argument for the primacy of devaluation. He points out:

...an imbalance created by unduly expansionary financial policies could, in principle, be redressed by a package of sufficiently strict domestic policy measures. In the abstract, such an argument is indeed correct. However, the cost of correcting an imbalance in this manner is also important and has to be considered. This is an empirical question for which a priori answers are not easy to provide, but there is an important theoretical proposition to keep in mind in this context, which is that there is no lasting trade-off between a devaluation and restrictive domestic financial policies. The trade-off is between the exchange rate adjustment and the degree of restrictiveness of domestic policies..., the correction of a given imbalance is likely to require a less strict domestic policy stance when a currency devaluation is part of the strategy than when it is not. This being the case, an important factor in the choice of a policy strategy is the size of the imbalance. This is because as the size of the imbalance increases, it becomes increasingly difficult (and possibly costly) to avoid resorting to an exchange rate adjustment.⁵⁶

In regard to the programs of the late 1970s and early 1980s, devaluation was the principal policy component in every program undertaken in these periods; it was not only intended to increase the production and exports of cotton but also to attract foreign exchange remittances by Sudanese Nationals Working Abroad. These were the principal objectives of these programs. Even the institutional reforms in the Gezira Scheme were intended to be supportive, as pointed out earlier, of the devaluations. The reduction of domestic credit was a less important policy component. In cases where reduction in domestic credit was required, the pre-program rate of credit growth was excessive relative to those in previous program and nonprogram periods. Cases in point are the growth rate permitted by the 1979/80 Program as compared to the actual rate in

56. op. cit., p. 11.

fiscal 1978/79 and the rate allowed by the 1981/82 Program as against the actual rate in fiscal 1980/81.

The preceding discussion is intended to make the case for assessing the effectiveness of the recent programs solely on the basis of the exchange rate adjustments undertaken as part of these programs. The procedure proposed for the assessment of the programs of the first half of the 1970s is also used for these more recent programs. In other words, the pre-devaluation exchange rates are substituted for the devaluation-adjusted rates. These rates are also adjusted for domestic and foreign inflation. In Table 3.6, the devaluation-adjusted and the pre-devaluation nominal and real rates are presented. The rates in parenthesis are the devaluation-adjusted ones. In each case, the devaluation raised the pre-devaluatuon nominal rate. In nearly all cases, the devaluation also brought the nominal rate closer to the real rate.

**Table 3.6: Devaluation-adjusted and
Pre-devaluation Exchange Rates, 1971 -
1984.**

	Devaluation- adjusted	Pre-devaluation Nominal	Real
(1971/72)	.348	.348	.35
1972/73	(.374)	.348	.33
1973/74	.374	.348	.30
1974/75	.374	.348	.33
1978/79	(.47)	.374	.44
1979/80	(.60)	.47	.66
1980/81	.64	.60	1.0
1981/82	(.90)	.64	1.1
1982/83	(1.3)	.90	1.5
1983/84	1.3	.90	1.9

Source: Appendix A, Table 6.2.

The real rates are then indexed, with the 1971 rate as the base for the index. This period is chosen as the base period because domestic and foreign

rates of inflation in this period are the closest to each other. After 1971, the domestic inflation rate grew faster than the foreign rate, resulting in a substantial appreciation of the fixed exchange rate. The indexed real rates are presented in Table 3.7.

To calculate the predicted and the counterfactually-based payments outcomes, the information in Table 3.7 is used. In the calculation of both types of outcomes, the same values of the external and "special factor" variables are of course used. In regard to program policy variables (that is, domestic credit and exchange rate), the actual rates of growth of domestic credit are used for the calculation of both types of outcomes for all program periods except, as noted above, for the periods of the 1966/67 and the 1967/68 Programs. For these two programs, the assumed rates of growth of credit (that is, the rate of growth in 1965/66) are used for the calculation of the counterfactual payments outcomes and, of course, the actual rates (Table 3.5) are used for the calculation of the predicted outcomes. With respect to the exchange rate, the indexed devaluation-adjusted rates are used for the calculation of the predicted outcomes and the indexed pre-devaluation real rates for the counterfactual outcomes.

Table 3.7: Values of Independent Variables in Program Periods

	Foreign Real Interest Rates	Terms of Trade	Growth Rates of Domestic Credit	Indexed Exchange Rates Devaluation- adjusted devaluation (Real)	Pre- devaluation (Real)
1966/67	0	-27.5	20.7	0	0
1967/68	0	-3.8	20.7	0	0
1972/73	7.9	-3.4	23.2	107	94
1973/74	10.5	0.5	30.4	92	86
1974/75	12.9	-15.3	33.8	101	94
1978/79	9.3	0.9	32.0	134	126
1979/80	10.0	-3.3	22.0	171	188
1980/81	10.7	0.8	56.0	183	286
1981/82	14.5	8.5	27.0	257	341
1982/83	12.9	-8.3	40.0	371	428
1983/84	9.0	2.6	14.1	371	543

Sources: Tables 3.1, 3.5, and calculations based on Table 3.6.

The basic estimated equations are as follows:

$$\text{CAD} = 25.9 - 1.2 \text{ LDC} + .29 \text{ RER} + 7.4 \text{ FRIR}$$

$$- 1.2 \text{ TOT} - 98.8 \text{ SF72} + 297.5 \text{ SF81}$$

$$\text{BOPD} = 30.6 - 1.3 \text{ LDC} + .27 \text{ RER} + 3.5 \text{ FRIR}$$

$$- 1.3 \text{ TOT} - 46.3 \text{ SF72} + 230.9 \text{ SF81} - 22.6 \text{ PROCON}$$

Where:

CAD - Current account deficit

LDC - Lagged growth of domestic credit

RER - Real exchange rate

FRIR - Foreign real interest rate

TOT - Terms of trade (changes)

SF72 - Special factor 1972

SF81 - Special factor 1981

BOPD - Balance of payments deficit

PROCON - Program confidence effect

For the calculation of the predicted and counterfactual balance of payments outcomes for each program period, the co-efficient for "PROCON" is multiplied by 1 and 0, respectively. For the Special-Factor variables, the value 1 is used for 1972/73 and 0 for all other years. Similarly, 1 is used for 1981/82 and 0 for all other years.

Presentation and Discussion of Results:

Table 3.8 presents the results of the calculations. The figures represent current account and balance of payments deficits in LSd. millions. The parenthesized figures are surpluses. The results are also presented graphically in Figures 3.4 and 3.5 for the current account and the balance of payments, respectively.

Table 3.8: Payments Outcomes With and Without Fund Programs

	Current Account		Balance of Payments	
	With	Without	With	Without
1966/67	36	34	19	39
1967/68	24	6	6	9
1972/73	(7)	(11)	(9)	12
1973/74	94	93	29	50
1974/75	129	126	55	76
1978/79	94	92	35	56
1979/80	127	132	65	92
1980/81	90	120	21	71
1981/82	463	487	313	356
1982/83	191	208	112	150
1983/84	180	230	118	187

Source: Based on calculations.

Figure 3.4: Current Account With and Without Fund Programs

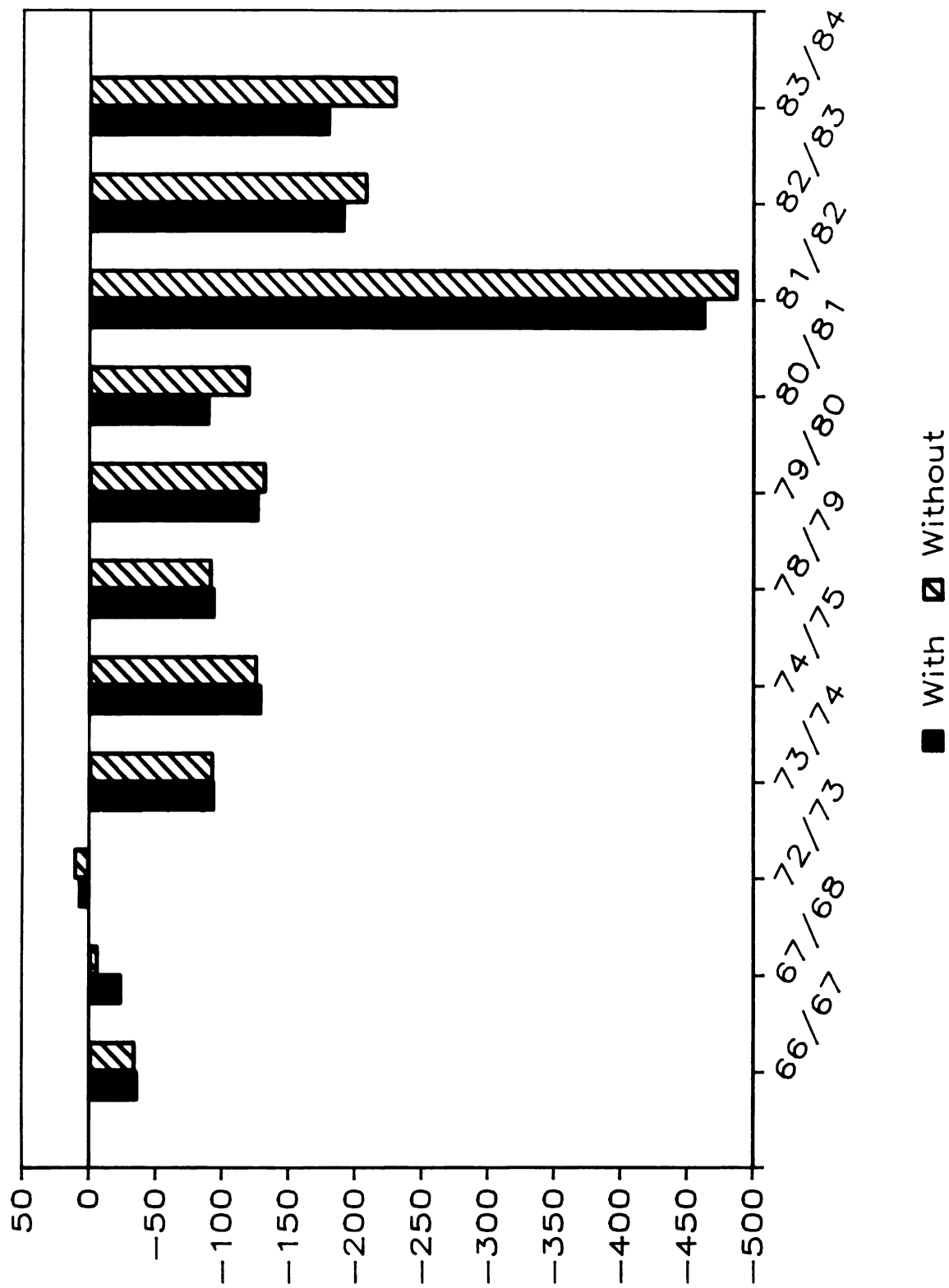


Figure 3.4

**Figure 3.5: Balance of Payments With
and Without Fund Programs**

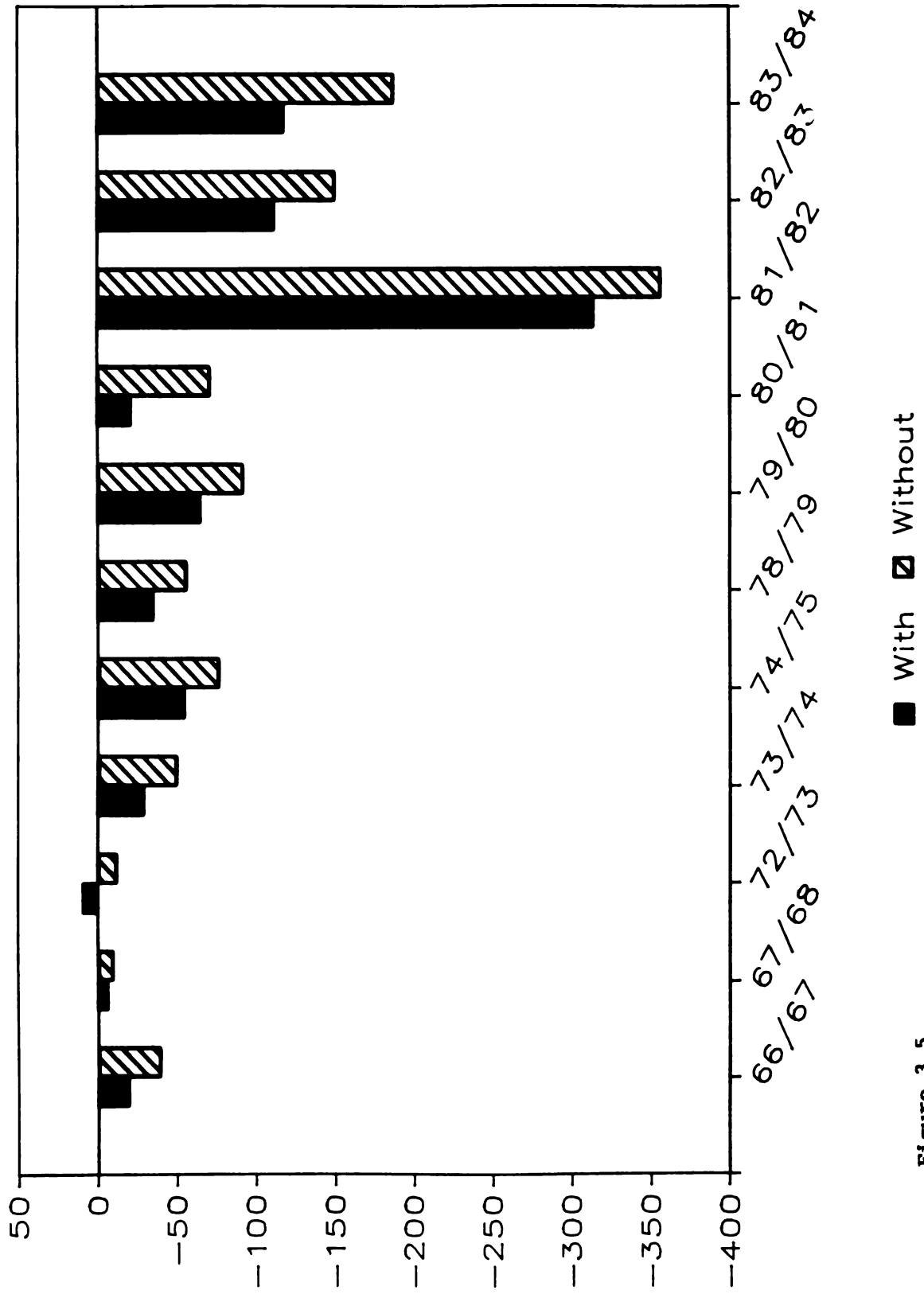


Figure 3.5

For the purpose of interpretation, Fund programs are of course effective if they move the external payments indicators in the desired direction; that is, toward a smaller deficit or a larger surplus than would have been the case without these programs. What is of substantive importance is not so much the magnitude of this deficit or surplus relative to the counterfactual one as of the direction it implies. A smaller deficit (not how much smaller) with than without a Fund program suggests that the program is effective; that is, it moves the payments indicator in the desired direction.

With this in mind, it can be seen from Table 3.8, in regard to the current account position, that the record is mixed. With respect to the programs in the first half of the 1970s, it appears that Fund programs made no difference in the current account position; for, this position is virtually the same with and without these programs. This should be expected because, first, these programs were not to a large extent implemented; and, second and more important, movements in external factors were unfavorable. This period witnessed continuous upsurge in foreign interest rates and terms of trade deterioration which became particularly pronounced in fiscal 1974/75.

The 1966/67 Program also appears to have made no difference to improving the current account situation even though the program was, as noted earlier, fully implemented. The principal reason for this is, most probably, the precipitous decline in the terms of trade which deteriorated by 27.5 per cent. It is worth noting, according to the current account equation, that a one per cent decline in the terms of trade increases the deficit on the current account by LSd. 1.2 million. The performance of the current account under the succeeding program is much worse with the program than without it. It should be recalled that the program resulted in a substantial reduction in the rate

of growth of domestic credit. As argued above, a decrease in domestic credit tends to have, eventually, an unfavorable payments effect because of the relaxation of foreign exchange and import restrictions. The payments position would have been better without the program because in the absence of the program there would have been a larger increase in domestic credit which would have led to the imposition of foreign exchange and import restrictions. This would have reduced imports and would have therefore reduced the deficit on the current account.

The programs of the late 1970s and early 1980s definitely made some difference; larger deficits would have resulted if it had not been for these programs. This difference was accounted for by the various devaluations in these periods. This result should be expected because without the devaluations the fixed nominal exchange rates would have appreciated because of the excess of domestic inflation over foreign inflation. This appreciation would have increased domestic demand for imports and reduced foreign demand for exports, thereby adversely affecting the trade balance. With the devaluations, the domestic currency prices of internationally traded goods were raised. This in theory should make imports more expensive and should therefore reduce the demand for imports. At the same time, it should make exports less expensive to foreigners and should therefore increase foreign demand for exports. The devaluations might also have had a favorable effect on the growth of foreign exchange remittances by Sudanese expatriates.

Before discussing the results with respect to the balance of payments, it should be recalled that the same variables used for the current account equation are also used for the balance of payments one with the exception of the variable intended to capture program "confidence effect"; that is, "PROCON".

Moreover, the co-efficients for the same variables have the same signs in both equations. Finally, the same variables have more or less the same effect in terms of the sizes of the co-efficients except for the special-factor variables. With these points in mind, it can be seen from Table 3.8 that in all cases the balance of payments position would have been worse without the programs. This finding is consistent with the findings related to the current account. The programs appear to have moved the balance of payments in the desired direction not only because of their effects on the policy variables but also because of their "confidence effect". To the extent that the amount of capital inflow in Fund program periods is attributable to the presence of the programs (as the co-efficient for "PROCON" suggests), the balance of payments situation would have been worse by the amount of capital inflow without these programs.

This analysis suggests, abstracting from the level of policy implementation across programs and taking into account the effects of domestic special and external factors, that the programs appear to have salutary effects on the overall external payments outcomes. However, this overall finding is much more accurate for some programs than for others. Clearly, the programs in the first half of the 1970s cannot be expected to have but very little, if no, influence on the external payments situations in these periods, simply because external factors had adverse effects on the payments balances. In contrast, the more recent programs appear to have strongly influenced the outcomes. This is most likely due to the various exchange rate adjustments made. This finding conceals a specific real positive effect associated with these recent programs. This is the reversal of the downward trend in cotton output and productivity. The recovery in the crop output and productivity could not have been possible

without the restructuring of financial and production relationships and the attendant elimination of distortions in the structure of incentives facing cotton cultivators. In addition, the exchange rate depreciations might have provided further incentives to cotton cultivation.

When considered in the context of the real-world payments deficits in the periods of the programs, the finding suggests that these programs were effective in achieving the short-term objective of containing the deficits. However, the long-term objective of attaining a "viable balance of payments position" has not been achieved. At present, the balance of payments crisis is more acute than was the case in the late 1970s and early 1980s. A major indicator of this is the size of Sudan's external indebtedness. The external debt which was in the neighborhood of US\$ 7 billion in the first half of the 1980s is at present US\$ 14 billion.⁵⁷ Information on the size of external debt arrears is not available. However, in view of the relatively large size of the external debt and of the low level of the country's debt servicing capacity, as discussed earlier, the size of the arrears is, most likely, larger than that in the early 1980s. This is yet a further indication of the deepening of the balance of payments crisis. This should not, however, be taken as an indication of the failure of these programs, simply because the magnitude of the crisis (which is to a large extent of Sudan's own making) should be expected to dwarf any short-term positive effects associated with the policy responses.

The analysis suggests that full program implementation could produce some short-term, marginal improvements. It should be recalled that of all the ten programs undertaken in the 1966 - 1984 period only four were fully imple-

57. Wall Street Journal (April 26, 1989).

mented; that is, the first two programs in the 1960s and the last two ones in the 1980s. However, such results could not ensure an enduring solution to the balance of payments crisis in the period 1978 - 1982 because of the large external debt overhang. The magnitude of this debt defies any improvement in the payments position. In all probability, no improvement could have generated sufficient foreign exchange that would render the Sudan fully capable of providing for its external payments, particularly the servicing of debt obligations. Suggestive evidence of this is that despite the improvements attained in the period 1982 - 1984 (in this period, Fund policy programs were fully implemented), the external payments crisis persisted as evidenced in the re-emergence of external debt payments arrears. All this suggests, in retrospect, that a lasting solution of the crisis is a long-term objective the achievement of which depends more on external assistance than on domestic economic adjustment policies. The role of the Fund was, as rightly noted by Fund officials, merely catalytic. The short-term improvements could not have been possible without the external assistance afforded following the embarkation on Fund-supported stabilization programs. The situation could have certainly been worse without the external assistance; the Sudan would simply not have had foreign exchange to finance its payments deficits. To the extent that the external assistance was only forthcoming due to the presence of Fund-supported programs, the situation could have been more difficult without the programs.

It has been suggested that a major perverse effect of Fund programs in the Sudan is that the exchange rate actions associated with the programs of the

late 1970s and early 1980s led to the emergence of the black market in foreign exchange.⁵⁸

This suggestion is erroneous because a black market in foreign exchange would have naturally emerged even without the devaluations. The reason for this is a combination of two factors. First, because of the severe shortage of foreign exchange in the official foreign exchange market (that is, the Bank of Sudan) and of the country's demand for imports, there was a pent-up or an unsatisfied demand for foreign exchange. Second, if the devaluations had not been undertaken, the official exchange rate would have been artificially too low (because of the high rate of domestic inflation) to provide sufficient inducement for the expatriate workers to exchange their foreign exchange earnings at the official rate. The combination of the pent-up demand and the insufficient incentive would lead to the emergence of an unofficial foreign exchange market; the expatriate workers would find a place other than the Bank of Sudan to convert their foreign exchange earnings into Sudanese pounds. This would be facilitated by the existence of an unsatisfied demand for foreign exchange. This hypothetical situation actually took place. Despite the devaluations (these provided some inducement as manifested in the continuous increases in the remittances following each depreciation in the exchange rate), the stringent foreign exchange situation meant that demand for foreign exchange was never fully satisfied. This means that there were some people who were ready to pay more than the Bank of Sudan for each unit of foreign exchange converted into Sudanese pounds.

58. Ali, A. A. and Hussian, M. N., "The IMF and the Economic Anarchy in the Sudanese Experience with the Foreign Exchange Black Market," in Esderts, H. J. and Abdalla, M. J. (eds.), Macroeconomic Policies Conference (in Arabic), Development Studies and Research Centre, Khartoum, 1986, pp. 60-87.

Prospects:

Amidst the darkness cast by the large external debt and the low level of the country's debt servicing capacity, there are two bright spots in Sudan's economic future. These are the production and export of petroleum and the foreign exchange earnings of Sudanese expatriates. Commercially exploitable oil was discovered in southwestern Sudan in 1980. Oil production and exports were projected to commence early in 1986. However, this did not materialize principally because of the outbreak in 1983 of civil war in southern Sudan. Production operations have since been stopped. In 1986, the foreign exchange earnings of Sudanese expatriates was estimated to exceed US\$ 4 billion.

These two resources provide a potential solution to the balance of payments crisis. However, the tapping of these resources has been precluded by a profound governmental crisis. In April 1986, a democratically-elected coalition government came to power after a one-year transitional arrangement following the overthrow of Nimeiri's regime in April 1985. Parliamentary politicians were out again to play the game of musical chairs of the 1960s. The period between April 1986 and until the democratic regime was ousted by a military coup on June 30, 1989 was characterized by debilitating inter-party rivalries, leading to the breakdown of many a coalition government. As a result, the democratic regime was unable to attend to the country's economic and political problems.

Ending the civil war and devising a scheme whereby the country could benefit from the foreign exchange incomes of Sudanese expatriates have in theory been top on the list of policy priorities of governments since April 1986. Apart from being an impediment to oil production and exports, the civil war has been a heavy drain on scarce foreign exchange resources (it is

believed that the war costs US\$ 1 million daily) and has therefore been a source of pressure on the external payments situation. The resolution of this crisis thus provides potential gains to the balance of payments. Future efforts at solving the payments crisis thus requires not only economic stabilization but also political stabilization.

