

**SUDAN - ADJUSTMENT & POVERTY IN  
THE 1980s: A COUNTRY ASSESSMENT**

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## **SUDAN—ADJUSTMENT AND POVERTY IN THE 1980s: A COUNTRY ASSESSMENT**

by

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## Abstract

This paper provides an assessment of Sudan's structural adjustment efforts during the 1980s and the impact of such efforts on the country's economic performance and poor groups. Its analysis indicates that the unsatisfactory performance of the Sudanese economy during the 1980s was largely due to insufficient and, sometimes, inappropriate policies. Poor economic performance, combined with adverse terms of trade and high rates of population growth, resulted in significant losses in per capita real incomes, thus further intensifying Sudan's urban and rural social distress. This points to the urgent need for a consistent poverty focus in economic policy formulation so as to effectively address the plight of Sudan's poor in future adjustment programs. To this end, the paper outlines some key priority areas for policy action.

## ملخص

يقدم هذا البحث تقييماً لجهود السودان في مجال الإصلاح الهيكلي خلال عقد الثمانينات وتأثير تلك الجهود على الأداء الاقتصادي والشرائح الاجتماعية الفقيرة. ويشير التحليل في البحث إلى أن سوء الأداء الاقتصادي في الثمانينات كان إلى حد كبير ناتجاً عن عدم اتخاذ السياسات الاقتصادية الكافية ونتيجة للسياسات الخاطئة في بعض الأحيان. وقد أدى ضعف الأداء الاقتصادي، بالإضافة إلى شروط تجارية مجحفة ونسبة نمو سكاني عالية، إلى فقد هائل في الدخل الحقيقية للأفراد مما زاد بدوره من حدة المحنة الاجتماعية في الحضر والريف داخل السودان. ويشير هذا الوضع إلى ضرورة التركيز المستمر على مشكلة الفقر عند صياغة السياسة الاقتصادية وذلك بهدف معالجة قضية فقراء السودان بصورة جادة ومنظمة في البرامج المستقبلية للإصلاح الهيكلي. ويقدم البحث في هذا الإطار مقترحات لموضوعات أساسية متعددة توجه نحوها السياسة الاقتصادية.

## TABLE OF CONTENTS

	Page No.
I. INTRODUCTION.....	1
Overview.....	1
Purpose of the Paper.....	1
Organization of the Paper .....	1
II. HISTORICAL BACKGROUND .....	2
Resources and Economic Activities .....	2
The General Setting .....	3
Evolution of the Economy, 1960-80 .....	4
III. ADJUSTMENT AND THE POOR .....	6
A. The Adjustment Effort, FY 1979-84 and 1988 .....	6
1. Introduction .....	6
2. IMF Supported Policies .....	6
Objectives and Targets .....	6
Economic Performance under the Program .....	7
3. The World Bank Program .....	10
Goals and Objectives .....	10
Performance Under ARP I and II .....	11
B. The Poverty Profile .....	12
Introduction .....	12
Income Distribution .....	14
Social Indicators of Poverty .....	15
Prices and Wages .....	18
Pricing and Farming .....	20
IV. ADJUSTMENT AND THE POOR: POLICY SYNTHESIS .....	20
A. Short-term Measures .....	21
Targeted Subsidies .....	21
Compensation for Displaced Workers .....	21
Temporary Employment .....	22
Services Programs for Forced Migrants .....	22
B. Long-term Measures .....	23
Increasing Agricultural Productivity .....	23
Re-directing Social Expenditures .....	24
Increasing the Productivity of Marginalized Areas .....	24
Promoting Informal Sector Employment .....	25
Resettlement of Displaced People .....	25
ANNEX: The Adjustment Effort: Summary of Measures Taken .....	26

## **I. INTRODUCTION**

### **Overview**

As a result of a deteriorating external environment and the lack of appropriate policy response in the second half of the 1970s and early 1980s, large and persistent macroeconomic imbalances emerged in oil-importing developing countries, including Sudan. The combined effect of chronic budgetary and balance of payments deficits reduced the capacity of these countries to import and consequently lowered their growth. When the imbalances became unsustainable in the early 1980s, many affected countries, including Sudan, began to deal with the deteriorating economic conditions through systematic adjustment programs.