CHAPTER IV

FUND PROGRAMS AND SOCIAL EXPENDITURES

Literature Review:

A common claim that arises repeatedly in the literature on International Monetary Fund supported economic stabilization programs is that these programs have adverse effects on public spending for social purposes or services. Before reviewing this claim in detail, it is worth mentioning the position of the Fund as to the reduction of government spending. While acknowledging that fiscal adjustment and in particular spending cuts are essential for the restoration of economic stability, the Fund indicates that it is politically neutral as to the specific expenditures to be cut. In this connection, the Director of the Fiscal Affairs Department of the Fund states:

Because of the heterogeneity of the Fund's membership and the different social and economic systems that the Fund's members have, the Fund is inherently neutral about the size of the public sector of a country. However,...it is not neutral about the size of the fiscal deficit and especially its financing. A fiscal deficit can be reduced by cutting expenditure or by raising revenue. Fund missions look at both sides of a country's budget and recommend expenditure cuts or revenue increases depending on the particular situation...In many cases, Fund missions recommend that the country pursue both channels of adjustment, that is, expenditure cuts and revenue increases. As in recent years, the cause of fiscal deterioration is often the expansion of expenditure, rather than fall in revenue, countries are advised more often to reduce expenditure than to increase revenue. Fund missions are highly sensitive to possible disincentive effects of tax increases, as well as to the distributional and efficiency effects of cuts in public expenditure. In any event, final decisions as to how

budgetary imbalance is to be reduced lie, as they inevitably must, with the authorities of the member country.¹

Despite the Fund's profession of political neutrality, critics point out that its programs adversely affect social spending. Some of the criticism has to do with consumer subsidies. Fund programs are just claimed to be detrimental to subsidies on essential consumer goods.² In many countries that had economic stabilization programs supported by the Fund, reduction of consumer subsidies occurred.³ The relationship between subsidies and Fund programs remains unexplored. To some extent, this is the result of the confidentiality with which Fund programs are associated. One objective of this chapter is to explore this relationship. This is made possible by access to confidential information on Fund-supported programs in the Sudan.

In regard to the impact of Fund Programs on public spending for other forms of social welfare, notably social services, there are two lines of argument. The first places this impact in the context of the economic paradigm that informs the Fund's policy thrust and its implications for the basic human needs economic development perspective. This economic paradigm, it is pointed out, is one which views economic growth as a function of, inter alia, savings, investment, capital accumulation, and of efficient allocation of scarce resources.⁴ It is contended that this view informs Fund programs because the

1. Vito Tanzi and Mario Blejer, "Fiscal Deficits and Balance of Payments Disequilibrium in IMF Adjustment Programs," in Joaquim Mun (ed.), Adjustment, Conditionality, and International Financing, IMF, Washington D.C., 1984, p. 133.

2. Chryl Payer, The Debt Trap: The IMF and the Third World, Monthly Review Press, London, 1974, pp. 41-42; Wilfred David, The IMF Policy Paradigm: The Macroeconomics of Stabilization, Structural Adjustment, and Economic Development, Praeger Publishers, New York, 1985, p. 120.

3. For some of such cases, see Henry S. Bienen and Mark Gersovitz, "Economic Stabilization, Conditionality, and Political Stability," International Organization, Vol. 34, No. 4, Autumn 1985, pp. 732-733.

4. Ibid., p. 9.

Fund focuses in its programs on these economic growth generating factors. In the context of Fund programs, the prescription for economic growth is to reduce government consumption, including expenditure on social services. This prescription, the argument runs, follows from the traditional economic view that savings and consumption are competitive. In this respect, Wilfred David points out, "Since expenditures on basic social services are seen as part of the aggregate consumption equation, it is thought that their reduction would provide a stimulus to savings and investment and, therefore, economic growth".⁵ Wilfred David provides only a speculative answer as to why social expenditures in particular should be singled out for excision under Fund programs. He suggests that stabilization programs do not pay much attention to spending areas such as defence which may claim a sizable share of budgetary resources and that many would view social expenditures as "economically unproductive and wasteful".⁶

Another line of argument accepts the Fund's political neutrality but asserts that in concentrating on aggregate or total level of government spending, Fund programs force reductions in social spending.⁷ This argument is based on the premise that social expenditures are easier to cut than other kinds of expenditure.

The first argument is essentially economic in nature; the second one amounts to a mere assertion. Both ignore the political context in which spend-

5. Ibid., p. 121.

6. Ibid., p. 122.

7. Stanley Please, "The World Bank: Lending for Structural Adjustment," in Richard E. Feinberg, et. al.(eds.), Adjustment Crisis in the Third World, Overseas Development Council, Washington, D.C., 1984, pp. 96-97; Frances Stewart, "Should Conditionality Change?," in Kjell J. Havnovik (ed.), The IMF and the World Bank in Africa: Conditionality, Impact and Alternatives, Seminar Proceedings No. 18, Scandinavian Institute of African Studies, Uppsala, 1987, pp. 41-42.

ing decisions are made. It is doubtful that in the real world economic stabilization policies are solely the function of pure economic logic. In addition, both implicitly assume that cutting social spending is, at least, one of the lines of least resistance.

A recent empirical study, however, suggests a fairly strong argument against the vulnerability of social spending to budgetary pruning under fiscal austerity. The study, investigating the relative vulnerability of government spending categories to cuts in times of austerity, found that "...social services were less vulnerable to cuts than defence and administration, and considerably less vulnerable than production and infrastructure...contrary to the generally accepted view".⁸In explaining this bias toward maintaining expenditures on social sectors, the study suggests that since these sectors are likely to have high labor intensity and hence high recurrent costs, reducing expenditures on them not only cuts basic services but causes relatively high unemployment as well.⁹The study then concludes that social sectors are relatively protected and that there might be high political costs associated with reducing spending on them.¹⁰

Elsewhere, the political sensitivity of reducing social spending is suggested as an explanation of "why governments find it hard to pursue successful stabilization programmes on their own or to accept the programmes urged on them by the IMF".¹¹

8. Norman Hicks and Anne Kubisch, "Cutting Government Expenditures in LDCs," Finance and Development, Vol. 2, No. 3, September 1984. The study covers thirty-seven countries seventeen of which are low-income. The rest are middle-income ones. The study covers the period between 1972 and 1980.

9. Ibid., p. 38.

10. Ibid., p. 38.

11. Tony Killick and Jennifer Sharpley, "Extent, Causes and Consequences of Disequilibria," in Tony Killick (ed.), op. cit., p. 49.

All this tends to convey the impression that in times of budgetary austerity social spending is most likely to fare relatively well compared to other expenditure categories. Does this political sensitivity protect social spending under Fund programs?

One objective of this chapter is to explore this question and to provide a systematic assessment and explanation as to the impact, if any, of Fund programs on social expenditures. The general research question that underscores this assessment is to what extent does the Sudanese experience with Fund-supported programs demonstrate that these programs are detrimental to social expenditures. Another objective which has already been mentioned is to examine the relationship between Fund programs and subsidies which take the form of price supports. As pointed out above, this relationship is merely seen in terms of Fund programs adversely affecting subsidies. Could the relationship also work in the other direction? To the best of my knowledge, this question has not been explored. In the Sudan, subsidies are provided, ostensibly, for social reasons. In reality, there is an underlying political rationale behind the subsidies. Examination of this question draws on confidential documentary information to describe the effects of subsidies on Fund programs.

In the following introduction, what constitutes social expenditures is explained. This is followed by a discussion on how Fund policy programs set to rectify budgetary imbalances. This section is then followed by a discussion on central government areas of expenditure. This introduction provides essential background information for the subsequent empirical analyses.

Introduction:

1. Components of Social Expenditures:

To explain what constitutes social expenditures in the Sudan, it is useful to compare them with those in the Western industrialized countries, in particular those in United States. In the United States, social insurance programs such as social security and public assistance or welfare programs such as Aid to Families with Dependent Children and food stamps are targeted to individuals identified by specific demographically-related criteria. Individuals are legally entitled to receive benefits if some eligibility criteria are met.

The entitlement nature of these programs implies that the amounts of funds spent on them are determined outside the budgetary process. In other words, these expenditures are nondiscretionary. It is because of their nondiscretionary nature that these expenditures (in particular social security expenditures) are designated as "uncontrollable" or "open-ended".¹² The open-ended nature of these expenditures implies that their growth over time is influenced by changes in the number of applicants which is, in turn, related to changes in demographic variables such as, for instance, the age structure of the population.

Programs of this nature do not exist in the Sudan. The closest example is the Unemployment Program experimented with between 1968 and 1970. Funded by some ear-marked tax revenues, the program was designed to provide government jobs to unemployed university graduates and high secondary school leavers whose number was increasing in the second half of the 1960s. Since it was

12. On these concepts, see John Gist, "Increment and Base in the Congressional Appropriations Process," American Journal of Political Science, Vol. XXI, No. 2, May 1977, pp. 342-343; and Allen Schick, "Incremental Budgeting in a Decremental Age," Policy Sciences, Vol. 16, No. 1, September 1983, pp. 11-12.

abandoned in 1970 by the military regime that took over in May 1969, there has not been any program through which special government funds are committed to the provision of public-sector jobs for the products of the educational system.

In so far as it connotes in-kind or cash transfer payments from the government to specific individuals selected on the basis of eligibility criteria, the concept of an entitlement-based social program as exists in the American context does not make sense in the Sudanese context. In the Sudan, social expenditures finance the provision of across-the-board, free social services. In other words, the whole population is the target group for social expenditures.

Indexation (which is practiced in the United States and other developed countries) has never been practiced in the Sudan. In this regard, there is no social expenditure, or for that matter any expenditure, that is indexed to any macro-economic variable. For instance, there is no social expenditure category that has a built-in mechanism that automatically translates changes in the rates of inflation into changes in spending levels. Similarly, no such mechanism exists that automatically adjusts expenditures to changes in demographic variables.

In any fiscal year, the amounts or levels of social expenditures are determined entirely within the budgetary process. In other words, how much is spent on social services is entirely determined by the discretion of budget officials rather than by factors outside the budgetary process. Changes in macro-economic variables, particularly inflation, affect spending levels only to the extent that budget officials take them into account when making their spending decisions.

The social budget comprises allocations made to central government entities and provincial governments for the provision of the traditional social services; that is, education and health. It also includes tiny allocations for cultural and religious activities.

Allocations to central government entities (which include the Ministries of Education and Health, universities, and various institutes of higher education) finance the provision of high secondary education, higher education, university education, and health services.

As noted in chapter one, allocations to local entities are subventions or grants-in-aid to local (provincial) administrations. Being agents of the central government, these entities are fundamentally administrative mechanisms for the supervision over and co-ordination among different activities (mainly of social developmental nature; for instance, rural development projects) of central government ministries and for the provision of basic public services and goods. As noted previously, these include primary and junior secondary education, public sanitation, drinking water, and public roads and bridges. Provincial administrations have responsibilities for over a hundred public activities. However, the bulk of their activities involves the provision of the aforementioned public services and goods. Central government grants are to help these governments provide these services and goods and also to cover operating costs of socio-economic development projects completed by central ministries. The costs of constructing such projects are born by the budgets of the constructing central ministries. Once, however, the projects are constructed, the local governments bear their recurrent or maintenance costs.

Central-provincial fiscal relations involve the following features. The budgets of provincial governments are part of the budget of the central

government. Revenues raised in provincial jurisdictions are regarded as central government resources. Provincial governments submit their annual estimates of expenditures and revenues to the central government Ministry of Local Governments, which consolidates all budgets into one budget and submits this to the Ministry of Finance. Because the consolidated amount of expenditures is always in excess of the consolidated amount of revenues, the grants are designed to bridge the gap in overall provincial finances. The amount of grants is allocated by the Ministry of Finance to the Ministry of Local Governments, which then apportions the overall amount among the various provincial jurisdictions around the country.¹³

In examining the relationship between Fund programs and social expenditures, these expenditures are divided into social service expenditures and subventions to local or provincial administrations. The former refers to expenditures on social services provided by central government entities. The principal rationale for this distinction is that the two kinds of social expenditures are separate from each other. In addition, not the entire amount of subventions is spent on, strictly speaking, social services. As noted earlier, grants to local governments finance a range of public services and goods, including elementary education, sanitation, public roads, etc. Another rationale is that the area of Local Government is treated as a distinct public policy area. This is related to the central government professed commitment to decentralized governance and local participation in socio-economic development. The 1971 Local Government Act is, in theory, the concrete manifestation of this commitment. In practice, this has resulted in the delegation after 1971 of central powers and in increased grants to provincial administrations.

13. For some discussion on central-provincial fiscal relations, see Norris, *op. cit.*, pp. 210-217 and Rondinelli, *op. cit.*, pp. 603-605.

Expenditures on the different types of social services provided by central government entities are lumped together into social service expenditures, one rationale for this being that the interest here is to examine the relationship between Fund programs and general or overall social service expenditures rather than particular types of these expenditures. A second reason is that this relationship is examined against a view of social service expenditures as constituting an area of expenditures distinct from other areas such as defence, investment, and administration.

Examination of this relationship involves, first, assessing the bias, if any, against social expenditures relative to other areas of expenditures under Fund Programs; and, second, the impact, if any, of these programs on social expenditures. The latter involves examining the status of social expenditures in absolute terms under these programs. This is done through simple regression models which aim at determining whether these programs account for observed changes in the levels of social expenditures.

In the following section, the treatment of central government aggregate expenditures and revenues under Fund Programs is briefly discussed. This provides some insight into the extent of the budgetary imbalances and the nature of the adjustments required to rectify them.

2. Fund Policy Programs and Budgetary Imbalances:

Tables 4.1 through 4.3 present program targets and actual outcomes with respect to the Current Budget of the central government. Pre-program year, program target, and program year actual expenditure and revenue levels are

also presented graphically.¹⁴ In the Tables, the amounts are in millions of Sudanese pounds.

Table 4.1: Program Target and Actual Expenditures and Revenues, 1965 - 1969.

Period	Expenditures		Revenues		Surplus/Deficit	
	Program	Actual	Program	Actual	Program	Actual
1965/66		74.3		75.2		0.9
1966/67	78.0	83.2	81.5	82.0	3.5	-1.2
1967/68	86.0	89.6	91.0	99.9	5.0	10.3
1968/69	100.0	115.0	113.0	114.5	13.0	-0.5

Source: Texts of Letters of Intent and IMF reports, Documents of the International Monetary Fund File No. 0 - 1, Vols. 13 through 19, Ministry of Finance, Khartoum.

14. The Current Budget excludes development expenditures which are treated in a separate budget, the Development Budget. Fund programs in the Sudan have consistently focussed on the Current Budget and ignored the Development Budget. This is because development expenditures have a high foreign component; they depend on the inflows of external capital and noncapital resources (cash loans and grants and noncash or commodity project assistance) which are outside the control of the authorities.

Table 4.2: Program Target and Actual Expenditures and Revenues, 1971 - 1975.

Period	Expenditures		Revenues		Surplus/Deficit	
	Program	Actual	Program	Actual	Program	Actual
1971/72		171.4		163.7		-7.7
1972/73	187.0	171.9	180.5	176.3	-6.5	4.4
1973/74	204.0	189.6	220.0	209.5	16.0	19.9
1974/75	256.0	264.0	275.0	287.8	19.0	23.8

Source: Texts of Letters of Intent and IMF reports, Documents of the International Monetary Fund File No. 0 - 1, Vols. 19 through 22, Ministry of Finance Khartoum.

Table 4.3: Program Target and Actual Expenditures and Revenues, 1978 - 1984.

Period	Expenditures		Revenues		Surplus/Deficit	
	Program	Actual	Program	Actual	Program	Actual
1978/79		585.6		504.2		-81.4
1979/80	820.7	720.4	912.0	581.9	91.3	-138.5
1980/81	944.7	872.3	1005.6	732.1	60.9	-140.2
1981/82	1045.7	971.1	1048.0	890.6	2.3	-80.5
1982/83	1202.0	1191.2	1342.6	1240.3	140.6	49.1
1983/84	1609.3	1449.2	1482.4	1469.0	-126.9	19.8

Source: Texts of Letters of Intent and IMF reports, Documents of the International Monetary Fund File No. 0 - 1, Vols. 23 through 27, Ministry of Finance, Khartoum.

**Figure 4.1: Program Target and Actual Expenditures
and Revenues, 1965 - 1969.**

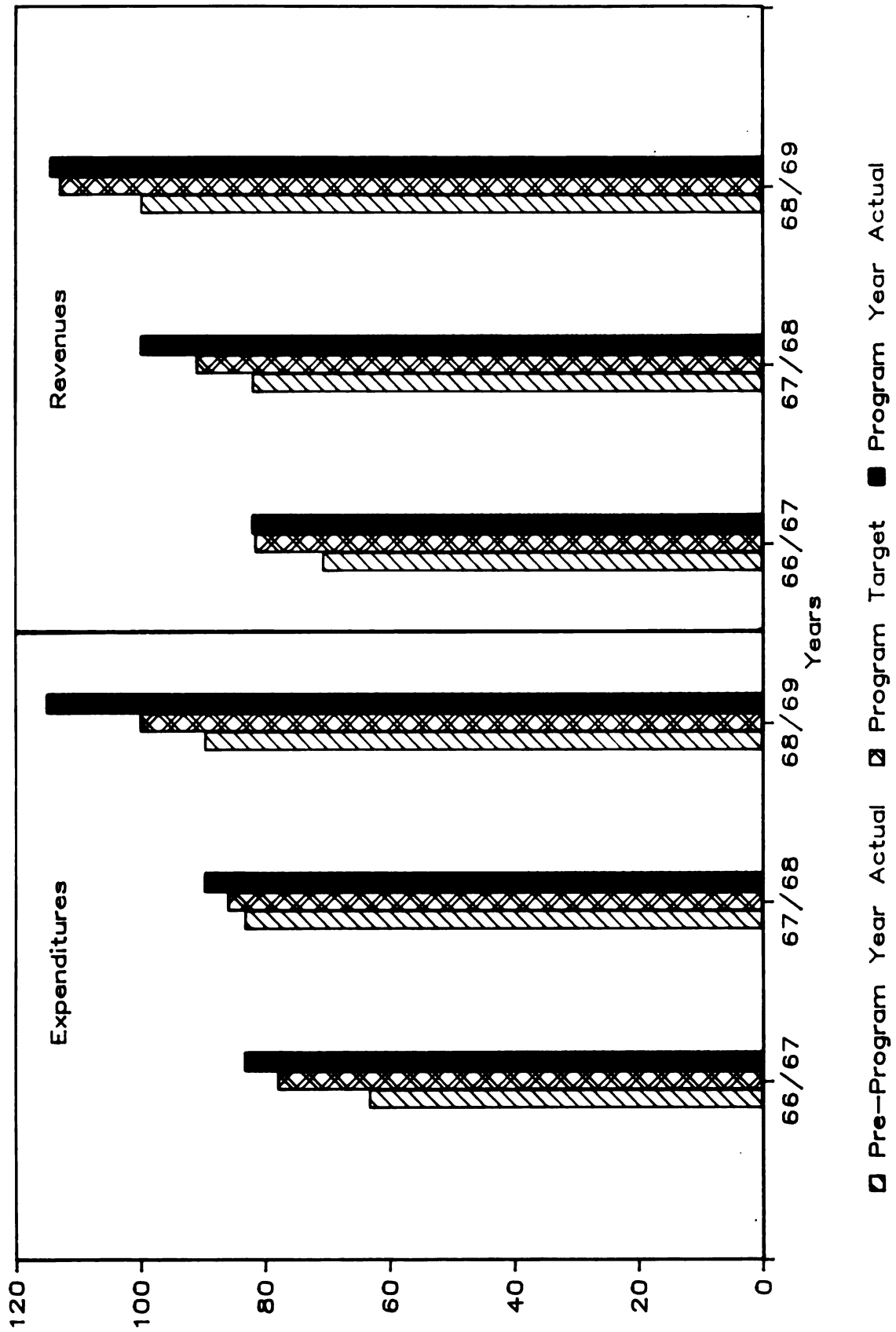


Figure 4.1

**Figure 4.2: Program Target and Actual Expenditures
and Revenues, 1971 - 1975.**

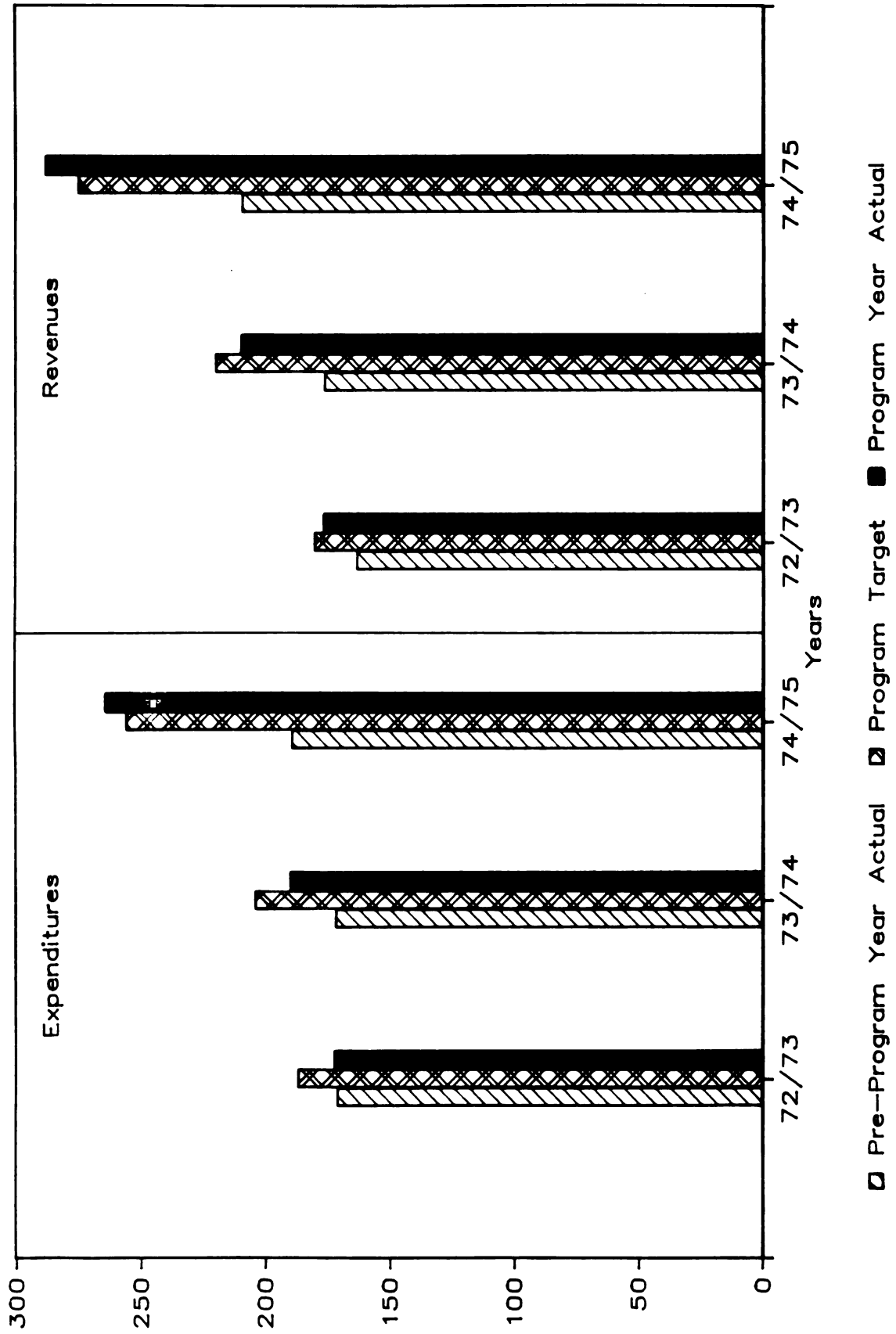


Figure 4.2

**Figure 4.3: Program Target and Actual Expenditures
and Revenues, 1978 - 1984.**

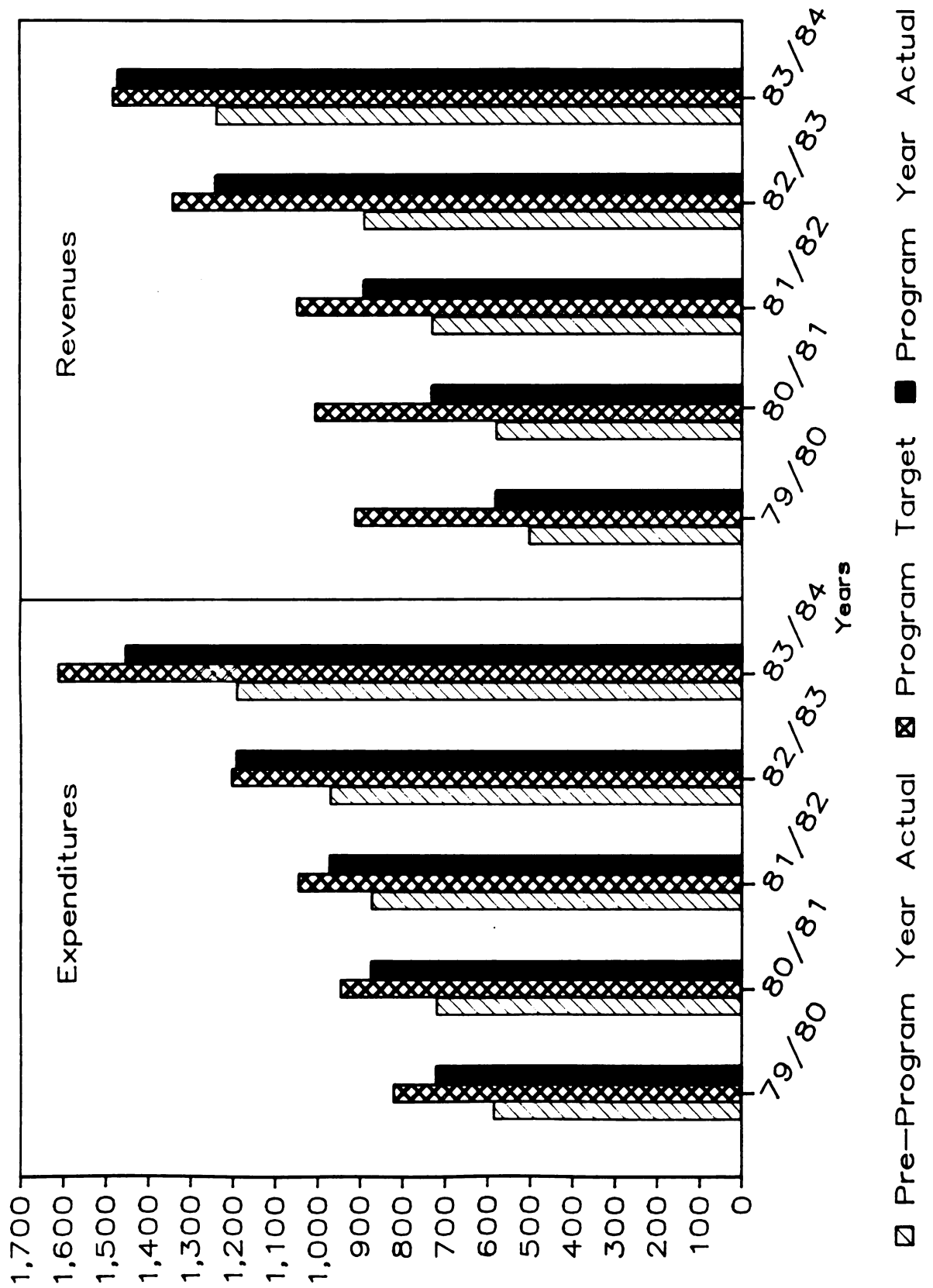


Figure 4.3

As can be seen from Table 4.1 and Figure 4.1, none of the first three successive programs beginning in fiscal 1966/67 required reduction in the pre-program-year actual level of expenditures in order to improve the budgetary balance. All three programs depended on revenue increases. In all three cases, actual expenditures and revenues exceeded program targets. However, only the 1966/67 Program achieved the program budgetary balance target. This is entirely the result of a substantial increase in revenues.

In regard to the second three successive programs beginning in fiscal 1972/73, the program budgetary balance target was achieved in each case. These programs also relied on increases in revenues to improve the budgetary balances. However, achievement of the program budgetary balance target was mainly the result of containment of expenditures (program-year actual) to a level below program target level (with the exception of the 1974/75 Program). In the case of the 1972/73 Program, the program year actual level (LSd. 171.4 million) was practically the same as the pre-program year actual level (LSd. 171.9 million). It is worth noting that of all Fund programs in the Sudan, the 1972/73 Program is the only one that envisaged a reduction in the level of overall expenditures. This was explicitly stated by the Minister of Finance in the text of the program. "In formulating the budget plan for 1972/73," the Minister pointed out, "the government aims at achieving a surplus of LSd. 15 million in the Central Government current operations by reducing current expenditures to LSd. 162 million, i.e. LSd. 10 million below the 1971/73 budgeted level, and instituting required new revenue measures."¹⁵

Except for the 1983/84 Program, all programs in in the late 1970s and early 1980s failed to achieve their budget balance targets. The programs envisaged

15. Text of the Program, op. cit., p. 3.

substantial increases in both expenditures and revenues. In all cases, actual expenditures and revenues were below program targets (Table 4.3 and Figure 4.3). As noted in chapter two, these programs depended more on structural and institutional reforms than on demand or expenditure management. This appears to partly explain why these programs permitted substantial increases in the level of aggregate expenditures.

The key point that emerges from this brief survey is that no program required a reduction in current expenditures (taking the pre-program actual level as the base). In addition, although program-year actual expenditure levels were below program target levels in most cases, they were above pre-program actual levels in all cases. Put simply, the programs did not require nor did they result in any reduction in the level of current expenditures.

The fact that no reduction in the aggregate level of expenditures was made does not, of course, necessarily rule out reductions in the levels or rates of growth of specific expenditure categories such as those on social services or defence. A more important point relates to the argument that the Fund views, by virtue of its free-market philosophy, investment and consumption (including social expenditures) as competitive and that therefore in the context of Fund policy programs social expenditures should be expected to fare relatively worse. This expectation is reinforced by the claim that expenditures on defence and the civil service are outside the purview of Fund missions or are more difficult to cut than other kinds of expenditures.

3. Central Government Areas of Expenditure:

The areas of Central Government expenditure include General Administration, Debt Service, Defence, Economic Development, Economic Services, Social Services, and Local Government. These are officially used by the Ministry of

Finance and resemble the conventional United Nations functional classification of government expenditures. For the purpose of this chapter, there is some overlap in these categories. Some minor changes are, therefore, made here to serve the purpose of the chapter.

In regard to expenditures on education, the Ministry of Finance "Social Services" expenditure category excludes expenditures on universities and institutes of higher education. These are included under the expenditure category of General Administration. For the purpose of empirical analysis here, expenditures on all kinds of education provided by central government entities are included under the expenditures category of Social Services which also comprise expenditures on health.

The Ministry of Finance also divides government development spending into expenditures on "Economic Services" and expenditures on economic development. The first represents Current Budget allocations to the so-called "Ministries of the Economic Sector" to undertake minor new investments, mainly of infrastructural nature.

In terms of development spending as an area of policy, there is no underlying rationale for this distinction. The distinction was a product of institutional arrangements rather than of an underlying policy difference. It originated in the establishment of a separate section (the Development Branch) within the Ministry of Finance to be in charge of central development planning and spending. Before the establishment of this section in 1951, all investment expenditures were included in the Current Budget under the expenditure category of "Capital Expenditure". Budgetary allocations for this area of spending were made by the Ministry's Expenditure Branch (currently known as the Budget Administration Department), as were all Current Budget allocations.

After its establishment, the Development Branch was entrusted with the formulation of annual development budgets for major new investments. At the same time, the Expenditure Branch continued to provide funds in its Current Budget for minor investments.

The distinction was reinforced later on when the Ministry of Planning was set up and entrusted with the task of preparing development budgets independently of the Ministry of Finance. However, in terms of budgetary allocations for government expenditures on investments, the existence of the Ministry of Planning does not at all matter because allocations for both types of investment have been and still are under the control of the Ministry of Finance, which is the only government entity in charge of public finances. The Ministry of Planning has no such control. When The Ministry of Planning was finally merged into the Ministry of Finance, it continued (as a department within Finance) to prepare separate development budgets. Consequently, the practice of spreading development spending over the Current and Development Budgets has continued. Most probably, this is due to sheer adherence to tradition.

For the purpose of this chapter, expenditures on Economic Services and those on economic development are added together under Investment, as both are essentially investment expenditures. With these changes, each expenditure category (with the exception of debt service and to some extent general administration) corresponds roughly to a particular area of public policy (for instance, defence, social welfare as in the case of social services, investment, etc.).

Expenditures on General Administration include a catch-all budget heading known as "General Central Services". Expenditures on the latter include principally outlays on running the central government administrative apparatus and

a general reserve item that the Ministry of Finance keeps (there are no reliable and adequate data on how much is spent on these two items). Budget officials point out that the reserves are intended to provide Finance with readily available funds to use in case of emergencies. However, these reserves are not just functionally redundant items; for, it is believed that they are spent in extrabudgetary operations. There is no information as to what these are.

However, Fund mission reports indicate that they include outlays on supporting the retail prices of some consumer goods. After 1972, General Administration has also included the Southern Region Development Fund. As noted in chapter one, this Fund was to be used for rehabilitating the Region after the March 1972 political settlement which ended war in southern Sudan.

Tables 4.4 and 4.5 present the absolute amounts and the percentage shares of each spending area over the 1961/62 - 1983/84 period, respectively. The percentage shares are presented graphically in Figure 4.4.

**Table 4.4: Central Government Expenditures by Area,
1961 - 1984.**

	General Admin.	Debt Ser.	Defence	Invest.	Social Sers.	Subsidies to Local Govt.
61/62	8.8	2.9	11.0	39.5	8.7	4.5
62/63	10.2	3.5	12.6	51.2	10.1	4.7
63/64	11.2	1.6	13.8	67.1	10.7	3.8
64/65	11.8	0.9	14.6	46.5	10.3	9.0
65/66	15.5	1.5	19.4	43.1	11.0	10.6
66/67	16.8	2.5	24.1	40.9	11.7	9.0
67/68	15.5	4.8	25.2	39.2	12.7	10.2
68/69	20.4	6.5	29.5	40.9	14.8	15.1
69/70	39.1	9.2	37.1	38.4	17.2	20.1
70/71	25.6	11.8	46.2	37.3	17.7	17.7
71/72	32.9	14.7	47.6	42.4	18.4	18.6
72/73	51.5	16.1	45.7	53.2	19.4	15.6
73/74	55.2	19.0	41.2	65.2	12.9	37.9
74/75	96.3	27.6	41.9	130.4	21.7	48.1
75/76	98.9	37.5	45.5	147.9	26.6	59.8
76/77	106.7	37.0	67.2	189.9	32.2	73.2
77/78	113.9	81.2	82.7	225.1	46.7	87.6
78/79	246.7	67.1	80.2	194.6	53.4	108.6
79/80	227.9	123.4	112.6	256.3	51.6	169.6
80/81	285.7	130.3	132.8	329.7	56.2	229.4
81/82	246.9	138.2	205.0	357.2	79.5	250.3
82/83	327.1	256.1	177.8	462.0	113.2	249.2
83/84	476.6	256.9	268.0	514.5	132.3	235.3

Source: Final Accounts Administration Department,
Ministry of Finance, Khartoum. .

**Table 4.5: Shares of Central Government Expenditure Areas,
1961 - 1984.**

	Admin.	Debt	Defence	Invest.	Social Services	Subsidies to Local Govt.
61/62	12.0	4.0	14.5	52.3	11.5	5.7
62/63	11.0	4.0	13.6	55.5	11.0	4.9
63/64	10.3	1.5	12.8	62.0	9.9	3.5
64/65	12.6	0.1	15.7	50.0	11.1	10.5
65/66	15.3	1.5	19.0	42.6	10.9	10.7
66/67	16.0	2.4	23.0	39.0	11.0	8.6
67/68	14.4	4.5	23.4	36.4	11.8	9.5
68/69	16.0	5.1	23.2	32.1	11.6	12.0
69/70	24.2	5.7	23.0	23.8	10.8	12.5
70/71	16.4	7.5	29.5	23.8	11.3	11.5
71/72	18.8	8.4	27.3	24.3	10.5	10.7
72/73	25.5	8.0	22.7	26.4	9.6	7.8
73/74	23.8	8.2	17.8	28.2	5.6	16.4
74/75	26.3	7.5	11.4	35.6	6.0	13.2
75/76	23.7	9.0	11.0	35.5	6.4	14.4
76/77	21.0	7.3	13.3	37.5	6.4	14.5
77/78	17.9	12.7	13.0	35.3	7.3	13.8
78/79	32.8	8.9	10.7	25.9	7.1	14.6
79/80	24.2	13.1	12.0	27.2	5.5	18.0
80/81	24.5	11.2	11.4	28.3	4.8	19.8
81/82	19.3	10.8	16.1	28.0	6.2	19.6
82/83	20.6	16.2	11.2	29.1	7.1	15.8
83/84	25.3	13.6	14.2	27.3	7.0	12.6

Source: Based on calculations from Table 4.4.

**Figure 4.4: Shares of Central Government Areas
of Expenditure, 1961 - 1984.**

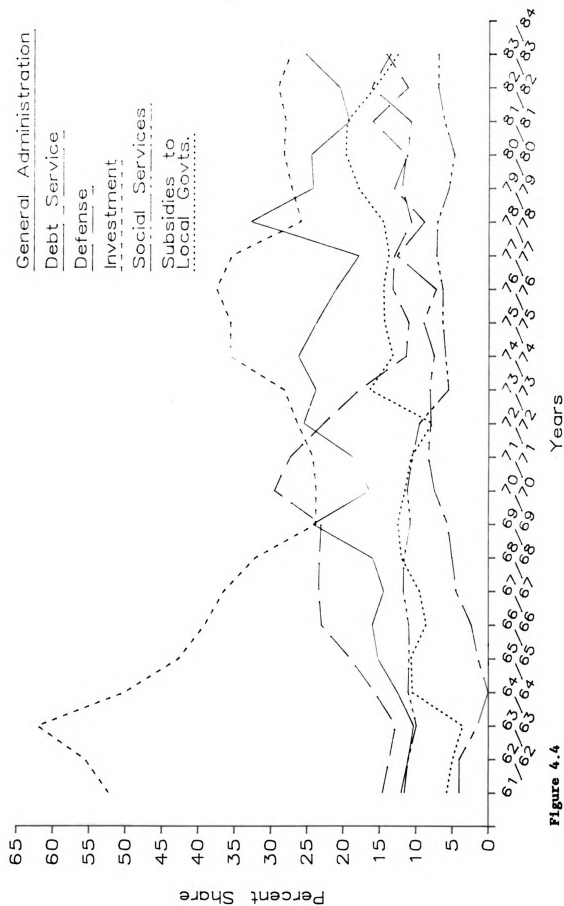


Figure 4.4

As can be seen from Table 4.5 and Figure 4.4, investment expenditures claimed the largest share of government budgetary resources for most of the period. However, this share was not stable over the period. The rise in the share in the first three years of the period, the subsequent decline which became particularly pronounced in 1969/70, and the two rises in the first half of the 1970s and in the beginning of the 1980s were the results of specific events.

The upsurges in the share in the beginning of the period was related to emphasis on economic development as evidenced by the 1960/61 - 1970/71 Ten-Year Economic Development Plan, the first plan of its kind. The subsequent decline coincided with the change in government after the overthrow in 1964 of the military regime of General Abboud, which initiated the Plan. The democratically-elected government that took over in 1965 scaled down projects under the original Plan. This resulted in the decline of development expenditures both in absolute and relative terms (Tables 4.4 and 4.5). The reversal in 1971/72 in the share's downward trend was related to a new emphasis on economic development as manifested in the formulation and implementation of the 1970/71 - 1974/75 Five-Year Plan (extended to fiscal 1975/76 and 1976/77), which was undertaken by the leaders of the May Revolution. After a temporary decline, the share of investment expenditures began to increase in the beginning of the 1980s. In this period, the Fund-supported programs of structural adjustment were undertaken. As noted above, these programs aimed at increasing the output of exportables and import substitutes to improve the country's external payments situation. To facilitate the increase of such output, major efforts were made to rehabilitate aging or worn-out agricultural and industrial capital stocks and to alleviate infrastructural constraints, particularly transportation deficiencies.

The share of defence experienced some erratic fluctuations over the period. These are also the results of specific events that affected defence as an area of policy priority. As can be seen from Table 4.5, the share of defence rose sharply in the second half of the 1960s. As discussed earlier, this period witnessed the intensification of the civil war in southern Sudan. Apparently, this resulted in increasing outlays on defence. There was a pronounced rise in the absolute level and in the share of defence expenditures in fiscal 1970/71. This coincided with the removal of the pay-roll of the members of armed forces from the jurisdiction of the Ministry of Finance, following the assumption of power by the military in 1969. This was believed to have resulted in substantial increases in the salaries of the members of the armed forces. After the end of the civil war in 1972, the share of defence dropped sharply and, except for a few marginal increases, stabilized roughly around 11 per cent of total expenditures for most of the rest of 1970s and the early 1980s.

The share of social services is relatively more stable. In the period between 1961/62 and 1972/73, it ranged roughly between 10 and 11.5 per cent of total expenditures. Between 1973/74 and 1983/84, the share represented approximately 6 per cent of the budget. The substantial drop in the share in fiscal 1973/74 was the result of the 1971 Local Government Act, which shifted responsibilities for primary and junior secondary education from the central government (the Ministry of Education) to provincial administrations around the country. As a result of this decentralization measure, central government budgetary allocations for primary and junior secondary education have been made to provincial administrations rather than to the Ministry of Education as was previously the practice. As is clear from Table 4.5 and Figure 4.4, the sharp drop in the share of social services in fiscal 1973/74 was paralleled by a sharp increase in the share of transfers to Local Government.

The share of transfers to Local Government grew steadily over the period as a whole. In the early 1960s, it was around 4 per cent. It grew to about 10 per cent and was relatively stable around this figure for most of the second half of the 1960s and the early 1970s. In the 1970s, the share rose to about 14 per cent and remained stable around this figure for the rest of the decade. In fiscal 1979/80, the share increased substantially and accounted for slightly less than one-fifth (18 per cent) of the central government budget. This share was maintained for the two subsequent fiscal years but dropped precipitously in fiscal 1982/82 and 1983/84.

The growth over the years in the share of subventions to Local Government has been attributed to the increasing fiscal dependence on the part of provincial administrations on the central government due to the inability of local revenues to match increasing local expenditures resulting from the transfers of increased responsibilities to the subnational administrations, particularly after the institution of the 1971 Local Government System. The rise in the share in the 1978/79 - 1981/82 period was due to decentralization measures which set up Regional Government in the North.¹⁶ Five Regional Government jurisdictions were created. Each jurisdiction consists of a Regional Governor, appointed by the President, and an elected Regional Assembly. Provincial administrations became part of Regional Government jurisdictions. The fiscal relationship between the center and provincial administrations was superseded by one between the center and regional governments (that is, transfers from the center go to regional governments and from these to provincial administrations). The establishment of Regional Government in this period resulted in

16. Alassam, M., "Regional Government in the Sudan," Public Administration and Development, Vol. 3, 1983, pp. 111-120.

increased transfers from the center. The increases were deemed necessary for setting up Regional Government headquarters.

The share of Debt Service has grown substantially in the decade of the 1970s and early 1980s. As has previously been pointed out, this resulted from the increasing reliance of the government on external borrowing to finance the importation of essential consumer and capital goods. Expenditures on Debt Service disbursements are current legal commitments on the government, resulting from debts incurred in past years. They constitute a structural constraint on the budget. In contrast to the other expenditure categories, they do not represent an area of policy and are essentially nondiscretionary. For these reasons, this category of expenditures is dropped from the subsequent empirical analysis.

The share of General Administration fluctuated considerably in the period as a whole. As pointed out earlier, this area of expenditures is not, in a strict sense, a public policy area, principally because of the fact that it encompasses reserves which do not correspond to any specific public policy. This category of expenditures also includes, as noted, expenditures on the central government administrative machinery, including expenditures on civil service personnel. Both items are important to the central government and in this sense compete with the other areas of expenditure for budgetary resources. Expenditures on both items are discretionary.

Fund Policy Programs and Social Expenditures

1. The Relative Shares of Expenditures under Fund Programs:

A useful approach to the assessment of the bias, if any, of Fund programs against social expenditures is to find out how social expenditures fare relative to other expenditures under these programs. The concept of relative share is heuristically useful here as it captures trades-off among different areas of expenditure.

The method used to detect bias is to calculate the annual percentage changes in the shares of each expenditure area, calculate the average percentage change or growth in the share of each area, and then compare the areas on the basis of their average growth values. As is clear from previous chapters, there are three sets of successive Fund programs years (that is, 1966/67 - 1968/69, 1972/73 - 1974/75, and 1978/79 - 1983/84). For the purpose of empirical analysis here, each set is treated separately. This is intended to highlight the effects on expenditures of nonFund factors peculiar to each one of these three periods. These factors are discussed in the previous section.

Table 4.6 presents the percentage changes in the shares of each area of expenditure in each of the three periods of Fund programs. An average growth figure for each expenditure area is also calculated (this is equal to the average of the changes in the shares in each period). Table 4.7 ranks the areas on the basis of their growth, with 1 indicating the most prosperous area and 5 the least.

**Table 4.6: Shares of Central Government Expenditure
Areas under Fund Programs**

Program Period	General Adminis- tration	Defence	Invest- ment	Social Services	Subsidies to Local Govt.
66/67	0	26	-7	0	-18
67/68	-6	4	-5	9	11
68/69	13	-4	-11	0	30
Average Growth	2.3	8.7	-7.7	3	7.7
72/73	40	-17	7	-17	-27
73/74	-7	-24	7	-40	125
74/75	4	-37	26	0	-17
Average Growth	12.7	-26	13.3	-19	27
78/79	89	-20	-30	-20	0
79/80	-22	17	11	-25	31
80/81	0	-7	3	-17	5
81/82	-21	38	-7	40	0
82/83	14	-38	13	14	-14
83/84	16	23	-9	0	-21
Average Growth	12.7	2.2	-3.2	-1.3	0.2

Source: Calculations based on information from Table 4.4.

Table 4.7: Expenditure Areas, Growth Ranks.

Program Period	Expenditure Area	Rank
1966/67-1968/69:	Defence	1
	Local Government	2
	Social Services	3
	General	4
	Administration	
	Investment	5
1972/73-1974/75:	Local Government	1
	Investment	2
	General	3
	Administration	
	Social Services	4
	Defence	5
1978/79-1983/84:	General	1
	Administration	
	Defence	2
	Local Government	3
	Social Service	4
	Investment	5

Source: Based on information from Table 4.6.

As is clear from Tables 4.6 and 4.7, Defence prospered the most in the first period of the programs. As pointed out earlier, this is most likely due to the escalation of civil war in this period. With exception of Defence, social expenditure areas grew more than all other areas in this period.

In the second period, the social expenditure area of subventions to Local Government prospered the most. However, the growth figure of this area is entirely accounted for, and therefore inflated by, the precipitous rise in the area's share in fiscal 1973/74. As noted above, this is the result of the 1971 Act's decentralization measure which transferred educational responsibilities from the center to the provincial administrations. It is worth noting that the substantial growth in the share of Local Government in fiscal 1973/74 is matched by a sharp drop in the share of central government social service

expenditures in this year. The only area which experienced consistent and also the largest decline is Defence. This is most likely due to the cessation of hostilities in southern Sudan, following the resolution of the conflict in March 1972.

In the third period, General Administration and Defence grew at the expense of all other areas. The figure for General Administration is considerably inflated by the 89 per cent increase in the area's share in the first program. This large growth is the result of salary increases associated with the Job Evaluation and Classification Scheme. This Scheme was designed to put into effect the principle of "equal pay for equal work" in the public sector. It resulted in a comprehensive revision of pay scales and led to substantial salary increases, paid out as from the first of July 1978. The growth in Defence in the years between 1979/80 and 1981/82 was attributed to government efforts to enhance internal security in the face of large inflows of refugees from neighboring countries. Toward the end of 1983, civil war broke out again in southern Sudan after an eleven-year cessation of hostilities. The large increase in the share of Defence in the last program is most likely due to the outbreak of the war. In this period, the social expenditure areas grew more or declined less than the area of Investment.

The overall finding that emerges from this analysis is that there is no systematic evidence that the programs are biased against social expenditures; these expenditures did not consistently decline more or grow less than other expenditures. More importantly, the relative prosperity of most areas of expenditure appears to do more with particular events than with the presence of the programs.

In some cases, it was these very same expenditures that are claimed to suffer under Fund programs which undermined the achievement of some program

objectives. This is true of the area of subventions to Local Government in the periods of the 1972/73 and the three-year 1979/82 Programs. In each case, a policy change in the area contributed to undermining the attainment of program fiscal objectives. In each case, this was officially admitted. Thus, in regard to the 1972/73 Program, the Minister of Finance noted:

The dependence of the public sector on bank financing was also reduced from the high level of 1971/72 but remained more than the level envisaged in the program partly due to the exceptional needs of the Southern Region following the March 1972 settlement and decentralization brought about by the Local Government Act of 1971.¹⁷

With respect to the 1979/82 Program, a Fund mission reported:

Fiscal performance at times departed from program targets as a result of expenditure overruns which the authorities were unable to control and which were not envisaged during the initial formulation of the program. A rapid growth in the transfers to regional governments occurred following the political decision to accelerate the process of government decentralization which was deemed essential for increasing the political cohesiveness of the country.¹⁸

2. Simple Empirical Regression Models:

The objective of the regression models here is to see if the presence of Fund programs makes any difference to changes (Table 4.8; the periods in bold print are Fund program periods) in the levels of social expenditures. One way to do this is to see whether the increments/decrements in the levels of social expenditures in Fund program periods are significantly, in statistical terms, different from those in nonprogram periods.

For each of the two areas of social expenditures, the independent variable is a time period dummy variable that takes the value 1 in Fund program periods and 0 in nonprogram periods. The co-efficient for this variable tests the

17. Text of the 1974/75 Program, op. cit., p. 1.

18. Sudan - Request for Stand-By Arrangement (January, 1982), op. cit., p. 14.

hypothesis that the changes in the level of expenditures in Fund program periods are not, in statistical terms, different from those in nonprogram periods. In other words, each model tests the hypothesis that the presence of Fund program makes no difference to the changes in the level of expenditures.