While the implemented adjustment programs were aimed mainly at restoring macroeconomic equilibria, it is evident now that such an objective, though a high priority, is difficult to attain without complementary measures and programs aimed at mitigating the social costs of adjustment. With this concern in mind, many developing countries have begun to focus on enhancing their capacity to take into account the social dimensions of adjustment when designing economic structural reform programs.

### **Purpose of the Paper**

This paper focuses on Sudan's structural adjustment efforts over the past decade, as well as on the impact of such reform efforts on economic performance, and provides a preliminary assessment of the socioeconomic situation. Based on the key issues emerging from these analyses, the paper draws the necessary policy conclusions for considering the social dimensions in future structural adjustment programs.

The Sudan Government abandoned its last recovery program with the IMF in early 1988. Although the Government took a few reform measures on its own (i.e., a free foreign exchange system and a substantial increase in sugar prices) in late 1988, the urgent need for comprehensive adjustment of the economy still persists. As officially proclaimed, the new military Government is currently implementing its own economic recovery program which envisages a more serious adjustment, at a quicker pace with emphasis on self-reliance. In this context, it is particularly important that the issue of poverty alleviation during adjustment be given a high priority. Insufficient attention to this essential issue was one of the major reasons why past adjustment efforts could not be sustained.

### **Organization of the Paper**

Chapter II provides a brief overview of Sudan's general development constraints and the background to structural adjustment efforts, and reviews the evolution of the country's economy during the period 1960-80. Chapter III highlights the Government's adjustment

efforts in the 1980s and analyzes their impact on the major macroeconomic parameters. It also discusses, in broad terms, the country's poverty profile and attempts to identify target groups that warrant particular attention in future adjustment programs. Finally, Chapter IV outlines the priority areas for future government action to protect poor groups during adjustment over the short and longer terms.

In the absence of comprehensive, systematic, and up-to-date information on poverty in Sudan, this paper is a modest attempt to point out the major policy issues in the area of structural reforms and poverty alleviation during the past decade. Therefore, there is no claim that this paper is an exhaustive document on the above-mentioned subject, but it is hoped that it will provide an acceptable basis for future work on the identification of target groups of Sudan's poorest citizens, and the link between poverty and structural adjustment.

## **II. HISTORICAL BACKGROUND**

### **Resources and Economic Activities**

Sudan, physically the largest country in Africa (2.5 million sq km) has a population of 25 million (1989)--one of the least densely populated countries in the world--and a per capita GNP of US\$480 (1988). Although about one-third of the country is classified as desert or semi-desert, the estimated potential in agriculture is 200 million fedan and the remainder, excluding desert, is suitable for livestock grazing and some of Sudan's richest soils, the cracking clay plains that lie in a zone with sufficient rainfall for dry-land farming. The proximity of the Nile, the longest river in the world, has helped the country to develop a large irrigated agricultural sector.

The country's economy is dominated by agriculture. It contributes 40% of GDP, over 95% of exports,<sup>1</sup> and constitutes the mainstay for about 90% of the population. The sector also provides the main source of raw materials for agro-industries, and the rest of economic activities are critically dependent on agricultural performance. Production is classified under four systems: The irrigated sector, large-scale mechanized rainfed, traditional rainfed, and livestock. The irrigated sector is mainly located in central, northern and eastern Sudan, traditionally producing cotton and groundnuts and in recent years import substitutes (wheat, sugar cane) and food crops (sorghum and horticultural crops). The large-scale mechanized sector is in eastern Sudan and Kordofan province in the West, mainly producing sorghum and sesame. The traditional sector, mostly in the West, is largely subsistence oriented, producing sorghum, sesame, groundnuts and gum Arabic. The livestock sector is under nomadic, or sedentary farming systems.

The industrial sector plays a small but important role in the economy. It accounts for about 8% of GDP and is mainly directed towards domestic consumption. The bulk of industrial activity is concentrated on foodstuffs (sugar, flour, vegetable oil) and textiles, which together constitute more than 50% of the value added and 70% of employment in the sector. Other industries of significant size are cement, tanneries and plastic products. While some industries

such as food processing are based on domestic inputs, the sector is heavily dependent on imported inputs. Oil has been recently discovered in Sudan in quantities sufficient to meet at least local demand. However, commercial utilization is being disrupted by the security instability in the southern part of the country where the initial findings have been made.