Table 4.8: Annual Changes in Social Expenditures, 1962 - 1984.

Period	Social Services	Subventions to Local Government
1962/63	1.4	0.2
1963/64	0.6	-0.9
1964/65	-0.4	5.2
1965/66	0.7	1.6
1966/67	0.7	-1.6
1967/68	1.0	1.2
1968/69	2.1	4.9
1969/70	2.4	5.0
1970/71	0.5	-2.4
1971/72	0.7	0.9
1972/73	1.0	-3.0
1973/74	-6.5	22.3
1974/75	8.8	10.2
1975/76	4.9	11.7
1976/77	5.6	13.4
1977/78	14.5	14.4
1978/79	6.7	21.0
1979/80	-1.8	61.0
1980/81	4.6	59.8
1981/82	23.3	20.9
1982/83	33.7	-1.1
1983/84	19.1	-13.9

Source: Calculations based on information from Table 4.4.

A. The Model for Social Service Expenditures:

As noted earlier, social service expenditures are not based on entitlements and are thus not determined by demographic changes which, by affecting the number of eligibles, determine the level and the rate of growth of

entitlement-based expenditures. In addition, social service expenditures are not indexed to inflation. In other words, these expenditures are essentially discretionary. In any fiscal year, the amount spent on social services is entirely subject to the discretion of officials at the Budget Administration Department of the Ministry of Finance.

As can be seen from Table 4.8, there are only three instances of reduction (from previous year's level) in social service expenditures, two of which occurred in Fund Program periods. The reduction in the period of the 1973/74 Program was, as pointed out, the result of the transfer of educational responsibilities from the center to provincial administrations. A dummy variable is included in the model to take account of this reduction, as it is not the result of the the Program. This variable takes the value 1 for 1973/74 and 0 for all other periods. The co-efficient for this variable is expected to have a negative sign; for this should capture and indicate the reduction.

There are three relatively large increases in the last three Fund program periods. This is most probably the results of budget officials taking into account the high rate of inflation reported to be more than 40 per cent in these years. In no other period was the rate of inflation more than 30 per cent. A separate dummy variable is incorporated into the model for these three unusual cases to avoid their distortion of the whole model. The model regression equation was initially run without this variable. This resulted in a Durbin-Watson statistic value of 0.81 which indicates the presence of serious serial correlation. This is, in turn, indicative of model misspecification. After the inclusion of the variable, the value of the Durbin-Watson statistic rose to 1.7 which indicates the absence of serial correlation. Thus, the special treatment of these unusual cases results in a better model.

With these two dummy variables taking account of the changes in the level of expenditures in these four Fund program periods (that is, 1973/74, 1981/82, 1982/83, and 1983/84), the model will determine whether or not the changes in social service expenditures in the rest of Fund program periods are statistically different from those in nonprogram years.

B. The Model for Subventions to Local Government:

As is the case with social service expenditures, subventions to Local Government are not determined by any mechanism that automatically transmits changes in demographic or macroeconomic variables into changes in expenditure levels. How much the central government spends on Local Government is principally the function of administrative discretion (that is, the discretion of budget officials) and, to some extent, of how much local expenditures are financed by local revenues. However, there is no institutional (legal) requirement on the central government to fully cover the consolidated deficit of Local Government entities. In addition, there is no formula that is used to determine how much the central government should transfer to Local Government. Technically, Budget officials decide on how much to allocate to Local Government on the basis of the consolidated estimates of expenditures and revenues of Local Government entities. However, budget officials indicate that they do not take these estimates seriously because of the propensity of these entities to submit inflated expenditure estimates.

As can be seen from Table 4.8, there are six decreases in transfers to Local Government, four of which occurred in Program years. However, all the large increases (those in 1973/74 and in the 1978/79 - 1981/82 period) also took place in Program years. As has previously been indicated, these increases are the result of administrative and political decentralization measures in

these years. A dummy variable that takes the value 1 in decentralization years and 0 in other years is included in the model to take account of the effects of these measures. Since decentralization resulted in large increases (relative to increases in all other years), this variable is expected to have a positive co-efficient.

Presentation and Discussion of Results:

The regression results are presented in Tables 4.9 and 4.10 for the social service expenditures and subventions models, respectively. The figures in parenthesis below the co-efficients are the standard errors of the co-efficients.

Table 4.9: Summary of Regression Results

Dependent Variables	Independent Variables	Co-efficient	T-Ratio	Sig. Level
Changes in Social Service Exps.	Constant	3.9 (1.5)	2.5	.02
	Fund	-0.2 (2.2)	-0.1	.9
	DEC73	-9.2 (4.9)	-1.9	.06
	SP81/83	22.5 (3.2)	7.0	.00
R-Square = .79		Durbin-Watson = 1.7		

Table 4.10: Summary of Regression Results

Dependent Variables	Independent Variables	Co-efficient	T-Ratio	Sig. Level
Changes in Grants to Local Govt.	Constant	4.9 (3.6)	1.4	.19
	Fund	-5.4 (5.6)	-0.95	.35
	DEC.	37.5 (6.7)	5.6	.00
R-Square = .65		Durbin-Watson = 2.05		

Each model explains more than sixty per cent of the variation in the changes in the levels of each type of expenditures. All nonFund variables (that is, Decentralization73 and Special81/83 in the first model and Decentralization in the second model) are in the expected direction, as indicated by the signs of the co-efficients. Moreover, these co-efficients are statistically different from zero (see the significance levels). The negative value of the co-efficient for "Dec73" suggests that this measure accounted for LSd. 9.2 million in the reduction in social service expenditures in that year. Similarly, the positive value of "Dec" in the second model indicates that decentralization in 1973 and in the period 1978/79 - 1981 has the effect of increasing the amount of subventions in each of these years by an average of amount of LSd. 37.5 million.

In each model, the co-efficient for Fund is negative, suggesting that smaller increments or larger decrements tend to occur in Fund program periods relative to nonprogram periods. However, these are by no means statistically significant. This implies that the annual changes in the level of social expenditures in these periods are not different from those in nonprogram periods.

A basic conclusion which can be drawn from these results is that Fund programs did make very little or no difference to government spending for the provision of social services, both at the national and local levels. There are a number of probable explanations for this finding. A principle explanation is, most probably, the fact that the programs did not require reductions in the overall level of expenditures. The programs called for restraint on the growth of rather than reductions in the overall level of expenditures. The programs also depended on revenue increases to improve the government budgetary situation.

Even if reductions were required, it is most unlikely that social service expenditures and subventions to Local Government would be adversely affected. There are several reasons for this. With respect to social services, expenditures on this area constitute such a small proportion of the total that even a large reduction would make very little difference to budgetary savings. Moreover, a large reduction in this area is most unlikely. The bulk of social service expenditures is claimed by employee emoluments, so that any large reduction would entail some lay-offs. These have never been practiced in the Sudan, where employment in government is regarded as a right. In view of this, a decision by the government to lay off employees is most likely to lead to strikes which would lead to the disruption of social services, the political reverberations of which the government is unlikely to survive.

In regard to the area of subventions to Local Government, there is a principal factor that makes significant reductions in this area most unlikely. Despite the fact that transfers to Local Government are large relative to other areas of central government expenditure, they have always been quite inadequate to finance the activities of Local Government jurisdictions.¹⁹ A major manifestation of this inadequacy is the existence of chronic deficiencies in local services delivery systems. A concrete example of this is the area of local sanitation. Because of lack or severe shortages of funds to maintain existing or buy new refuse-collecting vehicles, clearance of refuse dumps (normally done on a daily basis) is often delayed for weeks. For the same reason, refuse incineration (normally done outside towns) is more often than not done near refuse dumps located in town neighborhoods.

19. On this point, see Rondinelli, *op. cit.*, p. 604.

The central Ministry of Local Governments, which is known to lobby intensely for increased central transfers, brings this home to budget officials in the Ministry of Finance. Provincial commissioners also play a key role in preserving and increasing the amounts of central transfers. Commissioners are known to spend a great deal of their time in Khartoum, lobbying for increased transfers. In 1977, Commissioners were elevated to the status of cabinet ministers. By virtue of this, commissioners have direct access to the Finance Minister and to the President and can thus bring home to these the need to maintain or increase the amounts of transfers.

Fund Policy Programs and Subsidies

As noted above, the literature tends to see Fund programs as negatively affecting subsidies. There is some reason to expect that the relationship could also work in the opposite direction. One situation where this could happen is when there is a political constraint on the government to maintain the provision of subsidies, the expenditure on which is of an open-ended nature. Expenditures of this nature are bound to be at loggerheads with a central premise on which Fund programs are predicated. The fiscal components of Fund programs are built around expenditure, revenue, and domestic credit targets and ceilings to be adhered to in the course of the program. In regard to the expenditure side of the budget, the Fund program assumes that actual expenditures will be in line with program budgeted expenditures. Uncontrollable in nature, open-ended expenditures clearly vitiate these notions. Thus, in a situation where there is a strong political commitment to such expenditures, one would expect these expenditures to adversely affect the fiscal targets of Fund programs.

There is some evidence that this situation occurred in the Sudan in the periods of some programs. As noted in chapter one, the government monopolizes

the importation of sugar, petrol, and wheat flour. The government also fixes their domestic retail prices. The government has often insulated consumers from rises in the international prices of these commodities by keeping their domestic retail prices stable. In the following section, some concrete cases are described to demonstrate the effects of subsidies on Fund programs .

The Case of the 1973/74 Program:

The 1973/74 Program set a target of LSd. 220.0 million for central government revenues. The actual amount turned out to be LSd. 203.5 million; that is, LSd. 16.5 million below the program target.²⁰ This shortfall was attributed to a loss in revenue from the excise duty on petrol and in sugar monopoly profits because the Government maintained unchanged their domestic selling prices after their international prices had risen. Thus, the shortfall in revenue was the result of the subsidy expenditure implicit in the revenue loss.

This subsidy expenditure was officially admitted to have undermined the Program objective of controlling government expenditure and hence of reducing government's reliance on the central bank. This was acknowledged by the Minister of Finance in his Letter of Intent for the succeeding program. In his Letter, the Minister explained why the authorities were unable to achieve program fiscal targets. He pointed out:

....Unexpected international developments and subsequent sharp rise in the world prices of Sudan's major imports (petroleum, sugar, and wheat), jeopardized the achievement of some of the objectives of the program... In a developing country like the Sudan, the large rise in the import prices of essential goods could not be immediately passed to the consumers without undesirable effects. Consequently, the government had to incur additional expenditures on subsidies for these commodities to cushion the effect on prices. These developments retarded govern-

20. Sudan - Request for Stand-By Arrangement (July 31, 1974, Table 2, p. 5), Documents of the International Monetary Fund, File No. 0 - 1, 316, Vol. 21, Ministry of Finance, Khartoum.

ment efforts to reduce its reliance on the domestic banking system in line with the program²¹.

Eleswhere in the same Letter, the Minister reiterated the constraint on the government posed by rises in the prices of the three commodities:

..the 1973/74 program was designed to achieve a sizable surplus in the current operations of the Central Government mainly on the strength of new revenue measures..On this basis recourse to bank financing by the Central Government and public entities was to be limited to LSd.15 million. Achievement of the program's objective in this area has been jeopardized by the decline in revenue and/or the increase in subsidies brought about by the sharp rise in the international prices of petroleum, sugar and wheat as we have not found it always possible to pass the increased prices to the consumer.²²

The Case of the 1974/75 Program:

Despite the fact that subsidy expenditures in fiscal 1973/74 undermined that year's program, the program for 1974/75 allowed LSd. 23 million in subsidies for fiscal 1974/75. This subsidy amount represents 11.3 per cent of Central Government expenditures budgeted at LSd. 256 million (Table 4.2).

This contrasts with the commonly held view that Fund policies show little appreciation of the political and social circumstances of the countries which undertake Fund-supported stabilization programs.²³ However, the Fund mission which helped with the formulation of the program indicated clearly that the effectiveness of the program would hinge crucially on the ability of the authorities to limit expenditure on subsidies to the budgeted amount. In this respect, the mission pointed out, in its appraisal of the program which was submitted to the IMF Executive Board:

21. Letter (dated July 18, 1974) addressed to the IMF Managing Director, Mr. Witteveen, *ibid*.

22. *Ibid.*, p. 3.

23. On th criticisms of Fund policy conditionality, see Graham Bird, "Relationships, Resource Uses and the Conditionality Debate," in Tony Killick (ed.), *op. cit.*, p. 168.

The effectiveness of the program will crucially depend on the ability of the Government to contain the subsidies as well as increases in other expenditures, particularly those related to transfers to the local governments, within the budgeted levels.²⁴

The government was, however, unable to contain expenditures on subsidies. This also militated against the program achieving some of its fiscal objectives. As is clear from Table 4.11, the bulk of the overall expenditure overrun (LSd. 8 million) was accounted for by the subsidy overexpenditure which amounted to LSd. 6.8 million (that is, 85 per cent of the total expenditure overrun). This expenditure overrun also contributed to the deviation of domestic credit to the government sector from the program target. The program had envisaged LSd. 11 million in domestic credit to the government sector. Actual credit extended to this sector turned out to be LSd. 24.5 million.

Table 4.11: Government Budget for the 1974/75 Program

	Program	Actual
Expenditures	256.0	264.0
of which:		
Subsidies	23.0	29.8

Sources: Sudan - Request for Stand-By Arrangement (July 31, 1974), *ibid.*, p. 5 and 1975 Article XIV Consultation (September 4, 1975, Table 1), Documents of the International Monetary Fund, No. 0 - 1, 316, Vol. 21, Ministry of Finance, Khartoum.

The Case of the 1979/82 Program:

24. Sudan - Request for Stand-By Arrangement (July 31, 1974), *op. cit.*, p. 19.

In its two budgets covering the period 1979/82, this three-year program allocated no funds for subsidies. However, following the second oil shock in 1979 and rises in the world prices of sugar, the government was believed to have incurred substantial outlays on supporting the domestic retail prices of petrol and sugar. The amounts of the outlays incurred were not known. However, a Fund mission which had reviewed performance under the program indicated that unbudgeted subsidy outlays contributed to the deviations of fiscal outcomes from program's targets. In this connection, the mission noted in its report to the IMF Executive Board:

...increases in the international prices of petroleum products and sugar also contributed to deviation from program targets...Increases in the international prices of petroleum and sugar compounded the balance of payments difficulties but also had adverse effects on budgetary performance and credit policy. This resulted from domestic price policies which sought to insulate the prices of basic consumer commodities such as wheat, petroleum products, and sugar from international price changes. With government monopolies on trade in these commodities, increases in import prices were not always passed on to the consumer and this resulted in either an outright budgetary cost or a deficit in the accounts of the importing public agency which was financed by credit extension from the central bank.²⁵

These three cases demonstrate that the political commitment to the provision of subsidies (that is, maintaining domestic retail prices in the face of external price increases) was a contributing factor (the principal one in the cases of the 1973/74 and 1974/75 Programs) to undermining program fiscal effectiveness.

The point raised in chapter one that subsidies principally benefit the residents of Khartoum, Khartoum North, and Omdurman most probably explains the inability of the government to contain expenditures on them. It was the resi-

25. Sudan - Request for Stand-By Arrangement (January 1982), op. cit., p. 14.

dents of the three towns (in particular, the civil servants who set the precedent of overthrowing government through mass political action, notably the general strike) who were responsible for this constraint on the government. There is no direct concrete evidence of this (probably, such evidence does not obtain). There are, however, further indications that the civil servants most of whom reside in Khartoum were and still are a constraint on the implementation of austerity measures. It was the civil servants who were always selected for partial compensation when the government had no options but to reduce or remove subsidies because of the application of Fund policy conditions. This was done in a number of cases, particularly where subsidy reduction/removal is involved. The following cases document the application of Fund policy conditions on subsidies. This is then followed by describing and documenting compensation to civil servants in these cases.

The Effects of the 1981/82 and the 1982/83 Programs on Subsidies:

Increases in the retail prices of the subsidized items were undertaken to eliminate subsidies which had emerged from the November 1981 exchange rate unification (which, as noted earlier, resulted in the devaluation of the official rate by 80 per cent) and the November 1982 official devaluation of the Sudanese pound. Because devaluation increases the costs of imports expressed in domestic currency, subsidies emerged following each official devaluation.

The Case of the 1981/82 Program:

The price increases were explicitly referred to in the Letter of Intent sent by the Minister of Finance to the IMF Managing Director requesting a Fund Stand-By Arrangement in support of the Program. Thus, the text of the Letter reads, in regard to these price increases, "...the retail prices of petroleum products were raised by an average of 39 per cent so as to eliminate the sub-

sidy arising from the exchange rate unification...Effective January 1, 1982, the domestic retail price of sugar was increased by 62.5 per cent..."²⁶ That these price increases were Fund policy conditions (in this case "preconditions") was evidenced by the fact that they were implemented prior to the approval by the Fund in February 1982 of the Stand-By Arrangement in support of the Program.

A Fund policy condition, a "performance criterion", was applied to a government policy intention to eliminate the subsidy on wheat in the course of the Stand-By Arrangement. As stated in the text of the Program, this policy intention reads, in the words of the Finance Minister,

In a subsequent stage of corrective action and in line with our announced policy of removing subsidies, we will increase the price of bread at least 33 percent by April 1, 1982 and eliminate any remaining subsidy on wheat and wheat flour by August 31, 1982...²⁷

In the approved Stand-By Arrangement, this policy intention was made a "performance criterion". This part of the Stand-By reads:

Sudan will not make purchases under this Stand-By Arrangement...if the intention to reduce the subsidy on wheat by April 1 and to eliminate it by August 31, 1982 is not implemented...²⁸

26. Statement of Economic and Financial Policies of the Government of Sudan (January 1982), op. cit., p. 5.

27. Ibid., p. 5.

28. Sudan - Stand-By Arrangement (February 22, 1982, p. 3), Documents of the International Monetary Fund, File No. 0 - 1, 316, Vol. 23, Ministry of Finance, Khartoum. The policy intention was implemented when the retail price of bread was increased by 33 and 25 per cent on April 1, and July 8, 1982, respectively. In reference to the second price increase, a Fund report noted, "On the basis of import and domestic producer prices prevailing in mid-1982 and the unified exchange rate, this price increase has eliminated the remaining subsidy on wheat and wheat flour." Sudan - Staff Report for the 1982 Article IV Consultation (August 23, 1982), op. cit., p. 7.

The Case of the 1982/83 Program:

As was the case with the 1982/83 Program, increases in the retail prices of the subsidized commodities were carried out to eliminate subsidies which had arisen from devaluation of the Sudanese pound on November 15, 1982.

The part of the text of the Program indicating price increases reads:

In the area of central government finance, revenue generating measures...have been implemented. These measures include... increasing the prices of petroleum products as of January 3, 1983 to eliminate the budgetary subsidy arising from the exchange rate depreciation...²⁹

This price increase was also a "precondition"; it was carried out prior to the Fund's approval in February of the Stand-By Arrangement in support of the Program.

The text of the Program also contained a policy intention to eliminate the subsidy on wheat in the course of the Stand-By Arrangement. This part of the text reads:

In a subsequent stage of corrective action, we will eliminate any remaining subsidy on wheat...before the expiry of the Stand-By...³⁰

As was the case with the 1982/83 Program, this policy intention was also made a "performance criterion" in the text of the approved Stand-By Arrangement.

This part of the text states:

Sudan will not make purchases under this Stand-By Arrangement...during any period within 14 days from the date of expira-

29. Statement of the Government of Sudan on Its Economic and Financial Policies (January 5, 1983), op. cit., p. 4.

30. Ibid., p. 4.

tion of this Stand-By Arrangement, in which the intention to eliminate the subsidy referred to is not carried out...³¹

In nearly all cases where subsidies were reduced or removed, the civil servants were granted either salary increases, increases in existing allowances, or some tax relief. Thus, following an increase in the retail price of petrol (May 30, 1974) as part of the 1974/75 Program, the civil servants were granted a 15 per cent salary increase effective July 1, 1974. In this respect, a Fund mission reported, "The salary and wage revision, which averages 15 per cent throughout the public sector, was considered unavoidable by the authorities..."³².

It has earlier been pointed out that the Job Evaluation and Classification Scheme led to substantial increases in salaries in the public sector in the period 1978/79 - 1979/80. This period coincided with major austerity measures (including reductions in subsidies) contained in the programs undertaken in this period.

In the case of the 1981/82 Program, the Minister of Finance Letter of Intent section on the budget points out:

...in current expenditures, selective reductions were effected..., however, these would be partially offset by increases in transportation allowances granted to civil servants.³³

Another measure taken in this context was increasing the individual tax-payer exemption allowance "in order to mitigate partially the effects of higher prices on incomes"³⁴The tax referred to also applies to the incomes of public-sector employees.

31. Sudan - Stand-By Arrangement (February 21, 1983, p. 3), Documents of the International Monetary Fund, File No. 0 - 1, 316, Vol. 24, Ministry of Finance, Khartoum.

32. Sudan - Request for Stand-By Arrangement (July 31, 1974), op. cit., p. 10.

33. Statement of Economic and Financial Policies of the Government of Sudan (January 1982), op. cit., p. 23.

34. Ibid., P. 23.

In regard to the 1982/83 Program, the part of the Minister's Letter of Intent dealing with compensation to civil servants reads:

In view of the price impact of the adjustment package and to reduce the extent of erosion of real incomes in the public sector, we have decided to provide financial compensation to government employees amounting to LSd. 30 million...³⁵.

The overall finding which emerges from the preceding empirical analyses is that Fund programs had, apart from some increases in the retail prices of subsidized items, very little or no adverse impact on social expenditures. In addition, it was these very same expenditures which undermined or contributed to undermining the fiscal effectiveness of some of these programs.

This finding suggests that the view that Fund programs are detrimental to social expenditures does not, at least in the Sudanese context, hold. Because this argument views these programs solely from the perspective of economic efficiency, it fails to consider political rationality and the constraints it places on the application of economic efficiency. This view therefore fails to consider the socio-political context in which Fund programs are undertaken and thus provides a distorted lens through which to view empirical reality. The argument that social sectors are well protected is much more realistic inasmuch as it implicitly recognizes the presence of contextual factors shielding social expenditures from budgetary austerity measures.

35. Statement of the Government of Sudan on Its Economic and Financial Policies (January 1983), op. cit., p. 11.

CHAPTER V

FUND PROGRAMS AND POLITICAL PROTEST

Literature Review:

A common strand discernable in the small but growing body of literature on the politics of economic stabilization is that these programs are politically risky; they involve costs to those undertaking them. The premise underpinning this line of argument is that the economic austerities characteristic of these programs alienate some segments of the society by cutting into living standards. This, in turn, fosters public and organized group reactions. According to this strand of literature, the socio-economic groups that bear the brunt of economic stabilization are urban marginals and the working class.¹ For these groups, economic stabilization entails erosion of real incomes and unemployment, the result of which is a reduction in economic welfare.²

This premise underlies a number of empirical studies as well as studies proposing conceptual schema for the analysis of the politics of economic stabilization. Richard Cooper's study attempts to associate devaluation (a common element in structurally-oriented economic stabilization programs) with

1. Wilfred David, op. cit., p. 109.

2. Stephen Haggard, "The Politics of Adjustment: Lessons from the IMF's Extended Fund Facility," International Organization, Vol. 39, No. 3, Summer 1985, p. 51.

political change crudely measured as the fall of governments or of finance ministers within the year of the implementation of this austerity measure.³

Using indicators of political repression and of market-oriented policies, John Sheahan attempts an empirical correlation between political repression and economic efficiency policies undertaken in Latin America in the past two decades. Writing in 1980, he concludes, "in the last 15 years the intensity of political repression in many Latin American countries has increased greatly."⁴ "In the same period", he adds, "for the region as a whole but in particular for many of the countries in which repression has been the worst, the application of market principles to improve efficiency has increased greatly".⁵ Sheahan's study also assumes that the economic austerities attendant on the application of market principles engender political protest; political repression in his study is the policy response to political protest.

The assumption also underscores a number of empirical studies attempting to answer the question as to which regime type, authoritarian or democratic, is essential for the successful implementation of economic stabilization programs. A widely cited study is Skidmore's empirical analysis of the politics of economic stabilization in the ABM countries; that is, Argentina, Brazil, and Mexico. According to Skidmore, economic stabilization experiments during the 1950s and 1960s in the ABM countries demonstrate that:

...governments in competitive political systems find it extremely difficult to reduce inflation, once it has exceeded 20 per cent, and they have paid very high political costs for their efforts; no

3. Richard Cooper, "An Assessment of Currency Devaluation in Developing Countries," in G. Ranis (ed.), Government and Economic Development, Yale University Press, New Haven, 1971, pp. 501-507.

4. John Sheahan, "Market-oriented Economic Policies and Political Repression in Latin America," Economic Development and Cultural Change, Vol. 28, No. 2, 1980, p. 290.