### **The General Setting**

Following its independence in 1956, Sudan went through a long period of internal strife, political instability and poor economic management with the country passing through three military coups in 1958, 1969 and 1989.

With the signing of the Addis Ababa Accord in 1972, which brought an end to a 15-year civil war in the South, Sudan entered into a second post-independence phase. However, civil unrest in the South emerged again in 1983 and peace negotiations as well as military efforts have been unsuccessful so far. The unrest has hampered economic development, especially in the South, and has led to a large South-North migration.

Ethnicity and inter-ethnic relations are among the most politically sensitive issues in Sudan, and currently stand as a major threat to national unity. The apparent division in this respect is between the Muslim, Arabic-speaking and relatively developed North, and the non-Muslim, non-Arabic speaking and less developed South. This division has led to a number of armed conflicts, thereby causing political instability and a drain on human and economic resources. There exists also a discontent within the North itself, particularly in the Eastern and Western regions, which are less favored by past and present development efforts in the North.

Sudan's administration is characterized by being highly centralized despite recent attempts to decentralize the government system through Regional Governments. This is due mainly to the retention of the main decision-making powers by the centre, lack of funds, poor quality of personnel serving in the regions, inadequate transport and communication facilities, and unclear division of responsibility. All these problems are accelerating the debate on the best form of state structure (unitary, federal, regional), distribution of authority and wealth, ethnicity role in Government, and the role of religion in the state.

The Government operates through a large body of civil service agencies and parastatals. The Sudanese civil service which inherited its tradition from the British colonial era used to be one of the best in Sub-Saharan Africa. However, economic problems over the past decade have resulted in a severe decline in the standard of living and payment to civil servants, thereby leading to widespread discontent, frustration, and lack of commitment. In this atmosphere, the civil service has become very passive towards any form of liberalization that could take away its discretionary powers. Over the past twenty years the Government has also created a large body of about 200 state-owned enterprises in all spheres of economic activities. Most of these parastatals are operating with losses and constitute a heavy burden on the economy.

## Evolution of the Economy, 1960-80

The decade of the 1960s was marked in Sudan by reasonable growth of gross domestic product, good fiscal position, low rates of inflation, and manageable external accounts (Table 1). This economic performance was achieved inspite of the special influence, if not dominating, of a number of indigenous factors. The most important among these factors were political instability which undermined attempts to establish a consistent policy framework for economic viability; infrastructure bottlenecks, especially in transportation; and shortages of skilled manpower aggravated by an education system that tended to de-emphasize technical and managerial training.

In the early 1970s, following a wave of nationalizations (1970-71) and the end of the civil war in the South (The Addis Accord, 1972), the Government began to turn its attention to economic development and adopted an "open door strategy" (1972-73) aimed at achieving self-sufficiency in basic commodities and expanding exports with the view to becoming the bread basket of the Middle East. This objective gathered momentum in the wake of the oil boom when large financial aid flows from Arab oil exporting countries permitted a rapid increase in capital-intensive investments and high levels of consumption.<sup>1</sup> Consequently, real economic performance was remarkable during the years 1973/74 - 1976/77, averaging 8.3% p.a. But this pattern of growth could not be sustained and by 1978/79 the economic situation had deteriorated sharply (Table 1).

A number of inter-related factors were responsible for the slowdown of growth. First, the benefits of the new investments in the form of export growth and import substitution did not fully materialize, owing to infrastructural, financial and manpower constraints. This situation was further exacerbated by the prevailing consumption bias in official economic policy, reflected in rigid price controls<sup>2</sup> and an overvalued domestic currency, both of which benefitted consumption at the expense of production (Table 1).

Second, the ambitious nature of the Government's program exceeded the nation's physical, financial and human resources. Investment pushed total expenditure well beyond current revenues, with little effort in resource mobilization. The rapid expansion of public investment also coincided with a rapid increase in imports of capital goods, which increased from 2.6% of total imports in the early 1970s to 40% in the second half of the decade.

This rapid rise in imports, together with the oil crisis and its aftermath raised the overall import bill to unprecedented levels in 1979/80 (Table 1). Given the irrigation and shipping problems faced by cotton exports and the recession in developed countries, the difficult balance of

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<sup>1</sup> The investments were concentrated largely in agriculture (irrigated and large scale rainfed mechanized), industry (agro-industries) and infrastructure

<sup>2</sup> There is an extensive system of price and profit controls in Sudan. The legal basis for the system is contained in the Provisional Pricing Order (1955) and the Maximum Profits Rate Act (1944), and the Goods Control Act (1977). On the basis of these Acts, the Government regulates the prices of all products sold in Sudan at all marketing stages.



payments situation was further compounded by declining export volumes and depressed terms of trade.

**Table 1: Key Economic Indicators, 1960/61 - 1979/80**  
(%)

	1960/61 to 1968/69	1970/71 to 1977/78	1978/79	1979/80	1970/71 to 1979/80
GDP Growth	3.1	4.7	-1.1	3.5	4.0
<u>% of GDP</u>					
Consumption	<u>88.7</u>	<u>89.9</u>	<u>93.4</u>	<u>96.6</u>	<u>90.9</u>
Private	86.9	74.8	80.9	80.6	76.0
Public	11.5	15.1	12.5	16.0	14.9
Gross Domestic Investment	<u>13.5</u>	<u>15.4</u>	<u>13.2</u>	<u>15.1</u>	<u>15.2</u>
Private	7.0 <sup>1]</sup>	7.7	5.4	4.5	7.2
Public	3.5 <sup>1]</sup>	4.6	5.0	7.0	4.9
Changes in Stocks	3.0 <sup>1]</sup>	3.1	2.8	3.5	3.1
Exports	17.0	13.1	7.5	12.0	12.4
Imports	19.6	18.5	14.1	23.6	18.6
Resource Gap	2.6	5.4	6.7	11.6	6.2
Gross Domestic Savings	11.1	10.3	6.6	3.4	9.2
Gross Nat. Savings	9.9	10.7	8.4	5.5	10.0
Revenues	16.5	18.2	15.3	14.3	17.5
Current Expenditures	14.1	16.1	20.0	18.3	16.7
Budget Deficit (-)	2.4	2.1	-4.7	-4.0	0.8
Budget Foreign Finance	2.5	3.0	7.9	11.3	4.3
Inflation Rate Official Exchange Rate	2.5	14.0	23.6	26.6	16.7
(US\$/Sud. Pound)	2.87	2.87	2.30	2.00	2.75
Terms of Trade	107 <sup>2]</sup>	89 <sup>3]</sup>	87 <sup>3]</sup>	90 <sup>3]</sup>	89 <sup>3]</sup>

Source: Various World Bank, IMF, and Government Statistical Data.

1] Estimates

2] 1953 = 100

3] 1970 = 100

Third, the overvalued currency also misdirected private sector investments. The price of non-tradables increased vis-à-vis tradables, thus resulting in moving the price incentives away from investments in export activities that ultimately were expected to generate the needed foreign exchange. The shortfall in exports and the sharp increase in imports (Table 1) forced the Government to finance the ever-increasing resource gap with external borrowing and a drawdown of foreign reserves. Medium- and short-term borrowing escalated, therefore, from

US\$100 million in 1971/72 to over US\$500 million in 1974/75. The country was initially able to mobilize external resources on relatively favourable terms, but the decline in concessional assistance--owing to shrinking aid budgets in the donor countries combined with the authorities' inability to adjust the economy--forced the Government to resort to high levels of short-term borrowing on nonconcessional terms. The debt problem currently facing the country is the result of the Government's inappropriate borrowing and spending policies in the past.

Fourth, the rising gap between public expenditure and revenue (Table 1) led to increasing budgetary deficits. These, in turn, necessitated substantial recourse to domestic bank borrowing and the large inefficient parastatal sector was also heavily dependent on bank credit.