5. Ibid., p. 290.

such government has proved able to pursue successful anti-inflation efforts; all the cases of successful stabilization have been carried out by authoritarian (or one-party) governments; and even authoritarian governments must have a high degree of internal consensus to carry through a successful stabilization.⁶

The argument underscoring these conclusions is that economic stabilization policies constitute - in so far they cut into living standards - such a "political liability as to erode more public support than any freely elected government could afford to lose."⁷In the light of his empirical analysis and findings, Skidmore advances the proposition that authoritarianism is a necessary, albeit an insufficient, condition for the successful implementation of stabilization programs.⁸

This proposition is implicit in Robert Kaufman's more recent study on economic stabilization in the ABM countries. The study concludes that "authoritarian regimes in the ABM countries are, in fact, so far the only ones in which stabilization programs have actually restored some degree of price and exchange equilibrium and a resumption of economic growth."⁹

Empirical analyses have of late called into question the validity of this proposition. In this regard, the most systematic analysis is Karen Remmer's empirical study on the politics of International-Monetary-Fund-supported economic stabilization programs in Latin America in the 1954- 1984 period.¹⁰

6. Thomas Skidmore, "The Politics of Economic Stabilization in Postwar Latin America," in James, M. (ed.), Authoritarianism and Corporatism in Latin America, University of Pittsburgh, Pittsburgh, 1977, p. 149.

7. Ibid., p. 180.

8. Ibid., p. 181.

9. Robert Kaufman, "Democratic and Authoritarian Responses to the Debt Issue: Argentina, Brazil, and Mexico," International Organization, Vol. 39, No. 3, Summer 1985, p. 475.

10. Remmer used regime type as the independent variable and program implementation (measured in terms of domestic credit and other fiscal performance indicators) as the dependent variable; see Karen Remmer, "The Politics of Economic Stabilization: IMF Standby Programs in Latin America, 1954 - 1984," Comparative Politics, October 1986, pp. 1-24.

Remmer's findings are that regime type makes little difference to successful program implementation; that authoritarian regimes are no more likely to initiate stabilization programs nor to survive their political reverberations; and that to the "limited extent that regime differences are significant, the edge appears to be with democracies."¹¹

Stephan Haggard's study, which is based on an examination of thirty cases of economic stabilization programs supported by the three-year Extended Facility of the International Monetary Fund, also presents some evidence, though anecdotal, against the link between regime type and successful implementation of economic stabilization programs.¹² The political capacity to adjust, according to Haggard, depends more on administrative constraints, the availability of nonFund or nonconditional resources, and the existence of a "stabilizing cadre", the core of which is a "cohesive group of sympathetic economic technocrats" than on regime type.¹³

The importance of nonregime variables is also highlighted by Joan Nelson's conceptual framework for the analysis of the politics of economic stabilization programs. Nelson's conceptual scheme is based on case studies of stabilization experiments in five poor and heavily trade-dependent countries. These are Ghana in the late 1960s and early 1970s; Jamaica, Kenya, Sri Lanka, and Zambia in the late 1970s and early 1980s.¹⁴

The framework focuses on program political sustainability defined as the "odds that it will not be abandoned or seriously diluted in mid-course because

11. Ibid., p. 20.

12. Stabilization Programs broke down under both authoritarian regimes (cases discussed are the Sudan and Guyana) and democratic regimes (cases analysed are Jamaica and Sri Lanka); Stephen Haggard, op. cit., pp. 513-525.

13. Ibid., pp. 530-532.

14. Joan Nelson, "The Political Economy of Stabilization: Commitment, Capacity, and Public Response," World Development, Vol. 12, No. 10, pp. 983-1006.

of leaders' political concerns or popular pressure".¹⁵ According to Nelson, program political sustainability is the function of the strength of political leaders' commitment to the program, the government capacity to implement the program and manage political responses, and the political responses the program evokes from influential groups.¹⁶ Nelson maintains that political commitment and political responses are variables that can be manipulated to maintain and enhance program political sustainability. Political commitment, according to Nelson, can be manipulated by strategms (the so-called political insurance) that would specify conditions, on the part of international creditors, under which additional resources might be made available in support of politically risky programs.¹⁷ Manipulation of political responses consists, Nelson points out, in the use of tactics which encompass, inter alia, political containment of public and organized protest and partial compensation to specific groups.¹⁸

The issue of program political sustainability is also the central focus in a recent case study. Thomas Callaghy's study examined the politics of major economic adjustment reform initiatives in the African context, with particular focus on the experiences of Ghana, Zambia, and Nigeria.¹⁹ The study does not test any hypothesis nor does it provide a conceptual scheme for the analysis of the political sustainability of macroeconomic policy reforms. Rather, it analyses the sustainability of such reforms against domestic political con-

15. Ibid., p. 983.

16. Ibid., p. 985.

17. Ibid., p. 986.

18. Ibid., p. 997-999.

19. Thomas Callaghy, "The Politics of Economic Stabilization and Structural Change in Africa: Ghana, Zambia, and Nigeria," (a preliminary draft), Department of Political Science and Research Institute on International Change, Columbia University, October 1987.

straints on the one hand and the policy reform requirements of international creditors (the IMF, the World Bank, and bilateral aid donors) on the other. Domestic political leaders are depicted as being buffeted between the competing claims of domestic constraints (opposition from organized groups and the public) and the international creditors. The author is of the opinion that reform efforts were sustained in Ghana and Nigeria but not in Zambia, which has traditionally had a much greater regime stability than the two other countries. The reason for this, according to him, is that domestic opposition to the economic reforms in Zambia was more deep-rooted, stronger, and more pervasive.²⁰ The author then contends these three cases question the conventional wisdom that regime stability is an asset to the sustainability of economic reforms.

Conceptually, the common strand or line of thought that pervades the reviewed literature is that the austerities associated with the initiation and implementation of economic stabilization programs generate political protest or pressure which could lead to the following consequences: the abandonment or serious dilution of the stabilization programs, authoritarian or repressive policy responses to manage political protest, and political change, including the fall of governments or of specific government leaders.

A major problem with this conceptualization is that it does not distinguish between economic austerity which gives rise to stabilization programs in the first place and policy austerity measures. Clearly, the literature associates political protest with the initiation or implementation of policy austerity measures.

20. In Zambia, IMF-supported adjustment reforms (notably, exchange rate liberalization and increases in the retail prices of maize) were abandoned following riots in the capital and open criticisms and threats from organized groups and from some leaders in the ruling party; see pp. 35-42.

In the context of economic stabilization programs, economic austerity refers to the excess of resource uses over available resources or, to use familiar macro-economic concepts, the excess of expenditures (private and government consumption and investment) over income or simply the excess of aggregate demand over aggregate supply. This excess manifests itself in internal (fiscal) resource imbalances and an external imbalance (that is, a balance of payments deficit), shortage of foreign exchange, and a high inflation rate. This list does not exhaust the manifestations of an excess of aggregate demand over aggregate supply. However, in the context of economic stabilization, it comprehends the principal manifestations of such an excess.

At this juncture, it is useful to clarify the relationship between economic austerity and economic hardship or hardships. As explained above, economic austerity is a macro-concept describing a state of economic affairs essentially characterized by the excess of resource uses over resource availabilities. In common usage, economic hardship refers to a situation or situations where individuals as consumers suffer losses in economic welfare or living standards. It is, thus, a phenomenon that obtains at the micro or consumer level. More importantly, it results from economic austerity. Many people may disagree on what counts as economic hardship. However, few will disagree that a rise in the general price level and hence decline in real incomes, deterioration in social services, unemployment, shortages in basic consumption goods do not count as instances of economic hardship. All of these, particularly inflation, are clearly related to the excess of aggregate demand over aggregate supply (the economy's total output).

The key point here is that given this situation of demand exceeding supply in the aggregate (which is indicative of economic austerity), economic

hardship is either already there or is about to set in, irrespective of whether or not there is a remedial policy response; that is, an economic stabilization program. A point that repeatedly arises in the literature is that the economic situation immediately prior to the beginning of an economic stabilization program is an "unsustainable situation" in that available resources can only provide for so much of resource end uses, since the latter exceeds the former.

Given this unsustainable situation, the need for a specific remedial policy action (that is, an economic stabilization program) arises because of an overlap of practical and efficiency considerations. The situation of resource uses exceeding resources available can, in theory, be sustained without any adjustment policies to remedy the resource imbalance if external financing (borrowing) is always readily available. In practice, this is not true because official multi-lateral creditors such as the IMF and the World Bank extend credits on condition that economic adjustment policies be implemented. Moreover, bilateral official (governments) and private (international banks) creditors also often require the so-called "seal of approval" or a prior agreement with the multi-lateral creditors (in particular the IMF) on economic stabilization measures before they extend loans.²¹ Another alternative to economic stabilization is to suppress domestic demand through, among other things, the imposition of commercial (trade) and financial (foreign exchange) restrictions. This alternative is, however, inefficient because it worsens domestic inflation and leads, therefore, to further appreciation of the exchange rate and, consequently, to worsening the balance of payments crisis. Essentially,

21. The "seal of Approval" is also referred to as the "seal of good housekeeping"; see Sachs, J., Conditionality and the Debt Crisis: Some Thoughts for the World Bank (unpublished draft paper), Harvard University, January 1985, p. 12.

it puts off solving the problem rather than solves it. A third alternative is policy inaction. In this case, the resource imbalance is sustained for some time until external reserves are run down. In practice, a developing country like the Sudan will have exhausted all alternatives before resorting to the IMF and by the time this happens economic hardships have already set in or are about to. In any concrete analysis, this is, of course, an empirical question.

The key point here is that Fund-supported stabilization programs are undertaken in this kind of situation. Another important point is that these programs have a basic feature that has some bearing on economic hardship. This feature is the demand-sided approach to economic stabilization. A typical stabilization program supported by the Fund's one-year Stand-By Arrangement is a financial program that aims at managing domestic demand either by restraining or curtailing it.²² It is for this reason that these programs are referred to as demand management, restraint, deflation, compression, or curtailment programs.²³ Typical demand management policy measures may include, according to a long-time Director of the Fund's Fiscal Affairs Department, reductions in government expenditures, increases in taxes on incomes and goods, increases in the prices of key goods (subsidized consumer commodities) and services,

22. Economic adjustment needs not necessarily come from the demand side of the economy if the time dimension is not important. Since, however, increasing supply or output takes time due to, *inter alia*, various constraints (resource, institutional, and logistical) and to the medium or long term gestation nature of new agricultural and industrial investments, a short-run remedial policy response must necessarily focus on the demand side.

23. In the literature, these terms are used interchangeably; see Manuel Guitian, *op. cit.*, pp. 5 and 38 and Sidney Dell, "Stabilization: The Political Economy of Overkill," in John Williamson, *op. cit.*, pp. 39-43.

increases in the interest and exchange rates, and restrictions on domestic credit extension.²⁴

To return to the point of economic hardships seen as losses in consumer welfare, many of these measures adversely affect such welfare. Increases in direct taxes (taxes on incomes) reduce disposable incomes. Increases in the prices of goods and services and devaluation reduce real incomes.

If one assumes that increased economic hardship leads to political protest (this assumption is implicit in the literature just reviewed), it will be erroneous to attribute the political protest incidents that occur in the period of an economic stabilization program solely to the implementation of the program's policy austerity measures.²⁵ One needs to separate, and control for, the economic hardship attendant on the onset of economic austerity, which gives rise to the stabilization program in the first place, from the economic hardships that are due to the implementation of program austerity measures. This task is intrinsically difficult due to a number of questions that need to be answered prior to assessing the extent to which the political protests that occur in the period of an economic stabilization program are due to the program's austerity measures.

The first has to do with what indicates economic hardship in empirical reality. In other words, is there a common quantitative measure for economic hardship? Supposing that there is one such measure, how can one control for

24. Richard Goode, Government Finance in Developing Countries, the Brookings Institution, Washington, D.C., 1984, pp. 272-278 (particularly, p. 273). Also, see Johnson, O. and Salop, J., "Distributional Aspects of Stabilization Programs in Developing Countries," IMF Staff Papers, Vol. 27, No. 1, March 1980, pp. 1-23 (in particular, pp. 8-15).

25. Economic decline and scarcity (which are indications of economic austerity) are also seen to lead to political pressures and conflict; see Ted Gurr, "On the Political Consequences of Scarcity and Economic Decline," International Studies Quarterly, Vol. 29, 1985, pp. 51-75.

the economic hardship that is not due to the program? The economic variable that immediately comes to mind is inflation. Yet; this is quite inadequate or not comprehensive enough because some policy austerity measures are not reflected in the rate of inflation. One such measure is an increase in the income tax (the Personal Income Tax in the Sudan). Such an increase reduces disposable income but does not necessarily affect real income which has to do with inflation. More important is the problem of identifying the increments of economic hardship generated by program austerity measures once a measure for economic hardship has been found. If, for instance, the rate of inflation is the measure, how does one know what percentage of an observed increase in the rate of inflation following the implementation of austerity measures is due to this implementation and what percentage of that increase is due to economic austerity that is already there or to the inflationary pressures of drought conditions?

The problem of measurement aside, there is also a conceptual problem. Any attempt at relating political protest to the economic hardship effects of the implementation of austerity measures assumes that people protest only after they begin to feel the economic hardship effects of austerity measures. However, this assumption is not entirely realistic simply because people may also protest when austerity measures are announced, before they even begin to feel their economic hardship effects. There is a time lapse between the announcement of some measures and their actual economic hardship effects. In the case of the Sudan, such measures include increases in water and electricity rates (often included in stabilization programs) and increases in the rate of the Personal Income Tax. Both water and electricity rates and income taxes are collected at the end of the month. There are at least two cases

where measures of this nature were announced and where people protested immediately after the announcement. These cases as well as other are discussed in the descriptive section of this chapter.

One approach that directly relates political protest to policy austerity measures and that does not have the indicated measurement and conceptual problems is to ask whether policy austerity measures precipitate political protest. This approach takes into account both the announcement of measures and their immediate economic hardship effects, if any. The approach does not assume that people protest when they begin to feel the economic hardship effects of austerity measures. It simply asks the question as to whether or not the announcement/implementation (hereafter implementation) of austerity measures lead immediately to protests.

There is some empirical evidence that Fund or Fund-type policy austerity measures precipitate protests. In Egypt, increases in the retail prices of rice, sugar, tea, petrol, and butane gas to meet IMF policy conditions for credit resulted in widespread rioting, as a result of which 70 people were killed and 600 injured.²⁶ The retail price increases were announced on January 17, 1977. The following day, rioting broke out in Cairo and Alexandria and continued for two days. The price increases were frozen.

In Algeria, an increase in the retail price of petrol and other consumer goods led to five-day rioting in which 250 people were killed and 1000 injured.²⁷ The retail price increases were not reported to be part of Fund policy conditions. The prices were announced on the third of October 1988. Rioting began the following day.

26. Africa Research Bulletin: Political, Social and Cultural Series, No. 1, Vol. 14, February, 1977, pp. 4290.

27. The New Times, October 16, 1988, p. 6.

In Venezuela, an increase in the retail price of gasoline led to rioting in Caracas (the capital) and six other cities, resulting in the death and injury of 80 and 800 people, respectively.²⁸ The gasoline price increase was one of the IMF policy conditions for credits. The price increase was announced and went into effect on Sunday, February 26, 1989. Riots broke out the following day.²⁹

Henry Bienen and Mark Gersovitz also make reference to a number of cases where the reduction in subsidies within the framework of Fund programs precipitated anomic protests.³⁰

These cases illustrate the basic idea of austerity measures as being a precipitating factor in the occurrence of political protests.

The view of austerity measures as a precipitating factor is also implicit in the international Brandt Commission's criticism of Fund's measures and the time framework within which they are taken. Thus, the Commission notes:

...The Fund's insistence on drastic measures, often within the time framework of only one year, has tended to impose unnecessary and unacceptable political burdens on the poorest (that is, countries), on occasion leading to "IMF riots" and even to the downfall of governments...³¹

In examining the extent to which Fund Programs are associated with political protest in the Sudanese context, Fund policy austerity measures are viewed here as a precipitating factor. Given this, one research question is which measures lead to protests and which ones do not. Because different measures are announced and implemented at the same time, the research task is to find

28. The New York Times, March 2, 1989, p. 1.

29. The New York Times, February 28, 1989, p. 10.

30. Op. cit., pp. 732-733.

31. Brandt Commission (1980), North-South: A Program for Survival, MIT Press, Cambridge, p. 216.

out which policy measure in a mix of different policy measures lead to protest or to more protest.

Another research objective is to describe what actually took place in terms of protests in the period immediately following the implementation of austerity measures. This description is useful in that it supplements the analysis in step one and lends further empirical support, if any, to the finding in step one. Furthermore, it describes the policy responses to the protests and their political fallouts.

In the following section, what constitutes Fund policy austerity measures and political protest is discussed. This is followed by a description of data collection procedures, sources, and nature.

1. Policy Austerity Measures:

Policy austerity measures include those that subsume under demand management. As noted earlier, these include, inter alia, increases in taxes on goods, incomes, and services; devaluations; and increases in the retail prices of subsidized consumer items and in the interest rate.

These measures are identified as Fund policy austerity measures because they subsume under the two dimensions of Fund policy conditionality; that is to say, "preconditions" and "performance criteria". Since "preconditions" are those policy measures to be implemented before the IMF approves some "Arrangement" in support of an economic stabilization program, they are not written into the texts of "Letters of Intent". For the 1966 - 1984 period, "preconditions" are principally devaluations, tax increases, increases in utility rates, and increases in the administratively fixed retail prices of subsidized consumer commodities. The latter includes sugar, petrol, bread, milk powder, and pharmaceuticals.

These policy measures are considered here "preconditions" because, first, they were implemented immediately prior to the Fund's approval of a Stand-by or Extended Arrangement; and, second and more important, they were included as part of the stabilization programs supported by the Fund; Letters of Intent and Fund mission reports made explicit reference to them as essential components of programs' policy packages. Policy measures designated as "performance criteria" (that is, policy intentions that must be implemented, once an "Arrangement" is in place, before an outstanding credit installment can be drawn from the Fund) are written into the texts of programs and of Stand-by Arrangements.

2. Political Protest:

An abstract concept, political protest is normally defined in terms of its empirical referent. Thus, Charles Taylor and David Jodice use, in the *World Handbook of Political and Social Indicators*, political strikes, political demonstrations, and riots as empirical measures for political protest.³² Ekkart Zimmermann refers to political protest as comprising such "events or chain of events as political demonstrations, anti-government riots, political strikes, and political clashes".³³

The *World Handbook of Political and Social Indicators* defines a political demonstration as a "nonviolent gathering of people organized for the announced purpose of protesting against a regime or government or one or more of its leaders, or against its ideology, policy, intended policy, or lack of policy;

32. Charles Taylor and David Jodice, World Handbook of Political and Social Indicators, Vol. 2 (Political Protest and Government Change), Yale University Press, New Haven, 1983, p. 16.

33. Ekkart Zimmermann, "Macro-Political Research on Political Protest," in Ted Gurr (ed.), Handbook of Political Conflict Theory and Research, MacMillan Publishers, London, 1982, p. 168.

or against its previous action or intended action".³⁴ A political strike, according to the Handbook, is a "work stoppage by a body of industrial or service workers or a stoppage of normal academic life by students to protest a regime and its leaders' policies or actions".³⁵ The Handbook excludes from this definition "strikes that were primarily directed at economic goals (higher wages, better working conditions, shorter hours)...even if the employer was a public enterprise." ³⁶ A riot, according to the Handbook, is a "demonstration or disturbance that becomes violent."³⁷

The protest incidents used in this chapter are in line with these definitions of political protest indicators.

Data: Nature, Collection, and Sources:

1. Policy Austerity Measures:

Data on policy austerity measures were collected for program years for the 1966 - 1984 period. These data were compiled from "Letters of Intent", which contain the texts of Fund-supported economic stabilization programs. These documents comprehend measures that have already been taken in addition to policy intentions to be implemented during the economic adjustment period. To check for the implementation of policy intentions, IMF mission reports and IMF staff reports on periodic consultations with Sudanese authorities were examined. Comprehensive in nature, these documents provide periodic reviews on fiscal, financial (monetary), and economic performance. These reports also contain discussions on policy implementation. IMF documents and IMF-related documents were obtained from the Office of the Minister of Finance. Data on austerity measures are listed in Appendix C.

34. Charles Taylor and David Jodice, op. cit., p. 19.

35. Ibid., p. 21.

36. Ibid., p. 21.

37. Ibid., p. 29.

2. Political Protest Indicators:

(A) Data Sources and Collection Procedure:

Data on demonstrations, riots and strikes for the 1966 - 1984 period were collected from three national newspapers (the only ones in the country), obtained from the National Record Office in Khartoum, the Sudanese Capital. The Newspapers are Al-Ayam, Al-Sahafa, and Al-Midan. The last newspaper is the organ of the Sudanese Communist Party. Al-Ayam and Al-Sahafa are dailies whereas Al-Midan is published three or four times a week. All three newspapers are published only in Arabic. Data from Al-Midan cover the period between 1966 and 1969.

There is no information on the circulation of these papers. However, Al-Ayam and Al-Sahafa are much wider in circulation than Al-Midan, which is mainly confined to Khartoum and neighboring urban centers. The two other newspapers are distributed to all urban centers in the Sudan.

Al-Ayam and Al-Sahafa are much larger than Al-Midan; they usually range between six and eight pages whereas Al-Midan normally has two pages.

In terms of political orientation, Al-Midan evidently reflects the position of the Sudanese Communist Party. This position has usually been one of opposition and ideologically-based criticism of government policies. From 1969 to 1985, Al-Ayam and Al-Sahafa came under state control, following a military take-over which lasted until April 1985. In 1972, when the Sudanese Socialist Union was established as the ruling and only political party in the country, Al-Ayam and Al-Sahafa became its two organs. Between 1965 and 1969, the two newspapers were independent papers. Thus, for most of the period covered, Al-Ayam and Al-Sahafa's account of events reflects the government and its ruling party's version of events.

Three research assistants, all recent university graduates, were hired for collecting the data. These research assistants spent a period of one and a half months (from mid April to the end of May, 1988) to collect the data for the period of the study. Prior to the commencement of data collection, the three research assistants were told to follow these instructions:

1. Report any incident of demonstration, general strike, march, riot, or strike.
2. Record the date of the incident, the issue at stake, the target of the protest, and the demands, if any, of the protesters.
3. Identify the group or groups involved in the protest incident.
4. Record the urban center in which the incident took place.
5. Report damage, if any.

The research assistants were also told to record data as from the first of January 1966 and up to the end of December 1984. Each was assigned a separate newspaper.

The research assistants recorded a sum total of 232 incidents of demonstrations, riots, and strikes. To check for the reliability of the data compiled, I carried out an inter-source reliability check. The results of this test are as follows: in 221 (95 per cent) of the cases reported, Al-Ayam and Al-Sahafa reported the same incident in terms of its nature, the groups involved, and the reasons behind the protest. Al-Midan reported 56 cases of protest incidents. In 54 (96 per cent) of these cases, Al-Midan and Al-Ayam reported the same incident on all the aforementioned counts. In 52 (93 per cent) of the cases, Al-Midan and Al-Sahafa reported the same information on the incidents.

The high percentage of agreement between Al-Ayam and Al-Sahafa is probably due to the fact that both were government's papers for 15 of the 19 years between 1966 - 1984. Since they report the government's version of events, they should technically report the same thing.

I also checked African Diary (Recorder), and Africa Research Bulletin: Political, Social and Cultural Series for the period. African Recorder and Africa Research Bulletin reported only protests that occurred in 1979, 1981, and 1982. The same protests they reported were also reported by Al-Ayam and Al-Sahafa.

(B) Nature of the Data Collected:

As noted above, there are 232 protest incidents over the 1966 - 1984 period. Of these incidents, 69 are demonstrations, 151 strikes, and 12 are riots. Of the sum total of incidents, 85 (26 per cent) are not related to economic issues. These are 60 strikes and 25 demonstrations. Nearly all of these strikes (55 cases) involved disputes between local management and employees. These strikes were not targeted at the government. All of the 25 demonstrations had to do with political issues such as the war in southern Sudan, the Israeli-Arab war of 1967 and 1973, and the 1979 Camp David Accords. For the purpose of this chapter, these are not relevant and are, therefore, dropped from the dataset. The following data description is limited to the remaining protests; that is, those related to economic issues.

There are three cases (August 1979, January 1982, and January 1984) where demonstrations and riots occurred on the same day or within three days in Khartoum (Sudan's official capital) Khartoum North, and Omdurman. The three urban centers are referred to as the "Triangular Capital" and are very close to one another. Khartoum is located at the confluence of the Blue and white

Niles and is separated from Omdurman by the White Nile and from Khartoum North by the Blue Nile. Khartoum North and Omdurman are separated by the River Nile, north of Khartoum. The three towns are interlinked by four bridges.

The three urban centers are treated here as separate or distinct geographical locations. Accordingly, a protest incident that occurred on the same day in each of the three towns is counted as three separate incidents.