Monetary expansion was thus in excess of the non-inflationary requirements of the economy. The high inflation pushed scarce private financial savings into real estate, commodity stocks and foreign exchange holdings. The Government's efforts to curb inflation by price regulations and controls made the profitability of commodity production highly dependent on administrative decisions and even less attractive.

In summary, during the 1960s Sudan's external and internal accounts remained relatively healthy despite a number of indigenous socio-political and economic constraints. However, in the 1970s, Sudan's fortunes began to change and the country's economic performance was dominated by swings in the international environment (rising oil prices, stagnant export prices, international inflation and recession), rising budgetary deficits, increasing domestic inflationary pressures, and by a lack of appropriate policy response to these adverse changes. This situation was further compounded by the severe political upheavals that the country experienced during 1970/77.

### **III. ADJUSTMENT AND THE POOR**

#### **A. The Adjustment Effort FY 1979/84 And 1988**

##### ***1. Introduction***

In response to the worsening economic situation, the Government in collaboration with the IMF and World Bank began in early 1978 to recast its economic and financial policies. Consequently, the authorities introduced in June 1978 a mix of important supply and demand measures (i.e., a 20% effective devaluation of the exchange rate and the abolition of additional tax rates and the development tax on imports). However, the thrust and direction of the Government's new economic and financial adjustment program was completed when the IMF approved an Extended Fund Facility (EFF) in May 1979 covering the three-year period, 1979/80 - 1981/82 and IDA approved an Agricultural Rehabilitation Credit (ARP) for the irrigated sub-sector in March in 1980.

##### ***2. IMF-Supported Policies***

###### **Objectives and Targets**

The objectives of the 1979 EFF were to:- (a) contain the deficit in the current account to a

level consistent with the reasonable expectations of capital inflows; (b) protect the development program from external and internal financial pressures; and (c) expand the pace of economic activity. The specific targets set for the EFF program were to:

- raise real GDP growth to 4% a year by 1981/82;
- hold the current account deficit to US\$400 million by 1981/82 compared with US\$451 million in 1978/79;
- contain the annual money supply growth rate at 16%; and
- liberalize the exchange rate to foster an environment that would be conducive to inflows of remittances of Sudanese working abroad and of foreign capital.

However, the EFF was cancelled and replaced by a one-year stand-by arrangement (SBA) in May 1982, when agreement on the third-year program could not be reached. The objectives and targets for the SBA were to:- (a) encourage exports of agricultural crops; (b) restrain import growth while simultaneously redirecting the composition of imports toward intermediate and capital goods; (c) increase incentives to Sudanese working abroad; (d) achieve a GDP growth rate of 3.5% in 1982/83; and (e) contain the growth of money supply at 28% and the budget deficit to 7% of GDP.

In February 1983, the IMF granted another SBA for 1983/84 with the following targets:

- GDP growth of 4.4% in 1983/84;
- increase in cotton exports of 7%;
- containment of money supply growth at 18%; and
- raising of government revenues to 16% of GDP.

During 1984/85 - 1986/87, the Government and the IMF could not reach an understanding on any comprehensive adjustment measures. However, in September 1987 an agreement was finally concluded, and the Government introduced an Action Program (AP), the last of its kind with the IMF, in October 1987. The main objectives of the AP were listed as:- (a) reform the exchange rate system to encourage production and exports and reduce consumption; (b) achieve an internal balance through revenue growth and expenditure containment; (c) reduce money supply growth to about 23% per annum; (d) reform parastatals; and (e) adjust interest rates to compensate depositors for inflation and encourage savings and investment.

#### Economic Performance Under the IMF Program

In support of the above objectives and targets, the Government implemented a wide range of important corrective policy measures. These included: substantial exchange rate adjustments, increased nominal interest rates, and large price increases for key commodities (i.e., petrol, sugar). Details of the measures taken are given in the Annex to this paper.

But despite the measures taken, economic conditions continued to worsen. Sudan's real GDP growth performance during and after the program years was disappointing. According to

Table 2: Main Economic Indicators, 1979/80 - 1987/88

(%)

	1979/80	80/81	81/82	82/83	83/84	84/85	85/86	86/87	87/88
GDP Growth	3.5	1.4	9.9	0.4	-2.9	-12.8	8.0	3.6	-0.2
% of GDP									
Consumption	96.9	98	93.3	93.8	94.0	94.1	96.3	92.5	93.3
Private	80.6	80.4	77.1	80.3	79.8	78.0	82.7	83.5	84.5
Public	16.0	17.6	16.2	13.5	14.3	16.0	13.6	9.1	10.2
Gross Domestic Invest.	15.1	15.3	24.5	19.1	15.6	13.9	11.8	10.3	10.2
Private	4.5	4.3	19.5	14.0	13.5	10.2	8.6	5.1	5.6
Public	7.0	6.8	15.5	4.8	4.1	3.2	1.8	3.4	3.6
Change in stocks	3.5	4.2	5.5	.4	2.0	0.4	1.2	1.8	1.0
Exports	12	9.5	8.8	10.8	13.9	10.8	9.0	3.3	4.2
Imports	23.6	22.8	26.7	23.7	22.7	18.8	17.1	6.1	7.7
Resource balance	11.6	13.3	17.8	12.9	9.7	8.0	8.1	2.8	3.5
Current account balance	9.8	12.2	17.1	11.6	10.7	8.6	10.7	3.9	5.8
Gross domestic savings	3.4	2.0	6.2	6.2	6.0	5.9	3.7	7.5	5.8
Gross national savings	5.5	3.2	7.5	7.6	5.0	5.3	1.0	6.4	4.4
Revenues	14.8	14.7	13.0	13.6	12.8	9.9	9.4	8.2	9.5
Current expenditures	18.2	21.1	20.1	16.7	17.3	22.3	22.1	18.4	22.7
Budget deficit	9.8	13.2	11.9	7.9	9.2	15.8	12.7	10.1	13.1
Money supply	27.5	30.2	31.2	22.2	16.9	46.6	32.1	33.8	29.1
Inflation	26.5	18.3	22.1	29.7	27.2	24.5	28.8	32.1	45.2
Terms of Trade <sup>1)</sup>	93	98	92	94	98	92	79	77	76

Source: "Problems of Economic Adjustment", World Bank Report No. 6491 - SU, Feb. 1987, and Ministry of Finance - General Planning Data Files.

1) 1980 = 100

official data, annual GDP growth averaged 2.4% over the program period, 1979/80 - 1983/84, and only 0.9% for the entire period, 1979/80 - 1987/88 (Table 2). These rates of growth imply a decline in per capita income, since population growth is estimated at 2.9% per annum.

The main factor responsible for the poor growth record in the first half of the 1980's was the insufficient size and late implementation of the agreed policies. Other reasons for the deterioration were: (a) the drought of 1982/83 - 1984/85; (b) the lack of foreign exchange to purchase production inputs and spare parts; (c) the second oil price increase, combined with unfavorable terms of trade; and (d) competition with smuggled imports. With improved climatic conditions in 1985/86 and 1986/87, the economy experienced an upturn in momentum and grew by 8% in 1985/86 compared with minus 13% in the previous year, largely because of a 30% growth in agriculture. But the growth boost was lost by 1987/88, mainly because of bad weather, the civil war in the South, political instability in the North, and inadequate adjustment policies.

The slow growth performance led to a corresponding trend in the volume of exports. The country's inability to realize adequate export earnings and to attract remittances of Sudanese working abroad through official channels limited its ability to import. Consequently, allowable imports were compressed through tariffs and administrative controls to an unprecedented set of extremely essential commodities such as petroleum and key production inputs. Foreign assistance shifted, therefore, from project to commodity aid (i.e., wheat and petroleum), mostly for urban consumption.

The tight import situation also affected domestic resource mobilization. Tight import controls combined with the prevalence of a large excess demand and an overvalued currency shifted a significant portion of economic activities to the parallel market. Revenue, therefore, declined considerably as a share of GDP growth in the 1980s. Expenditures, on the other hand, increased as a share of GDP during the first half of the 1980s, but, owing to structural adjustment measures, were reduced in the second half of the 1980s. Since it was politically not possible to reduce wages, salaries and defence expenditure, reduction was in social services, of particular importance to rural areas, and development expenditure (Table 3).