In these three cases protests also occurred in other urban centers a few days (maximum four days) after protests occurred in Khartoum, Khartoum North, or Omdurman. These protests are also counted as separate incidents.

Table 5.1 presents the protest incidents occurring in the 1966 - 1984 period.

Table 5.1: Protest Incidents, 1966 - 1984.

Year	Demonstrations	Riots	Strikes
1966	6	0	3
1967	2	0	4
1968	0	0	6
1969	1	0	2
1970	0	0	0
1971	0	0	1
1972	0	0	6
1973	5	1	4
1974	1	1	4
1975	0	0	2
1976	0	0	2
1977	2	0	0
1978	2	0	5
1979	9	3	13
1980	0	0	2
1981	5	0	10
1982	6	4	4
1983	4	2	11
1984	0	2	11
Total	44	12	91

Source: Appendix D.

Demonstrations and Riots:

In none of the 44 cases of demonstrations is the number of participants reported. Verbal descriptions such as "several" and "many" are also not reported. In this regard, demonstrations are either described as "student demonstrations", "demonstrations by unemployed graduates", or demonstrations by the residents of the urban centers in which the incidents took place. Police arrests are reported in only two cases.

In regard to riots, the number of participants is also not reported, nor are verbal descriptions used. Riots are described as either "student riots" or "riots by unemployed graduates". Furthermore, the number of units of property destroyed, people injured, or killed are reported in only two cases (1979 and 1982). In all other cases of riots, the sources (the newspapers) referred to the incidents just as "Shahkab" which means in Arabic riot or riots, without any reference to damage, the number of participants, or arrests.

Strikes:

In each of the 91 cases here, the trade union staging the strike is identified, as are the demands behind the strikes. However, in only 2 cases is the duration of the strike reported. As will be discussed in the descriptive account, these cases have to do with strikes by the principal trade unions in the Sudan; that is, the Gezira Tenants Union and the Sudan Railway Workers Union. Strikes by these unions are serious. In the case of the Gezira Tenants Union, a strike adversely affects the production of Sudan's principal foreign-exchange-earning crop; namely cotton. The Sudan railways are the principal artery of the economy. In particular, the railway system transports petrol and other imported essential consumer items from Port Sudan on the Red Sea to Khartoum and to other urban centers.

For these reasons, strikes by these two unions usually lead to a quick response from the government. Strikes by other unions continue more often than not for extended time periods before the government responds. For instance, in 1981 the Judges Union went on strike for three months before the government took action.

Fund Policy Programs and Political Protest

A first step in examining the extent to which Fund austerity measures lead to political protests is to find out what happens in the few days following the implementation of such measures. Limiting the protest effects to what happens in the few days after measures are implemented is desirable in that the longer is the time distance between the implementation of measures and protests, the more untenable becomes any empirical association between the measures and the protests. This is also consistent with the idea of Fund policy austerity measures being a precipitating factor.

It seems reasonable to see what happens within the week of measure implementation. The choice of one week is not altogether arbitrary; a period of one week takes into account those spontaneous, anomic protests (that is, mass demonstrations and riots) that occur immediately and those protests that need to be prepared for, such as strikes or demonstrations by organized groups (that is, trade unions).

Table 5.2 presents a list of the protests occurring after measure implementation and identifies the week in which they occurred following this implementation. This distribution is also presented graphically in Figure 5.1.

Table 5.2: Distribution of Protests by Week of Occurrence

Week	Number of Protests	Week	Number of Protests
1	43	15	7
2	5	16	3
3	11	17	4
4	5	18	2
5	6	19	2
6	6	20	3
7	1	21	2
8	2	22	2
9	4	23	1
10	1	24	1
11	2	25	1
12	2	26	2
13	4	27	1
14	2	28	1
		29 - 52	12
Total 94		Total	44
Total Number of protests			138

Source: Appendices C and D.

**Figure 5.1: Distribution of the Number of Protests
by Week of Occurrence**

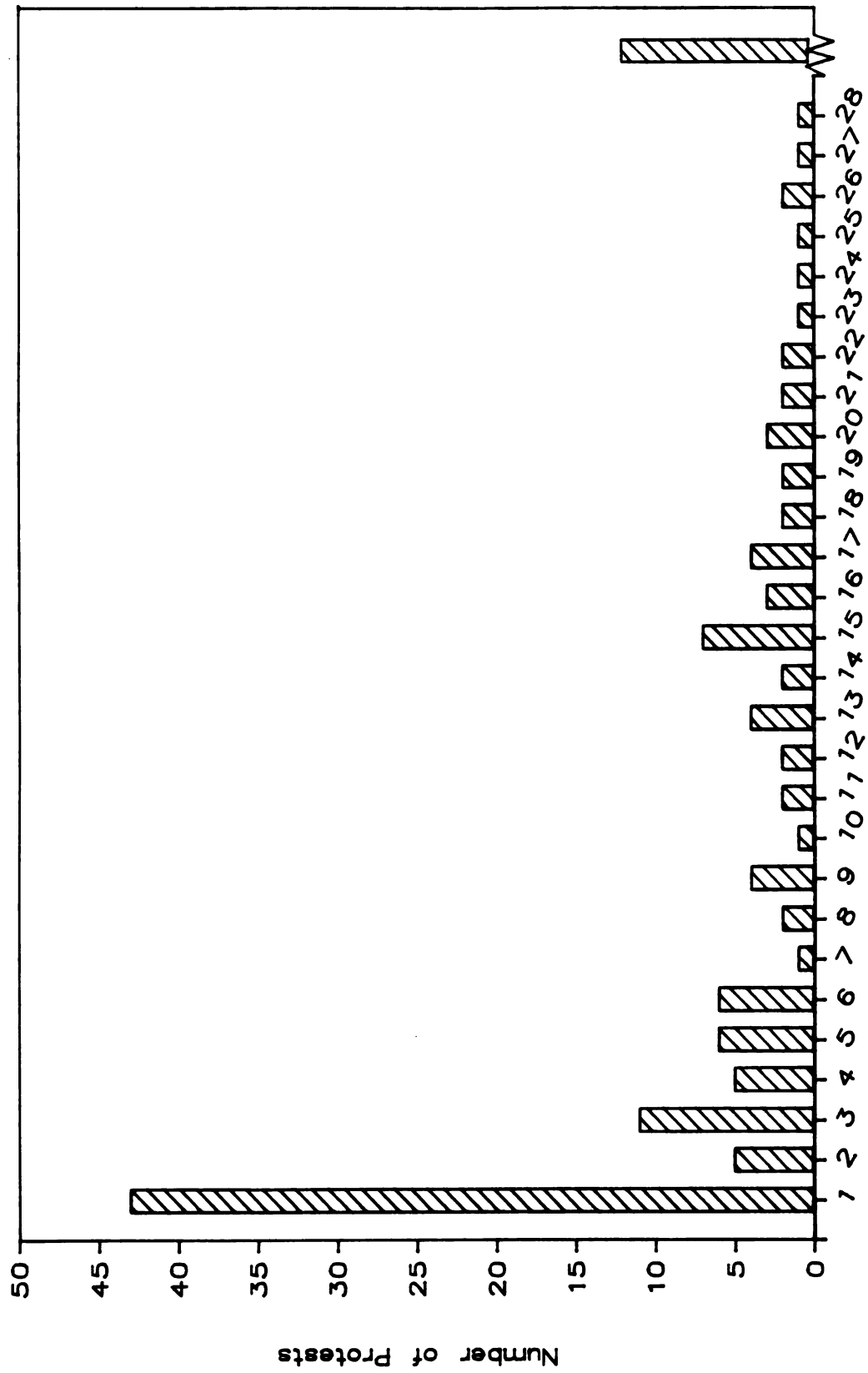


Figure 5.1

Week

As is clear from Table 5.2 and Figure 5.1, the first week of austerity measure implementation claims the largest number of protests occurring in a week's period. Some insight into these protests can be gained by comparing the position of each week's number of protest incidents relative to the rest of the distribution; as they stand, the data do not describe the relative position of each week's protests within the distribution.

One way to explore this is to standardize each week's protest incidents. Standardization measures the protests on the same unit and thus permits comparisons among them. For each week's protests, a standard score (Z score) is calculated. The standard score for each observation (that is, each week's number of protests) is obtained by subtracting the value of each observation from the mean of the distribution and dividing the difference by the standard deviation of the distribution.³⁸

As noted, the standard score describes the location of a case in a distribution. Specifically, it indicates how many units of standard deviation above or below the mean an observation falls. A positive value of the standard score indicates that the observation in question is above the mean; a negative value indicates that it is below the mean. Table 5.3 presents the standard score for each week's protests (the mean and standard deviation of the distribution of the protests are, respectively, 4.76 and 7.88).

38. Frederick Herzon and Michael Hooper, Introduction to Statistics for the Social Sciences, Crowell Company, New York, 1976, pp. 157-153.

Table 5.3: Standard Scores of the Number of Protest Incidence by Week of Occurrence

Week	Standard Score	Week	Standard Score
1	4.9	15	.28
2	.03	16	-.22
3	.79	17	-.1
4	.03	18	-.35
5	.16	19	-.35
6	.16	20	-.22
7	-.48	21	-.35
8	-.35	22	-.35
9	-.1	23	-.48
10	-.48	24	-.48
11	-.35	25	-.48
12	-.35	26	-.35
13	-.1	27	-.48
14	-.35	28	-.48
		29 - 52	.12

The Table reveals an interesting pattern of protest incidence. In the few weeks (weeks one to six) following the implementation of austerity measures, protest incidents are above the mean protest incident; except for week 15 and weeks 29 - 52, each one of the other weeks (21 cases or 72 per cent of all cases) has a number of protests below the average. The Table also indicates that in most cases the number of protests per week decreases below the mean as time elapses after measure implementation.

The Table also reveals an "exaggerated" protest incidence in the first week of austerity measure implementation. The protests occurring in this week is far above normal or average protest incidence; the protest incidence in this week is nearly five units of standard deviation above average protest incidents (it is worth noting that one unit of standard deviation is equal, roughly, to eight protest incidents above/below the mean). This can be contrasted to the other weeks in which protest incidence is also above the mean.

Each one of these weeks has its standard score less than one unit of standard deviation above the mean. This implies that the protests in each one of these weeks is only slightly above the average but well below the protests in the first week.

The relatively high protest incidence of the first week strengthens the case for viewing Fund policy austerities as precipitating protests. Given this, the question then arises as to what specific measures that prompt protests.

Policy Austerity Type and Level of Protest Incidence:

An austerity measure is identified as either subsidy reduction/removal, devaluation, or tax increase. These three types of austerity measure exhaust all austerity measures listed in Appendix C. Increases in the retail prices of petrol, sugar, pharmaceuticals, milk powder, and bread are included under subsidy reduction/removal because these are the subsidized consumer items in the Sudan. Increases in taxes on goods, services, and income subsume under the category of tax increase. Official devaluations of the Sudanese pound are listed under devaluation.

Table 5.4 lists the programs and their austerity measures together with the number of protests occurring within the week of measure implementation.

Table 5.4: Austerity Measures and Protest Incidents in Program Periods

Program Period	Austerity Measures Subsidy Reduction/ Removal	Dev. Tax Increase	Number of Protests in the Week of Measure Implementation
1966/67	0	0	3
1967/68	0	0	1
1968/69	0	0	2
1972/73	0	0	1
1973/74	2	0	1
1974/75	2	0	2
1978/79	0	1	1
1979/80	2	1	2
1980/81	1	0	3
1981/82	6	1	0
1982/83	2	1	2
Total:	15	4	18
			43

Sources: Appendices C and D.

An interesting and appropriate way to find out what policy austerity mix is associated with what degree of political protest is to devise a scheme that indicates the relative severity or intensity of political protest. A first step in this direction involves, as suggested by Taylor and Jodice, the assignment of ordinal-based weights to certain protest attributes. These include the number of people participating in the protest, the duration of the protest, the damage in life and property resulting from the protest, and the geographical spread of the protest.³⁹ The next step is to construct a composite index (involving the different protest types) that can be used to indicate the degree of severity or intensity of political protest.

The idea is simple and appealing. However, for the purpose of analysis here it is not possible to construct such an index nor even to devise a scale that

39. Op. cit., pp. 56-60.

goes from, for instance, extremely severe, to severe, and to moderately severe protest. The principal reason is the quality of the data. As has previously been noted, the duration of almost all strikes, damage resulting from riots, the number of participants in demonstrations and riots are not reported. In regard to the last attribute and as noted earlier, even verbal descriptions such as "several" or "many" are not reported. In this regard and as pointed out earlier, demonstrations and riots are just reported as "student demonstrations", "student riots", "demonstrations by urban residents", "demonstration by unemployed graduates", or "riots by unemployed graduates". These descriptions do not provide some hints as to the number of protest participants. Moreover, it will necessarily be arbitrary to guess a number even if such hints do exist.

For these reasons, protest incidence rather than its severity is used here. The level of protest incidence is nominally measured as either high or low. Evidently, this scheme does not distinguish among the different protest types as it treats any type as a mere protest incident. High protest incidence is defined as above the mean protest incident (the mean number of protests is roughly equal to 4, Table 5.4); low protest incidence is defined as below the mean.

Programs whose number of protest incidents is above the mean include the 1973/74, the first year of the three-year 1979/82 Program (as noted in a previous chapter, the Program was abandoned in its third year and replaced by a one-year program covering 1981/82) the 1981/82, and the 1982/83 Programs (Table 5.4). These are thus high-incidence protest programs. Each of the remaining programs (that is, the programs of the 1960s, the 1972/73, 1974/75, and the 1978 programs and the second-year of the three-year Program) has a

number of protests less than the mean. These programs are therefore low-incidence protest programs (Table 5.4).

Policy austerity measures of the same type in each one of these two groups of programs are added together. For instance, all instances of tax increase in those programs with high protest incidence are added together. Similarly, all instances of devaluation across this group of programs are added together.

Presentation and Discussion of Results:

Table 5.5 lists the policy types contained in each set of programs grouped on the basis of the two-dimensional level of protest incidence. The unparenthesized figure against each policy type indicates the total number of measures related to the policy type in the program group; the figure in parenthesis refers to the percentage of these measures relative to the total number of measures of all policy types contained in the program group. For instance, the number of measures on subsidy reduction/removal in the group of programs with high protest incidence is 12. This accounts for 60 per cent of the total number of measures included in this group of programs.

Table 5.5: Policy Austerity Type by Level of Protest Incidence

		Protest Incidence	
		High-Protest Incidence Programs	Low-Protest Incidence Programs
Policy Austerity Type	Subsidy Reduction/Removal	12(60)	3(18)
	Devaluation	3(15)	1(6)
	Tax Increase	5(25)	13(76)
	Total	20(100)	17(100)

Source: Table 5.4.

More than half of the policy measures contained in programs with high level of protest incidence are subsidy reduction/removal measures which represent 60 per cent of all measures contained in this group of programs. In contrast, measures related to tax increase and devaluation account for 25 and 15 per cent, respectively. In Low-protest-incidence programs, tax increase measures account, both in absolute and relative terms, for more than three-quarters of all measures whereas subsidy reduction/removal and devaluation measures account for 18 and 6 per cent, respectively.

High-protest-incidence programs contain more measures on subsidy reduction/elimination than on tax increase relative to low-incidence-protest programs. Conversely, low-protest incidence programs have more measures on taxes than on subsidy reduction/removal. This finding suggests that the difference in protest incidence across programs is most probably explicable in terms of the variation in policy type combination or mix. Evidently, programs with subsidy reduction/removal measures accounting for the bulk of measures

are associated with more protest incidence than those programs in which tax increase measures account for the bulk of measures. Although the number of policy measures related to high-protest incidence programs is only slightly above the number of policy measures in low protest-incidence programs (20 measures or 54 per cent of all measures compared to 17 measures or 46 per cent of all measures), the former group of programs accounts for a disproportionately larger number of protests. Thus, high-protest incidence programs have a total of 31 incidents (that is, 72 per cent of all protests; see Table 5.4) whereas low-protest incidence programs have 12 incidents (or 28 per cent of the protests). This reinforces the basic finding above as it suggests that it is not so much the number of measures as of their nature or type that appears to make a difference in the level of protest incidence.

Simple Empirical Regression Model:

The objective of the regression model suggested here is to see if the basic finding reported above (that is, subsidy reductions/removals are associated with greater protest incidence than are tax increases and/or devaluations) has any claim to statistical significance. One way to examine this is to test the hypothesis that the protests occurring after the reduction/removal of subsidies is not statistically different from those occurring after tax increases and/or devaluations.

In this regression model, the dependent variable is the number of protest incidents occurring within the week of austerity measure implementation. The independent variable is a dummy variable coded 1 for austerity measure implementation cases involving subsidy reduction/removal and 0 for cases where the austerity measures implemented include tax increases and/or devaluations. In those cases where the measures implemented include both subsidy reduc-

tion/removal and tax increase and/or devaluation measures, the case is coded 1 if most of the measures are subsidy reductions or removals. Conversely, if most of the measures are tax increases and/or devaluations, the implementation case is coded 0. The following regression model is estimated:

$$PRIN = b_1 + b_2 \text{ SUIMCA} + U_t$$

Where:

PRIN - Protest incidence

SUIMCA - Subsidy implementation case

U_t - Error term

When estimated, the co-efficient for the intercept or the constant term (that is, b_1) indicates the protest incidence associated with tax increases and/or devaluations or the protest incidence when SUIMCA is 0. The co-efficient for SUIMCA indicates the protest incidence associated with subsidy reduction/removal measures. This co-efficient tests the hypothesis that b_2 is 0, which means that there is no difference between protest incidence associated with tax increase and/or devaluation measures and protest incidence associated with subsidy reduction/removal measures.

Table 5.6 lists the austerity measure implementation cases for each one of the eleven program years together with the types of measures implemented and the number of protests following each implementation case. The total number of implementation cases is smaller than the number of measures listed in Table 5.4 above because some measures were implemented on the same day as an austerity package. This means that an austerity package containing measures implemented at the same time is treated here as one implementation case. Some program years have more than one implementation case because some programs have austerity measures implemented at different points of time in the course

of the program period. In Table 5.6, each implementation case is represented by the date of measure implementation. Also in the Table, SR, TI, and D stand for a subsidy reduction or removal, a tax increase, and a devaluation, respectively. The number of implementation cases (22) is a fairly sufficient number of observations (this is, data points) for a regression analysis.

Table 5.6: Austerity Measure Implementation Cases and Protest Incidents in Program Periods

Program Period	Implementation Case	Measure(s) Implemented	Protest Incidents
1966/67	Sept. 28, 1966	TIs	3
1967/68	Oct. 4, 1967	TI	0
1968/69	July 1, 1968	TIs	0
1972/73	March 11, 1972	D	0
1973/74	May 16, 1973	SRs/TI	7
1974/75	May 30, 1974	SR	3
	July 1, 1974	TIs	1
	Dec. 30, 1974	SR	0
1978/79	June 8, 1978	D	1
1979/80	July 1, 1979	TIs	0
	July 14, 1979	TI	1
	August 5, 1979	SRs	7
	Sept. 16, 1979	D	0
1980/81	March 12, 1981	TIs/SR	3
1981/82	Nov. 9, 1981	D	0
	Jan. 1, 1982	SRs	7
	April 1, 1982	SR	1
	July 8, 1982	SR	2
1982/83	Nov. 15, 1982	D	0
	Jan. 3, 1983	SR	4
	May 11, 1983	TI	0
	Jan. 3, 1984	SR	2

Sources: Appendices C and D.

Presentation and Discussion of Results:

The regression results are presented in Table 5.7. The figures in parenthesis under the values of the co-efficients are the standard errors of the co-efficients.

Table 5.7: Summary of Regression Results

Dependent Variable	Independent Variables	Co-efficient	T-Ratio	Sig Level
PRIN	Constant	0.5 (.54)	.9	.4
	SUIMCA	3.1 (.8)	3.9	.0009
R-Square = .43		Durbin-Watson = 2.04		

As is clear from Table 5.7, the model explains a slightly less than half of the variation in protest incidence, the R-square being .43. Taking into consideration that there is only one independent variable, the model explains a fairly sufficient portion of protest incidence (the larger is the number of the independent variables in a regression model, the larger is the value of the R-square and hence the larger is the variation in the dependent variable explained by the model). More important, the co-efficient for SUIMCA is different from zero at .0009 significance level. On the hand, the co-efficient for the intercept or the constant term is statistically insignificant; the standard error of the co-efficient is larger than the co-efficient itself.

These results suggest that subsidy reduction/removal measures are associated with protest incidence (3 protests on average per an implementation case) whereas tax increase and/or devaluation measures are not (an implementation

case involving these measures accounts on average for 0.5 protest or, practically, zero protest). This finding is consistent with and confirms the basic finding in the previous section.

Given that increases in the retail prices of subsidized items are, in essence, tax increases (technically, a subsidy is negative tax or a revenue loss), the question arises as to why increases in one type of taxes should lead to more protests than increases in other taxes. In theory, there should not be any difference, as both subsidy reduction or removal and other tax increases adversely affect income, disposable or real.

A probable answer to this question lies in the nature of subsidies. Because subsidies are government-provided goods or regular handouts from the government, people tend to build expectations around them as rights. Such expectations are likely to be reinforced by the fact that subsidized items are also basic consumption goods or daily life necessities to most people; the mere fact that they are singled out for subsidization implies that they are essential consumer goods. Viewed from this perspective, the reduction or elimination of a subsidy amounts to a government action that deprives people of what they regard they are entitled to as a basic necessity. In this sense, it should in theory be associated with more emotion than an ordinary tax increase.

Program Austerity Measures and Protest Incidence:

A Descriptive Account.

In this descriptive account, programs are divided into those that principally involve tax increases and/or devaluations and those that involve subsidy reductions. This is intended to concretize the basic finding suggested above. As shown in Table 5.4, the programs which principally include tax increase

and/or devaluation measures are the three programs in the 1960s and the 1972/73 and 1978/79 Programs. Of the six programs containing subsidy reductions (Table 5.4), the 1973/74, the 1979/80, and the 1981/82 Programs are described. Excluded from this description are the 1974/75 and the 1982/83 which also included subsidy reductions. The reason for this is that there are no details on the protest incidents that followed the reductions in subsidies. Riots are just reported to have occurred, without any other additional information.

A. Tax Increase/Devaluation Programs:

There were only two programs with principally tax increases or devaluation austerity measures whose implementation precipitated protests. These were the 1966/67 and the 1978/79 Programs. The other programs which include the 1967/68, 1968/69, and the 1972/73 contained tax increases that did not precipitate any protests. Therefore, description here is limited to the 1966/67 and the 1978/79 Programs.

The 1966/67 Program:

The 1966/67 Program included three austerity measures. These were a 5 per cent surcharge imposed on all imports, increases in the consumption taxes on cigarettes and liquor, and a lowering of the exemption limit under the Personal Income Tax on salaries from the level of LSd. 1,350 to LSd. 600. All measures went into effect on the same day they were announced by the Minister of Finance in his budget speech which was delivered in Parliament not in June, as is customary, but on September 27, 1966.

Four protest demonstrations were staged in denunciation of these measures. The first demonstration was staged by the Sudan Workers Trade Union Federation (SWTUF) in Khartoum on September 28. On the second of October, private-sector-

employment-based unions demonstrated in Khartoum to protest increases in import duties arising from the import surcharge. The following day, the Sudan Railway Workers Trade Union staged a demonstration in Atbara. The last demonstration took place on October 6 and was staged by a local trade union in Khartoum. In this demonstration, demonstrators were chanting slogans against the tax increases and against the World Bank, which had nothing to do with the austerity measures. This was no information as to the scale of these protests which seem to be peaceful marches; no violence was reported.

The 1978/79 Program:

The only measure related to this program was the first official devaluation of the Sudanese pound. On June 8, 1978, the pound was devalued by 15 per cent with respect to the US dollar.

The first group to protest the measure was the Sudan Railway Workers Trade Union. On June 9, the railwaymen staged a demonstration in Atbara. The Union also threatened future strikes if further austerity measures were implemented. Apart from this protest incident, the policy measure did not precipitate any other protest.

None of the protests precipitated by the austerity measures of these two programs led to response on the part of the government or to any immediate political fallout.

B. Subsidy Reduction/Removal Programs:

(I) The 1973/74 Program:

This program's austerity measures included a 14 per cent increase in the domestic retail price of sugar, a 17 per cent increase in the excise tax on petroleum products (including gasoline), and increases in the excise tax and

import duty on cigarettes. The measures were announced on May 16, 1973 and went into effect immediately.⁴⁰

These retail price increases prompted immediate reactions from the residents of Khartoum. On the day following the price increases, a demonstration was staged in Khartoum. Five people were reported injured when police opened fire on some demonstrators who had thrown stones and a petrol-bomb at a group of policemen.

The Khartoum incident of May 17 was followed, three days later, by two demonstrations in Medani (the third largest town in the country) in central Sudan and a demonstration in the Red Sea town of Port Sudan. The demonstrators were reported to be shouting slogans denouncing the Khartoum incident. On May 19 and 23, three unions in Khartoum went on a one-day strike, in protest of the Khartoum shootings.

These protests evoked responses from the government. On May 20, the President of the Republic repealed the sugar price increase. At the end of June, he issued the so-called State Security Law. Chapter four of the Law banned the "possession of arms for political purposes, public gatherings, strikes or resignations harming the national economy, and the formation of associations aimed at harming national unity."⁴¹

(II) The 1979/80 Program:

The austerity measures of this program were implemented at various points of time in the course of the year. The first measure taken was the imposition (by a Presidential Decree) of water and land charges on all crops in the

40. Sudan - Request for Stand-By Arrangement (July 31, 1973, p. 8), Documents of the International Monetary Fund, File No. 0-1, 316, Vol. 20, Ministry of Finance, Khartoum.

41. Sudan - Quarterly Economic Review (Second Quarter, 1973, p. 15), Economist Intelligence Unit.

Gezira Scheme. As noted in a previous chapter, this was part of the restructuring of financial relationships in the Scheme to reorient farmers' incentives toward the production of cotton. The Decree was issued some time at the end of March.

The one-hundred-thousand-member Gezira Tenants Union threatened to go on strike at the start of the planting season in July if the charges were collected. On July 14, the Union carried out its threat. The strike continued for four weeks.⁴² In this time period, the Vice-President, the Minister of Agriculture, and the Chief of the State Security Organ were all involved in intensive government efforts to persuade the Union to end its strike. The strike was called off only after the tenants were promised that the charges would not be collected and after the Vice-President promised them financial concessions.

On the first of July 1979, a 5 per cent defence surcharge on all imports was imposed. Water and Electricity rates were also increased, by 20 per cent. Both measures went immediately into effect. No Protests followed the implementation of these measures.

On August 5, the domestic retail prices of sugar and gasoline were increased by 33 and 66 per cent, respectively. The following day, public transport expenses went up by an average of 60 per cent.⁴³ Demonstrations broke out the same day in the town of Khartoum North (across the Blue Nile from Khartoum) and Omdurman (across the White Nile from Khartoum) and continued for the following three days.

The demonstrators, reported mainly to be junior secondary schoolboys, seemed to be intent on destroying property; they attacked petrol stations,

42. Sudanow, Vol. 4, No. 9, September 1979, pp. 19-20.

43. Ibid., p. 21.

spilled gasoline around the premises, and set fire to the stations and buses parked nearby. On the first day of the demonstrations, the Commissioner of Khartoum ordered the closure of all junior and high secondary schools in Khartoum North, Omdurman, and Khartoum. On the same day, the President of the Republic ordered a "military alert" all over the Sudan.

The three-day Khartoum demonstrations were followed by a demonstration in Medani and in Port Sudan on the ninth and eleventh of August, respectively. On the eleventh of August also, the tough and militant Sudan Railway Workers Trade Union went on a five-day strike. The forty-five-thousand-member Union demanded salary increases and the rescinding of the price increases. The Union also threatened to go on an extended strike if their demands were not met.

In response to these protests in a televised "Face the Nation speech" on August 13, President Nimeiri accused communists of "hiding behind the schoolbys".⁴⁴ The President also rescinded the gasoline price increase and promised changes in the cabinet and in the Sudanese Socialist Union.⁴⁵ On the same day, the President, who was also the Chairman of the Sudanese Socialist Union, dismissed Abul Gasim Mohammed Ibrahim as Vice-President and Secretary-General of the Sudanese Socialist Union. No official reason was given for the dismissal, but the official Sudanow attributed the action to, inter alia, Abul Gasim's handling of the two strikes by the railwaymen and the Gezira tenants. Abul Gasim's offer of financial concessions to the railwaymen and tenants in an effort to end the strikes was seen as contrary to the government's policy of stabilization.⁴⁶ Abu Gasim was one of the Free Officers, who took over power

44. Ibid., p. 21.

45. Ibid., p. 21.

46. Ibid., p. 10.

in 1969. He was well-known in the Sudan for his revolutionary enthusiasm and populism.

On August 18, 1979, the President dismissed six ministers from his cabinet. Among those dismissed were the Finance Minister and the President's advisor on economics.⁴⁷ Although official reasons for cabinet changes are normally not given in the Sudan, it appears, in this case, that the dismissals of the Finance Minister and the President's advisor on economics had to do with the price increases and the protests they evoked.

On the same day, the President also reduced the number of the SSU Political Bureau members from 27 to 17. A day after the outbreak of the protests, the President publicly criticized his political party for the first time. The President's criticism came in a joint meeting of the Party's Political Bureau and General Secretariat and the Government. In his criticism, the President asked:

How do we explain the failure of the SSU as the political organ to combat the causes of the people's sufferings, either by helping to organize distribution or curbing consumption, uncovering the network of hoarders, co-operating with the special organs in exposing the centers of hoarding and the means by which goods are being smuggled out of the country?⁴⁸

On September 16, 1979 the Sudanese pound was officially devalued by 25 per cent. The devaluation was not followed by official retail price increases. No immediate protest was reported.

In July 1980 (no specific date reported), the Sudan Railway Workers Trade Union initiated its extended strike. The Union leaders threatened that the strike would be effective until their demand for salary increases was met.

47. Ibid., pp. 10-11.

48. Quoted in Khalid, op. cit., p. 195.

In response to the strike, the President of the Republic first amended labor laws making strikes a "treasonable act punishable by death".⁴⁹ He then issued an order that all mediation efforts (which had started earlier) between the Union and the Government be stopped, abolished the Union, and arrested its leadership. The railwaymen went back to work only after the President issued another order that all railway workers be evicted from government houses within twenty-four hours.

(III) The 1981/82 Program:

The program became formally effective with the approval by the Fund on February 21, 1982 of a one-year Stand-By Arrangement in support of the Program. However, the principal policy measure; namely, unification of the parallel and official exchange rates was implemented on November 9, 1981. As noted in a previous chapter, this resulted in the devaluation of the Sudanese pound by 80 per cent. On the same day, the budgetary cost (estimated at LSd.15 million annually) of subsidizing the retail price of pharmaceuticals and milk powder was eliminated by allowing the prices of these commodities to rise by the "full extent of the exchange rate adjustment". In addition, the retail prices of petroleum products were raised by an average of 39 per cent to eliminate the subsidy emerging from the devaluation.

The devaluation was announced by the President of the Republic in a statement delivered in a meeting of the executive, political, and popular leadership of the country. The President also announced that "Transport and mileage allowances for government workers and public sector employees are to be appropriately amended to correspond to the increased public transport and petrol prices" and that the "Personal Income Tax exemption level is to be

49. Ibid., p. 211.

raised from one thousand pounds to LSd.1200 such that all employees...are to benefit from the tax relief".⁵⁰

The effects of the measures were felt immediately. Thus, the price of petrol increased by up to 40 per cent at filling stations at 7 p.m. on the same day of the price increase announcement. On the following day, transport allowances were increased between 66.6 and 88.8 per cent and the mileage allowance between 11 and 19 percent. It was also reported that a few days later bus fares went up by 25 per cent and the prices of imported goods such as cigarettes and liquor also increased.

These measures did not immediately precipitate protests. However, in the period between November 9 and 23, 5 public-sector trade unions went on strike demanding salary increases, claiming that the devaluation would erode their incomes.

On January 1, 1982, the domestic retail price of sugar was raised by more than 60 per cent. In reference to this, the Finance Minister noted, in the text of the program, "Effective January 1, 1982, the domestic retail price of sugar was increased by 62.5 per cent, to 26 pt per pound, with the intention of generating LSd. 80 million annually."⁵¹

The price increase prompted immediate reactions from the residents of Khartoum. Demonstrations started on the same day the price increase was announced and continued intermittently till the seventh of January in Kharoum, Khartoum, and Omdurman. The demonstrations were initiated by schoolboys from various junior and high secondary schools in Khartoum and Omdurman. In the

50. Quoted in Ali Abdel Gadir, op. cit., p. 54.

51. Statement of Economic and Financial Policies of the Government of Sudan (January 1982), op. cit., p. 3.

first two days following the price measure, demonstrators set fire on some shops and destroyed four buses and eight cars.

On January 7, Khartoum university students staged a demonstration in Khartoum. The students were shouting slogans against the Government, the IMF, and the World Bank. The following day, all universities in the Capital area (the University of Khartoum, Cairo University Khartoum Branch, Khartoum Polytechnic, and the Islamic University in the near-by city of Omdurman) were closed. Between 200 and 300 members of the Sudanese army were moved into the campus of the University of Khartoum. Moreover, six machine gun-equipped armed personnel carriers were deployed at the entrances to the university.⁵²

The official casualty figures were one demonstrator dead and two injured. According to the Commissioner of Khartoum, these casualties were the result of police opening fire on a crowd of demonstrators throwing stones and petrol-bombs at a police car. It was also reported that seven policemen were injured. Police arrested 85 demonstrators, 40 of whom were schoolboys.⁵³

In the period between January 19 and 23, three trade unions went on strike, demanding the repeal of the price increase and denouncing the government's treatment of the schoolboys. Demonstrations also spread to other four urban centers where students and schoolboys initiated the protests. No loss in life and property was reported in these cases.

These protests brought about a rift between the President and some leaders of the Sudanese Socialist Union and led for the first time to the dissolution by the President of the principal policy-making organs of the party. Some SSU leaders openly criticised the price measure and complained that they should have been consulted. In reaction to this, the President told an SSU plenary

52. African Recorder, Vol XXI, No. 6, March, 1982, p. 5870.

53. Ibid., p. 5870.

session held (January 17, 1982) to discuss the country's economic and political problems that "there would be new increases in sugar, wheat and petrol prices during the next 18 months."⁵⁴ The President also told his audience that "there would be no corresponding increases in salaries and wages..⁵⁵In reference to the complaint by the SSU people, the President stated, "I have my own advisors, comprising my presidential aides and ministers, and any one else, especially the SSU people should not claim the right to be consulted."⁵⁶ Adding that "SSU officials have nothing to do with the Executive body", the President declared that he would "instruct his ministers not to respond to any questions by the SSU officials." In concluding his statement, the President told the SSU leaders, "This is my position. If you want it, I will continue in office for the remaining year of my tenure. If not, then I will say farewell and I have no more to say, nor am I prepared to here anything else."⁵⁷

Following the admonitory nature of his remarks to the SSU leadership, the President announced on January 25, 1982 the dissolution of the Central Committee and the Political Bureau of the Sudanese Socialist Union. The party remained without a politburo and a central committee until the government was overthrown and the party abolished in April 1985.⁵⁸Both the Central Committee and the Politburo are known to have populist-oriented members who were opposed to unpopular austerity measures. The dissolution of these two organs by the President was most probably the result of his greater commitment to economic stabilization than to populism.

54. Africa Research Bulletin: Political, Social and Cultural Series, Vol. 19, No. 1, January 1982, p. 6322.

55. Ibid., p. 6322.

56. Quoted from Sudan News Agency, Ibid., p. 6322.

57. Quoted from Sudan News Agency, Ibid., p. 6322.

58. Khalid, op. cit. pp. 226-229.

As is clear from this descriptive account, increases in the retail prices of subsidized consumer items usually precipitated protests unlike the case with tax increases or devaluations. It is also clear that subsidy reductions in the programs of the late 1970s and early 1980s led not only to protests but also to more severe protests, if protest severity is judged by the damage reported, the geographical spread of the protests, and by the political fall-outs of the protests. This suggests that the context or time period might have played a key factor in accounting for the severity of these protests .

Unlike earlier periods, the late 1970s and early 1980s witnessed the emergence of an external debt crisis. As noted in chapter two, this manifested itself in the emergence and build-up of external debt arrears which is an indication of severe foreign exchange shortages. As a result, this period also witnessed frequent interruptions in the flow of essential imports, including food items.

This period also witnessed a phenomenon which was unknown in earlier periods. This was the hoarding of consumer goods by wholesale and retail traders with a view to creating artificial scarcities and hence price increases. In the early 1980s, the prices of many consumer goods were rising so fast that the government established in late 1981 Price Courts in Khartoum, Omdurman, and Khartoum North to try horders and retail traders who overcharge their customers.⁵⁹ Trials in these courts resulted in the floggings, in public, of retail traders and in the confiscation of consumer goods from wholesalers, but they also led to the widening of an already existing black market in many consumer goods. In less than a year, the Price Courts were abolished.

59. Sudanow, Vol. 10, No. 4, April 1985, p. 12.

The period also saw an unprecedented deterioration in public services. In Khartoum and its two twin cities, electric power to residential areas and even to productive units was cut frequently in one day. In other urban centers, power failure extended for days and months. Describing the state of public services in Khartoum in 1980, Khalid wrote, "Blacks-outs and electricity cuts had become the rule rather than the exception. The water people drank was often muddy and sometimes infested with bacteria. Streets were torn up and sewage was leaking into a smelly atmosphere..."⁶⁰

It seems that because of these hardships, the public mood in this period must have been strongly against any more additional hardships. Most probably, this accounts for the greater scale of protests following the reduction or removal of subsidies in this period.

Further evidence that the context makes a difference in the scale of protests resulting from measures adversely affecting subsidies are the protests precipitated by official increases in the retail prices of bread and petrol in late March 1985.

The price increases were effected in a last move by the government to carry out Fund policy "preconditions" for a stand-by arrangement. The arrangement was deemed essential for facilitating the flow of foreign credits and grants interrupted by Sudan's inability to meet debt servicing obligations on previously rescheduled debt arrears to creditors and aid donors. The interruption of the flow of foreign credits and aid led to a stringent foreign exchange situation which resulted in the curtailment of imports, including essential consumer goods.

60. Op. cit., p. 251.

Earlier, a stand-by arrangement was approved (in principle on April 30, 1984 and became effective on June 25, 1984) in support of a stabilization program for fiscal 1984/85. However, a few days after it was effective, the arrangement became inoperative because the Sudan began for the first time to incur debt arrears to the IMF itself.

Early in December 1984, a technical Fund mission visited the Sudan at the request of the authorities to help in the formulation of an economic adjustment program. The mission recommended a comprehensive adjustment program, the principal feature of which was "immediate unification of the prevailing exchange rates at a realistic level, accompanied by the introduction of a mechanism for frequent rate changes..." and "immediate and full transmission of the effects of the proposed exchange reform into domestic prices."⁶¹

After a delay of nearly two months, the Sudanese pound was officially devalued (February 12, 1985) by 93 per cent, from LSd. 1 = US\$ 0.77 to LSd. 1 = US\$ 0.4. The devaluation led to the emergence of subsidies on wheat flour, petrol, and sugar because the importation of all three items was to be effected at the new more depreciated official exchange rate. On March 28, 1985, the domestic retail prices of petrol and bread were increased by 70 and 30 per cent, respectively. On the same day, bus fares increased by an average of 70 per cent.

Public reactions to the price increases were immediate and unprecedented. On the same day, demonstrations started in Khartoum, Khartoum North, and Omdurman and continued for eleven days. The demonstrations were initiated by students of Khartoum Polytechnic. In the early days of the demonstrations,

61. Statement by the Staff Representative on Sudan Executive Board Meeting (December 19, 1984, p. 1), Documents of the International Monetary Fund, File No. 1 - 0, 316, Vol. 27, Ministry of Finance, Khartoum.

demonstrators were chanting slogans against the IMF. In late demonstrations, they were calling for the transfer of power to civilians.

The President, who had already left for the United States, indicated (when he arrived in Washington) that he was confident that the army would crush the popular uprising. On April 4, a general political strike (this was the second one since Sudan gained independence in 1956) was declared. On April 7, demonstrators stormed Kober Prison (Sudan's political detainees are kept here) in Khartoum North and freed some detainees. The following day, the General Command of the Sudanese army arrested government ministers and put them in preventive custody and issued a statement to the effect that it would meet the people's demand for the transfer of power. The following day, a massive demonstration (the number of participants was reported to be one million) took place in Khartoum. The next day, the General Command issued a statement that it had taken over power and that it would transfer that power to civilians after a one-year transitional period. This halted the demonstrations and the general political strike. In the course of the demonstrations in Khartoum, demonstrations were also going on in major urban centers all over the Sudan.

These protests were by far the most extensive since Sudan gained independence. Although they were precipitated by the petrol and bread retail price increases, these alone do not account for their scale; petrol, bread, sugar price increases were also increased in earlier periods but they did not evoke protests on this scale. The difference between the scale of these protests and those of earlier protests is most probably due to some special factors that were unique to this period.

Chief among these features was the cumulative effects of a three-year drought which struck Sudan in 1982. In the 1982/83, 1983/84 and 1984/85

agricultural seasons, real value added in the agricultural sector fell by 10.8, 5.1 and 6.7 per cent, respectively.⁶² Because the agricultural sector is the major contributor to GDP, the latter declined by 3.6, 1.3, and 3 per cent in 1982/83, 1983/84 and 1984/85, respectively.⁶³ In the 1982/83 agricultural season alone, the output of sorghum (sorghum is Sudan's principal staple crop and is grown in rain-fed agricultural areas) fell by 45 per cent.⁶⁴ The drought led to a famine (which was also unique to this period) in 1984/1985. The problem was compounded by a stupendous inflow of refugees from neighboring countries. In these regards, a 1985 International Labour Organization Report pointed:

A specific feature of the famine in the Sudan is that it reflected a drastic decline in the total food availability...As a result of the drought, rain-fed agricultural output fell by 58 per cent from 1981/82 to 1984/85...The sharp decline in output in an essentially subsistence and traditionally based agrarian system meant that output was grossly insufficient to sustain normal consumption levels. This led to famine and starvation on a large scale as well as massive displacement of people as they migrated in search of food and water. The situation reached crisis point last year as the 1984 rains failed again and supplies hit a critical low. The situation has been aggravated by the influx of refugees...estimated at 1.5 million, from neighbouring Ethiopia, Uganda and Chad which had also been seriously hit by drought.⁶⁵

In addition to exacerbating food shortages brought about by interruptions in the flow of imports due to foreign exchange shortages, the drought also led to massive internal migrations of people to urban centers (including Khartoum)

62. Sudan - 1984 Article IV Consultation (August-September 1984, Minutes of Meeting, p. 1), Documents of the International Monetary Fund, File No. 1 - 0, 316, Vol. 27, Ministry of Finance, Khartoum.

63. Ibid., p. 1.

64. Staff Report for the 1983 Article IV Consultation and Review Under the Stand-by Arrangement (August 16, 1983, p. 5), Documents of the International Monetary Fund, File No. 1 - 0, 316, Vol. 26, Ministry of Finance, Khartoum.

65. After the Famine: A Programme of Action to Strengthen the Survival Strategies of Affected Populations, Report of the ILO Programming Mission to the Republic of the Sudan (September 1985), International Labour Office, Geneva, 1986, p. 18.

from drought-stricken areas. Inflows of people into Khartoum put pressure on an already precarious supply of public services and also contributed to a general atmosphere of insecurity; armed robberies flourished in this period.

The period preceding the petrol and bread price increases was also characterized by unparalleled political repression. This followed the declaration of a state of emergency and martial law and the establishment of special emergency courts. In these courts, people were tried according to "Sharia" or Islamic Law, which was also unique to this period (application of Sharia started in September 1983). "Hoodoo" or punishments in Sharia include stoning to death those convicted of adultery, amputating the right hands of those convicted of stealing, and eighty lashes for those convicted of drinking alcohol and of fornication.

The state of emergency followed a wave of strikes in the public sector. Between March 4 and April 29, 1984, nine strikes were staged. The common demand behind the strikes was salary increases.⁶⁶ The most serious strike was the Sudan Doctors Union strike. On March 25, the doctors went on strike and threatened to resign, in the mass, if they were not granted a pay raise and increased allowances. The President of the Republic rejected the demand, and all doctors resigned. The President issued an ultimatum, threatening the doctors that if they failed to return to work in seventy-two hours he would have them prosecuted for "high treason".⁶⁷ The doctors rejected the ultimatum. On orders from the President, the Doctors Union was dissolved and seventeen of its

66. In an attempt to break the strikes, the President issued a decree on April 2 forming a wage commission to revise labor wages and conditions; Quarterly Economic Review (Second Quarter, p. 14), Country Report (Sudan), Economist Intelligence Unit, 1984 .

67. Mansour Khalid, op. cit., pp. 265-266.

leaders arrested. In sympathy with the doctors, two other unions (the Engineers and the Accountants Unions) threatened to strike.

The confrontation with the doctors ended when the President freed and met with their leaders and told them that they were free to resume their trade union activities and promised to meet their demands. The doctors' confrontation with the authorities was followed by more strikes, the last one occurring on April 29, 1984. The following day, the President declared a state of emergency and martial law. In his statement announcing martial law, President Nimeiri declared, "in order to protect the faith and the fatherland from schemes of schemers and the mischief of Satan,...I have issued Presidential Decree number 258 (1984) announcing the imposition of martial law throughout the country..."⁶⁸ "At the time when work has become a religious duty," the President continued, "Satan and his aides were active, leading to a series of strikes which went against the simplest of religious tenets."⁶⁹ In his statement, the President also banned "public meetings, demonstrations and strikes"⁷⁰ The next day, he issued orders investing the military with special policing powers, including the right to "search private homes, control of public transport, censorship, and the imposition of curfews".⁷¹ The police and army were also to "generally act in whatever way they saw fit"⁷² The pinch of martial law was felt immediately in Khartoum. Thus, in the first five days, 440 people were arrested.⁷³ By the middle of June (that is, one and a half months

68. Quoted in Khalid, *Ibid.*, p. 267.

69. Quoted in Khalid, *Ibid.*, p. 267.

70. Africa Research Bulletin: Political, Social and Cultural Series, Vol. 21, No. 4, May 15, 1984, p. 7223.

71. *Ibid.*, p. 7223.

72. Sudan - Quarterly Economic Review (Third Quarter, 1984, p. 6), Economist Intelligence Unit, Country Report.

73. Sudan - Quarterly Economic Review (Fourth Quarter, 1984, p. 12), Economist Intelligence Unit, Country Report.

after the imposition of martial law), 871 people were tried in emergency courts in Khartoum, Khartoum North, and Omdurman. Of these, only 134 people were vindicated.⁷⁴ When martial law was suspended on September 29, 1984, 58 convicted thieves had their right hands amputated. Twelve of these had their left feet amputated in cross- or second-hand amputations. These figures account for only those amputations done through surgical operation. Amputations were also reported to have been carried out by prison warders because doctors refused to collaborate. At the beginning of November, it was announced that over 11,000 cases were still pending in Khartoum as a result of the state of emergency.⁷⁵

In the course of the state of emergency, curfews were imposed on a daily basis in Khartoum and orders were issued to the police and army to shoot any one violating the curfews. The government also introduced what it called "suspected intended adultery". According to this, any male and female seen talking to each other or walking together may be arrested under suspicion of "intended adultery". The notion is novel to sharia law, which stipulates that a person shall be prosecuted for adultery only if three people witnessed him or her in the actual act of committing it. Numerous arrests of both married and unmarried couples were reported made under "suspected intended adultery".⁷⁶

There are some indications that martial law was designed to scare people (particularly in Khartoum) and pre-empt public reactions in the face of an acute economic crisis. First, the nine emergency courts were set up and

74. Khalid, *op. cit.*, p. 270.

75. Sudan - Quarterly Economic Review (Fourth Quarter, 1984, pp. 6-7), Economist Intelligence Unit.

76. Africa Research Bulletin: Political, Social and Cultural Series, No. 10, Vol. 21, October 1984, p. 7416.

operated only in Khartoum and its adjacent twin cities of Khartoum North and Omdurman. Second, the sentences of the emergency courts were broadcast daily in radio and television prime time. In fact, a prominent place was reserved for emergency court trials in Al-Ayam and Al-Sahafa dailies.

The state of emergency achieved its purpose of halting the wave of strikes begun in March; between April 30 and September 29, not a single incident of protest was reported. The state of emergency also led to the coalescence of long-divided opposition groups based outside the Sudan. The opposition groups coalesced into a clandestine Khartoum-based group known as Allied National Salvation Forces.⁷⁷ The group was believed to have played a key role in organizing for the general political strike.

The period preceding the retail price increases also witnessed the resurrection of an eleven-year-dead war. War broke out again in southern Sudan. The war began in the form of a mutiny in the southern Sudanese town of Bor where southern members of the national army defected in May 1983.⁷⁸ After the application of "Sharia Law" in September 1983, hostilities escalated when an insurgent guerrilla army known as the Sudan People's Liberation Army was set up, with the objective of overthrowing the government in Khartoum.