**Table 3: Share Of Services In Total Current Expenditures**  
(%)

1977/78	30.5	1981/82	21.6
1978/79	20.3	1982/83	22.9
1979/80	23.1	1983/84	20.6
1980/81	23.9	1984/85	15.7

Source: "Employment and Economic Reforms Towards a Strategy for the Sudan," ILO, 1986.

To bridge the budgetary gap, the Government had recourse to deficit finance. State enterprises, faced with losses due to inefficiency, mismanagement, tight import controls, lack of

appropriate pricing policy, overstaffing, also resorted to the central bank for credit. This led to a rapid acceleration of money supply growth and consequently high inflation (Table 2). But despite accelerating inflation, total consumption measured as a percentage of GDP remained high during the period 1979/80-1978/88 (Table 2). This is mainly attributable to the high level of private consumption basically maintained through the shift in foreign capital inflows to finance current imports rather than investments, since structural rigidities in the economy and the erroneous pricing policies prevented domestic output from responding to this high level of demand. As excessive demand continued, scarcities prevailed and consumers in rural areas and the urban poor were forced to pay higher prices for consumer goods in the lucrative black market.

Contrary to private consumption, public consumption decreased from 17% of GDP in the beginning of the 1980s to around 9% in 1987/88 (Table 2). The Government's endeavor was to improve public savings in relation to public consumption through both increased revenues and containment of public consumption. But as the revenue situation did not improve substantially, strict demand management was adopted and consequently public consumption declined. This decline was not, however, shared by all categories of public consumption since services such as education, health, and housing were the most affected.

Total investment also declined from around 25% of GDP in 1981/82 to 10% in 1987/88, with both public and private investments sharing this decline. Public investment was affected by the low level of savings in the public sector and the slow foreign exchange flows that were due to mounting debt problems (end - 1988 - US\$12.8 billion including arrears). The decline of private investments, on the other hand, also was due to the deteriorating investment climate manifesting itself in the lack of inputs and spare parts, ill-designed foreign exchange and pricing policies, and the poor infrastructural facilities. The weak performance of investments led to slow output growth and hence falling incomes, lack of funds to correct regional inequalities in investments, and loss of employment opportunities.

### **3. *The World Bank Program***

#### **Goals and Objectives**

To support the IMF/Government program and to provide the country with much-needed balance of payments assistance, especially the foreign exchange required to increase capacity utilization in the irrigated subsector, the World Bank approved three Agricultural Rehabilitation Programs (ARP#I-III) in 1980, 1983, and 1987. The goals and objectives set for each of these programs were to:-

ARP I - (a) restore output in the irrigated subsector; (b) shift acreage to crops in which Sudan has a comparative advantage (cotton and groundnuts); (c) restructure the cost recovery system in the sector; (d) introduce an export action program with the goal of achieving average export growth of 7% for cotton; and (e) prepare a realistic three-year (1981/82 - 1983/84) public investment program.

ARP II - (a) raise production efficiency, particularly input-cost effectiveness; (b) initiate integrated pest management (IPM) techniques; and (c) streamline procedures for the procurement of agricultural inputs and strengthen arrangements to obtain and monitor external assistance for such imports.

ARP III - (a) support safer pesticide storage and handling and develop IPM systems in the irrigated schemes; (b) strengthen the policy and project planning, implementation, and financial management of the ministries of Agriculture and Industry, Sudan Cotton Company and the Agricultural Corporation; and (c) finance studies on: (i) the privatization of management of Blue and White Nile irrigation schemes; (ii) the preparation of a national irrigation rehabilitation program; (iii) the development of the edible oils subsector; and (iv) the rehabilitation of gum Arabic plantations.

Since ARP III was still ongoing at the time of preparing this paper, the following review of performance under the World Bank program will focus mainly on ARP I and II.

#### Performance Under ARP I and II

In accordance with the objectives of ARP I and II, the Government took a number of important policy measures (Annex). Particularly notable have been measures that have increased the financial incentives to farmers, both within and outside the public irrigated schemes (i.e., removal of export taxes and a more favorable exchange rate). Further steps to improve the incentives to export production were also carried out through measures such as the introduction of a new system of land and water charges specific to individual crops and farmers.