There are also some signs that the war was adding to the unpopularity of the regime. One of these was a policy statement issued by the Republicans. These are a religious group which has been advocating an anti-Sharia, progressive interpretation of Islam. The leader of the group, Mahmoud Mohammad Taha, has a sizable number of disciples and supporters in Khartoum, particularly in

77. Africa Research Bulletin: Political, Social and Cultural Series, Vol. 21, No. 10, October 30, 1984, p. 7416.

78. The defection and subsequent rebellion was triggered by the President's decision to divide the self-governing Southern Region into three regions; Khalid, op. cit., p. 284.

intellectual circles. In their statement (issued on December 25, 1984), the Republicans called for the repeal of the Sharia laws and a halt to the war in southern Sudan. A part of their statement reads, "These laws have jeopardized the unity of the country and divided the people in the North and South by provoking religious sensitivity which is one of the fundamental factors that aggravated the southern problem..."⁷⁹ The Republicans called for civil disobedience (which in the Sudan means a general political strike) to bring down the regime if it refused to meet their demands. President Nimeiri accused the seventy-six-year-old Republican leader of sedition and apostasy and had him executed after a hasty trial. This incident was protested inside the Sudan and abroad. The US State Department denounced the execution as a violation of human rights. The execution was also condemned in the British Parliament. *Le Monde*, the French newspaper, also condemned the action and called Taha the Ghandi of Africa.⁸⁰

Because all of these factors are unique to this period, they probably explain why the reductions in the subsidies were followed by relatively large scale political protest which led to the fall of President Nimeiri's sixteen-year-old regime. It appears that, prior to the increases in the petrol and bread retail prices, unique economic and political factors interacted to seriously erode the legitimacy of Nimeiri's regime and in shaping public mood and hence future reactions to any unpopular austerity measure from an already unpopular regime.

It has been suggested that the change of regime in April 1985 is precisely the result of the previous government's relationship with the IMF, as

79. Quoted in Khalid, *Ibid.*, p. 390.

80. *Ibid.*, p. 393.

manifested in the official petrol and bread retail price increases.⁸¹ Because of the complexity of the situation, any single-factor explanation of the change of regime is an oversimplification of a very complex reality. Most probably, the political change would have occurred even in the absence of a precipitating factor; the situation prior to the fall of Nimeiri's regime was economically unsustainable. Moreover, the regime probably had already alienated the public by its violent campaign of political repression.

The main conclusion that can be drawn from the preceding empirical analysis and descriptive account is that the reduction or removal of a subsidy leads, abstracting from situational economic and noneconomic factors, to protest because subsidies are likely to be regarded as rights and also because they involve consumer goods that are basic. However, the severity (however this is measured) of political protest precipitated by subsidy reduction or removal is likely to be determined by the extent to which the public has already been alienated by period-specific political factors and/or by the economic hardship effects of period-specific economic and/or environmental factors.

There is nothing puzzling about why the reduction of a subsidy should lead to political protest, small or large scale, severe or not. Much depends on the severity of the economic situation and on the legitimacy of the regime. In this sense, the reduction of a subsidy is not different from any unpopular policy action. The difference that the reduction of subsidies may make stems from the fact that subsidized goods are daily necessities.

81. See Alfred Taban, "Scapegoat or Saviour? Should we be grateful for the recent IMF policy towards Sudan?," Sudanow, Vol. 10, No. 4, April 1985, p. 12; and Thomas Callaghy, "The Politics of Economic Stabilization in Africa," in Nelson, J., The Politics of Economic Stabilization and Structural Change in Developing Countries, (unpublished Research Project), Overseas Development Council, Washington, D.C., November 1985, pp. 14-15.

SUMMARY AND CONCLUSIONS

The ten Fund-supported economic stabilization programs undertaken by the Sudan in the period between 1966 and 1984 have the common objective of improving the external payments position. The programs are, however, quite different in their basic policy frameworks and balance of payments outcomes.

The programs of the 1960s and the first half of the 1970s were basically demand management programs that sought to improve the payments situation by restraining domestic credit, particularly to the public sector. The only exception is the 1972/73 Program, the basic policy framework of which also included a de facto devaluation.

None of the policy programs in these two periods resulted in the improvement in the external payments situation, mainly because of the adverse impingement of exogenous factors. However, the counterfactual test indicates that the payments position would have been worse in the absence of the programs. The presence of the programs appears to have made some difference in terms of positive confidence effects; the balance of payments outcomes would have been worse without the programs.

The programs of the late 1970s and early 1980s combined demand management with structural adjustment. The latter was manifested in major reforms in the exchange rate structure and in institutional changes in the structure of financial relationships in cotton-producing public irrigation schemes. These reforms were designed to increase the production and export of cotton and to induce the flow of remittances by expatriate workers. A major achievement

associated with these programs was the reversal of a five-year downward trend in cotton productivity and output. It also appears that the exchange rate reforms had positive effects on the flow of remittances.

However, these improvements did not bring about a fundamental improvement in the external payments situation; the current account and the balance of payments deficits remained large. In addition, the Sudan continued to accumulate external debt payments arrears. This does not, however, mean that the programs were not effective; for the counterfactual test suggests that the deficits would have been larger without the programs. This means that the programs had the effect of containing otherwise increasing deficits (in some cases, the deficits were reduced). This effect should be expected because agreements with the Fund led to various debt reschedulings (which are, in essence, loans) and to balance of payments assistance from creditors and aid donor groups. These capital inflows would have stayed abroad if the Sudan had had no arrangements with the Fund. This is tantamount to saying that the programs had the effect of restoring foreign confidence in domestic economic policies. Such confidence had been impaired by Sudan's inability to meet debt servicing obligations. The capital inflows are the concrete manifestations of some measure of restored confidence.

The principal reason why the programs did not effect a fundamental improvement is clearly Sudan's external debt crisis. The magnitude of the crisis defies any short-term improvements such as those associated with the programs.

As to the effects of Fund programs on other areas, the claim that these programs have adverse effects on social expenditures is not empirically supported by the experience of the Sudan. One can not, of course, conclude from this experience that Fund programs do not have adverse effects on social

expenditures. Further research in this area is clearly needed. That claim fails to take account of the context in which Fund programs are undertaken.

In regard to the politics of economic stabilization, the experience of the Sudan with Fund programs demonstrates that these programs do lead to protests. These are principally the result of increases in the retail prices of subsidized consumer goods. If one abstracts from the situation in which such increases are undertaken, one reason why they lead to political protests is likely to be that subsidized goods are basic daily necessities. The severity of the protests, and perhaps even their mere precipitation, is likely to be determined by the extent to which the public has already been alienated by economic and/or political factors. The severity of economic austerity and the degree of regime popularity or legitimacy are likely to be important factors. More empirical research is needed to see if these factors, and perhaps others, make any difference to the severity of protests precipitated by subsidy reduction/removal.

In the context of Fund programs, subsidies on imported consumer goods pose a dilemma; they have the potential of undermining the government or the Fund program. The experience of the Sudan demonstrates both. The government inability to pass increases in the external prices of sugar and petrol to the consumer resulted in increased expenditures and/or bank borrowing which undermined or contributed to undermining three programs. On the other hand, increases in the retail prices of petrol and bread precipitated protests that led to the fall of a regime in 1985. Although in this case other factors were involved, the retail price increases played the key role of initiating the protests.

A final point to note is that the Sudanese experience indicates that the capacity to adjust depends on various factors that are independent of regime

type. A principal factor in this regard is administrative capacity. The external debt problem was largely the result of a fundamental deficiency in the central government fiscal management apparatus. The Sudan has never had an effective debt management mechanism. In fact, when most of Sudan's external debt was incurred there was no central government entity that was responsible for assessing the appropriateness of borrowing terms and for authorizing borrowing.

Another factor that is also independent of regime type and that has a direct effect on program implementation is the institutional relationship between domestic credit users (principally, the central government) and the central bank. The effectiveness of the central bank to control domestic credit hinges largely on whether or not it has the power to pursue credit policies independently of the government's budgetary deficits. This question is important because if the bank is not autonomous, as is the case in the Sudan, domestic credit becomes more of a source of accommodationg the budgetary deficits of public-sector entities rather than of an effective tool of macro-economic management which is essential for the implementation of Fund-supported economic stabilization programs. This is the case in the Sudan where half of the arrangements with the Fund broke down because domestic credit to the government exceeded program targets. The credit outcomes might have probably been different had the Bank of Sudan had the power to turn down requests of public-sector entities (particularly, the central government) for credit.

Pitched at a macro level of analysis, the authoritarian/democratic regime dichotomy fails to take into account these micro-level constraints on the capacity of governments to implement economic stabilization policies. The proposition that authoritarianism is a necessary condition for the successful

implementation of stabilization programs is predicated on the premise that the need for popular consent by democratic regimes acts as a constraint on the implementation of unpopular austerity measures. Because authoritarian regimes are based on coercion rather than consent, they are better suited, it is argued, to successfully implementing austerity measures. This may be true of those austerity measures whose implementation is not a continuous process but a once-and-for-all phenomenon such as a devaluation or an increase in the retail price of a subsidized consumer item. However, successful or effective implementation of the budgetary and credit aspects of stabilization programs is processual and are likely to depend, in the main, on the capacities of fiscal management systems and on the extent to which institutional arrangements constrain key implementing agencies such as the central bank.

The proposition does not differentiate between the different policy measures contained in the economic stabilization program. The successful implementation of some measures such as those in the area of domestic credit are independent of regime type.

This study has not tested the proposition. The reason is not only that the number of cases are too small for a meaningful test (only the 1966/67 and the 1967/68 Programs were implemented by a democratic regime; all other programs were implemented by the one-party authoritarian regime of the May Revolution) but also that a simple factual comparison (as done in the literature) between program implementation under authoritarian regime(s) and program implementation under democratic regime(s) is not sufficient. One needs to conduct a counterfactual test which seeks to answer questions such as given that a certain program was implemented by an authoritarian regime, would it have been implemented by a democratic regime? However, such a test is intrinsically dif-

ficult and its utility is likely to be limited by the many simplifying assumptions that have to be made. Nonetheless, it is the best way to find out which regime type excels at implementing economic stabilization programs because it controls for nonregime variables.

APPENDICES

APPENDIX A

DETERMINANTS OF EXTERNAL PAYMENTS BALANCES

1. Domestic Credit:

Domestic credit is measured as the rate of growth of credit extended over the fiscal year. The rate of growth is calculated by subtracting net claims of the domestic banking system on the private and public sectors outstanding at the beginning of the fiscal year from the net claims outstanding at the end of the fiscal year divided by the net claims outstanding at the beginning of the fiscal year. The result is then multiplied by 100 to express the change in percentage form. For Fund program periods, the rates of growth are available in Fund mission reports. For nonprogram periods, the rates of growth were calculated (using the above procedure) from data available in Bank of Sudan section on "Monetary Survey". In Table 6.1, nonprogram periods are in parentheses.

**Table 6.1: Program and Actual Domestic
Credit Growth Rates, 1963 - 1984.**

Period	Program	Actual
(1963/64)		19
(1964/65)		-3.1
(1965/66)		20.7
1966/67	17.1	18.9
1967/68	10.7	5.3
1968/69	5.0	29.0
(1969/70)		21.1
(1970/71)		16.4
(1971/72)		23.2
1972/73	14	23.2
1973/74	11	30.4
1974/75	11	33.8
(1975/76)		43.1
(1976/77)		25.0
(1977/78)		18.6
1978/79		32
1979/80	22	22
1980/81	33.4	56
1981/82	33	27
1982/83	44	40
1983/84	18	14.1

Sources: Various Fund Reports and calculations based on Bank of Sudan "Monetary Survey" data.

2. Exchange Rates:

Real exchange rates are calculated on the basis of the Purchasing Power Parity formula, as mentioned in Chapter III. The Formula is as follows:

$$\text{Real Exchange Rate} = \frac{\text{Domestic Inflation}}{\text{Foreign Inflation}} \times \text{Nominal Exchange Rate.}$$

For domestic inflation, the Khartoum Consumer Price Index (the only available measure of inflation in the Sudan) is used; the US Wholesale Price Index is used for foreign inflation. To insure comparability, IMF price indices are used here. These use the same base year for all countries. In years of devaluations, the price indices are those of the quarter immediately preceding the devaluation. Because devaluations increase prices, it will be wrong to use post-devaluation prices to calculate pre-devaluation real exchange rates.

The nominal exchange rates after June 1978 are effective (weighted by some items in the current account) ones. These nominal effective rates were calculated by Fund staff. The rates before 1978 are nominal averaged rates (average of the official rate which was, up to June 1978, LSd. 1 = US\$ 2.87156, and of the de facto rate, in effect since March 1972, of LSd. 1 = US\$ 2.5).

In Table 6.2, the parenthesized rates under "Nominal" and "Real" are the devaluation-adjusted rates. In the calculation of real rates, the nominal devaluation-adjusted rates are not adjusted for domestic and foreign inflation since adjustment by devaluation is supposed to bring the nominal rates into line with domestic and foreign inflation. In other words, the nominal devaluation-adjusted rate is also the real rate.

Table 6.2: Sudan and US Price Indices, Nominal and Real Exchange Rates, 1971 - 1984.

	Price Indices		Exchange Rates (LSd. per 1 US\$)	
	Sudan (CPI)	US (WPI)	Nominal	Real
1971/72	122	121.05	.348	.35
1972/73	92.8	99.25	(.374)	(.374)
1973/74	72.35	84.25	.374	.32
1974/75	90.35	95.75	.374	.35
1975/76	100.85	102.3	.374	.37
1976/77	110.2	107.8	.374	.38
1977/78	119.9	113.2	.374	.396
1978/79	145.6	123.95	(.47)	(.47)
1979/80	201.7	143.05	(.60)	(.60)
1980/81	270.75	161.4	.64	(.64)
1981/82	239.5	140.5	(.90)	(.90)
1982/83	187.65	112.25	(1.30)	(1.3)
1983/84	239.5	114.05	1.30	(1.3)

Sources: The Consumer and the Wholesale Price Indices for the period 1963/64 - 1969/70 were obtained from the August 1970 issue of International Financial Statistics, pp. 286-287 and 330-331; those for 1970/71 - 1972/73 from the April 1973 issue, pp. 326-327 and 368-369; those for 1974/75 - 1979/80 from the September 1980 issue, pp. 356-357 and 404-405; and those for 1980/81 - 1983/84 from the December 1981 issue, p. 364 and from the March 1986 issue, pp. 448 and 505. Nominal exchange rates are from "Sudan: Chronology of Major Changes Since June 1978 in Effective Nominal Exchange Rates" (pp. 50-51), Documents of the International Monetary Fund, File No. 0 -1, 316, Vol. 24, Ministry of Finance, Khartoum.

3. Terms of Trade:

The terms of trade is equal to the ratio of export prices to import prices. The price figures represent index prices. The base year for the prices between 1963/64 and 1966/67 is 1963. For all other values, the base year is 1970.

Table 6.3: Export Prices, Import Prices, and Terms of Trade, 1963 - 1984.

	Export Prices	Import Prices	Terms of Trade	Changes in Terms of Trade
1963/64	103.5	95	108.9	0
1964/65	112	85.5	131	22.1
1965/66	108.5	84.5	128.4	-2.6
1966/67	101.7	100.8	100.9	-27.5
1967/68	87.5	90.1	97.1	-3.8
1968/69	93	91.3	101.9	4.8
1969/70	99	97.8	101.2	-0.7
1970/71	101.5	103.7	97.9	-3.3
1971/72	107	111.8	95.6	-2.3
1972/73	117.6	127.6	92.2	-3.4
1973/74	171	184.4	92.7	0.5
1974/75	196.9	254.5	77.4	-15.3
1975/76	177.4	280.4	63.2	-14.2
1976/77	198.4	278.9	71.1	7.9
1977/78	236.8	302.6	78.3	7.2
1978/79	282.6	365.7	79.2	0.9
1979/80	338.1	445.4	75.9	-3.3
1980/81	392.1	511.2	76.7	0.8
1981/82	531.4	624	85.2	8.5
1982/83	774.6	100.9	76.9	-8.3
1983/84	809.2	1017.5	79.5	2.6

Sources: The prices for the years between 1963/64 and 1966/67 and those for the years between 1967/68 and 1971/72 were obtained from the August 1970 and the December 1974 issues of International Financial Statistics, pp. 286 and 332, respectively. For the remaining years, the prices were obtained from the National Economic Conference (march, 1986), Publication (in Arabic) of the Department Statistics, Khartoum, 1986, p. 15.

4. Foreign Interest Rates:

The foreign interest rates used here are, as noted earlier, the London Inter-Bank Offer Rate on one-year US dollar deposits. The rates are adjusted by an index of cotton prices expressed in US dollars.

In the construction of the index, 1978/79 is used as the base period. This year is chosen because its price is the median price for the period. It is thus representative of all other prices. The indexed prices are then used for the calculation of the real interest rates. These are obtained by dividing the nominal rates by the indexed prices expressed as percentages.

Table 6.4: Index of Cotton Prices and Foreign Nominal and Real Interest Rates, 1972 - 1984.

	Cotton Prices (US cents per pound)	Index of Cotton Prices (1978/79= 100)	Foreign Interest Rates (LIBOR on one-year US\$ deposits)	
			Nominal	Real
1972/73	100.1	69	5.46	7.9
1973/74	127.2	88	9.24	10.5
1974/75	122.8	85	11.01	12.9
1975/76	138.8	96	6.99	7.3
1976/77	153.5	106	5.58	5.3
1977/78	142	98	6.0	6.1
1978/79	144.2	100	9.3	9.3
1979/80	168.4	116.8	11.71	10.0
1980/81	180.9	125	13.44	10.7
1981/82	159.7	110.7	16.05	14.5
1982/83	152.1	105	13.55	12.9
1983/84	162.5	112.7	10.18	9

Sources: Cotton prices are available from World Bank Commodity Trade and Price Trends (Third Edition, 1986). LIBORs were obtained from various International Financial Statistics issues.

APPENDIX B

EXTERNAL PAYMENTS BALANCES

This Appendix presents the current account and the balance of payments balances for the period 1963/64 - 1983/84. The current account balance is measured as the balance on the merchandise trade account plus the balance on the invisible trade account. The balance of payments is measured in terms of the basic balance which is equal to the balance on the current account plus net capital inflow.

In Table 7.1, all balances except the parenthesized ones represent current account and balance of payments deficits; the figures in parentheses are surpluses. The balances are in millions of Sudanese pounds.

Table Table 7.1: Current Account and Balance of Payments Balances, 1963 - 1984.

	Current Account	Balance of Payments
1963/64	36.5	3.7
1964/65	20.9	9.3
1965/66	19.0	7.0
1966/67	17.5	6.4
1967/68	18.4	6.9
1968/69	11.9	8.0
1969/70	4.1	(1.3)
1970/71	23.1	23.4
1971/72	29.2	24.3
1972/73	(1.3)	0.0
1973/74	30.5	15.2
1974/75	160.3	51.2
1975/76	107.6	86.9
1976/77	15.1	1.1
1977/78	42.8	15.0
1978/79	77.9	(2.4)
1979/80	133.8	39.0
1980/81	182.9	123.0
1981/82	429.0	272.9
1982/83	234.3	170.2
1983/84	120.5	40.8

Sources: Balances for the period 1963/64 - 1970/71 are from the Bank of Sudan Annual Report (1966, 1968, and 1973, issues, pp. 100-101, 88, and 88); those for 1971/72 - 1975/76 from the 1976 issue, p. 131; those for 1976/77 - 1979/80 from the 1980 issue, p. 141; and those for 1980/81 - 1983/84 from the 1985 issue, p. 131.

APPENDIX C

CHRONOLOGY OF FUND POLICY AUSTERITY MEASURES

Table 8.1: Chronology of Fund Austerity Measures, 1966 - 1984.

Year	Austerity Measure	Implementation Date
1966	1. Uniform surcharge on all imports	Sept. 28
	2. Lowering the exemption level of the Personal Income Tax	Sept. 28
	3. Increases in taxes on cigarette and liquor	Sept. 28
1967	1. Increase in water and electricity rates	Oct. 4
1968	1. Increase in the uniform surcharge on all imports	July 1
	2. Increase in the rates of the Personal Income Tax	July 1
1972	1. Application of a 15 per cent tax on foreign exchange payments	March 11
1973	1. Increase in the retail price of sugar	May 16
	2. Increase in the retail price of petrol	May 16
	3. Increase in taxes on cigarette	May 16
1974	1. Increase in the retail price of petrol	May 30
	2. Increases in taxes on tea and coffee	July 1
	3. Imposition of an ad valorem (development) tax on all imports	July 1
	4. Increase in the retail price of sugar	Dec. 30

Table 8.1 (cont'd.)

Year	Austerity Measure	Implementation Date
1978	1. Official devaluation of the Sudanese pound by 15 per cent	June 8
1979	1. Imposition of water and land charges in the Gezira Scheme	Late March
	2. Increase in water and electricity rates	July 1
	3. Imposition of a 5 per cent defence surcharge on all imports	July 1
	4. Increase in the retail price of sugar	Aug. 5
	5. Increase in the retail price of petrol	Aug. 5
	6. Official devaluation of Sudanese pound by 25 per cent	Sept. 16
1981	1. Increase in the retail price of petrol	March 12
	2. Increases in taxes on cigarette and liquor	March 12
	3. Doubling of the defence surcharge	March 12
	4. Increase in water and electricity rates	March 12
	5. Official devaluation of the Sudanese pound by 80 per cent	Nov. 9
	6. Elimination of subsidies on milk powder and pharmaceuticals	Nov. 9
1982	1. Increase in the retail price of sugar	Jan. 1
	2. Increase in the retail price of petrol	Jan. 1
	3. Increase in the retail price of bread	April 1
	4. Increase in the retail price of bread	July 8
	5. Official devaluation of the Sudanese pound by 44 per cent	

Table 8.1 (cont'd.)

Year	Austerity Measure	Implementation Date
	6. Increase in the tax on cigarettes	Nov. 15
1983	1. Increase in the retail price of petrol	Jan. 3
	2. increases in water and electricity rates	May 11
1984	1. Increase in the retail price of bread	Jan. 3

Sources: Compiled from texts of stabilization programs (Letters of Intent) and "Articles of Consultation" reports, Documents of the International Monetary Fund, Files No. 1 - 0, 316, Vols. 13 through 27, Ministry of Finance, Khartoum, Sudan.

APPENDIX D

CHRONOLOGY OF PROTEST INCIDENTS

Table 9.1: Chronology of Protest Incidents, 1966 - 1984.

Year	Protest Type	Incident Number	Date of Incident
1966	Strike	3	April 10, 19; May 11
	Demonstration	6	July 2, 17; Sept. 28; Oct. 3, 4, 6.
1967	Strike	4	Jan. 15 (2 strikes) March 4, 20
	Demonstration	2	Nov. 19; Dec 3
1968	Strike	6	Jan. 17, 20, 29 Aug. 2; Sept. 1; Oct. 9
	Demonstration	1	May 2.
1969	Strike	2	July 29; Aug. 8.
	Demonstration	1	May 2.
1970	Strike	0	
	Demonstration	0	
1971	Strike	1	Aug. 6.
1972	Strike	6	July 4, 11 (2 strikes) Aug. 6, 31.
	Demonstration	6	May 19 (2 strikes), 23; July 2. May 17 (2 demonstrations), May 20 (3 demonstrations); Dec. 3
1974	Strike	4	June 6; July 7, 10; Aug.3
	Demonstration	1	May 30.
	Riot	1	June 2.
1975	Strike	2	Jan. 9; March 2
1976	Strike	2	Sept. 6; Nov. 17

Table 9.1 (cont'd.)

Year	Protest Type	Incident Number	Incident Date
1977	Demonstration	2	Oct. 2; Dec. 20
1978	Strike	5	July 15, 16, 19, 20; Dec. 19
	Demonstration	2	June 9; Dec. 2
1979	Strike	13	Feb. 6, March 13, 22; July 14; Aug. 7, 11, 20, 22 (3 Strikes), 27; Oct. 22, 27.
	Demonstration	9	Aug. 8, 9 (2 demonstr ations), 10, 11; Sept. 30, Oct. 2, Dec. 1, 12.
	Riot	3	Aug. 6, 7; Dec. 20.
1980	Strike	2	Jan. 13; March 14.
1981	Strike	10	March 15 (2 strikes), 17; April 1, 17; Nov. 21, 25, 29, 30; Dec. 19.
	Demonstration	5	July 3, 9, 17; Aug. 1, 3.
1982	Strike	4	Jan. 19, 23; May 1,
	Demonstration	6	Jan. 1 - 7
	Riot	4	Jan. 1 - 2; April 1; July 8 - 9.
1983	Strike	11	Jan. 7, 17; Feb. 4, 15; April 3, 16; Aug. 3, 10 Sept. 9, Nov. 5, 12.
	Demonstration	4	Jan. 5 - 6; Oct. 2, 4
	Riot	2	Jan. 3 - 4; Dec. 20.
1984	Strike	11	Jan. 11; Feb. 2; March, 4, 6, 7, 25; April 2, 16, 17, 20, 29.
	Riot	2	Jan. 3 - 4.

Sources: Compiled from National Newspapers (Al-Ayam, A-Midan, Al-Sahafa) Obtained from the National Record Office in Khartoum, the Sudanese Capital.

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