**Table 4: Selected Indicators Of The Irrigated Sub-Sector, 1980/81 - 1985/86**  
(1979/80 = 100)

	1980/81	81/82	82/83 <sup>1]</sup>	83/84 <sup>1]</sup>	84/85 <sup>1]</sup>	85/86
<u>Production Index</u>						
Irrigated subsector	78	100	103	113	108	101
Cotton	89	147	180	195	202	129
Groundnuts	39	68	45	44	63	23
Wheat	94	61	61	73	74	86
<u>Yield Index</u>						
Cotton	91	148	183	191	200	161
Groundnuts	81	68	79	73	79	65
Wheat	98	85	119	95	135	109
<u>Export Index (Volume)</u>						
Cotton	48	27	71	124	87	60

Source: "Annual Reports", Ministry of Agriculture and Natural Resources and "Problems of Economic Adjustment", World Bank Report No. 6491 - SU, Feb. 1987.

1] Drought years

As a result of the improvement in incentives matched by physical rehabilitation of plant and equipment and some improvement in scheme management, the irrigated sector in general and cotton (the dominant crop) in particular showed impressive upward growth during 1981/82 - 1984/85 (Table 4). However, the Government's failure to adjust the exchange rate on a regular basis resulted in the erosion of the price incentives through high domestic inflation. This, together with falling world market prices for cotton, lack of adequate irrigation water at the right time and inadequate policy and operation support to agricultural corporations brought the remarkable cotton production and thus the irrigated subsector growth to a halt by 1985/86 (Table 4). Therefore, the successful adjustment effort made under ARP I and II could not be sustained and rising domestic inflation quickly eroded the price incentives provided to farmers.

In sum, during the 1980s Sudan's poor economic performance, combined with terms of trade losses and high rates of population growth, resulted in significant losses in per capita real incomes. The country's social distress was further compounded by population displacement arising from drought as well as local and regional hostilities, overcrowding in urban centers largely due to population displacement, and acute food insecurity.

## **B. The Poverty Profile**

### ***Introduction***

The preceding analysis shows that the Government's adjustment efforts over the period FY 1979 - 88 were inadequate to stabilize the economy and correct earlier policy deficiencies. This failure to contain economic deterioration has exacerbated the effects of droughts and the war in the South by increasing the incidence of hunger and malnutrition and resulted in increasing income inequalities and poverty. In this context, the primary goal of this section is to present what is known about poverty in the Sudan and to identify target groups for policy analysis. Poverty is understood here, however, as a multi-dimensional concept, basing the individuals' welfare on their income and employment, health status, educational attainment, food security and consumption, nutritional status, as well as their access to proper housing and sanitation. Although official data in Sudan are spare in this regard, the section will nevertheless attempt to

**Table 5: Population, Manpower, and Employment Levels, 1960, 1970, 1983**

	1960	1970	1983
Total population ('000)	11,200.00	13,900.00	21,600.00
Working age population ('000)	5,936.00	7,367.00	11,232.00
Labor force ('000)	3,701.00	4,547.00	5,650.00
Participation rate (%) <sup>a)</sup>	33.00	32.70	30.80
Total employment ('000) <sup>b)</sup>	3,405.00	4,092.00	5,853.00
Unemployment rate (%)	8	10	12

Source: "The Third Population Census, 1983", Republic of Sudan; and "Sudan: problems of Economic Adjustment", World Bank, Report No.6491-Su., 1987, Statistical Annex, Table 3A.

a) Percent of labor force to total population of working age, 15-64 years.

b) Derived as a residual from the estimated figures for unemployment.



present a description of the poverty situation in the country based on available relevant poverty indicators and their evolution.<sup>3</sup>

The most recent growth in the sectoral distribution of modern sector wage employment is shown in Table 6. Total wage employment, which peaked in 1983, declined by 2.7% in 1985 due to continued deterioration in both external and internal accounts. But as economic conditions improved, total employment rose by 1.6% in 1986. The largest employers in Sudan are the public authorities. Although employment in this sector decreased by 2%, or an equivalent of 10,000 employees, its share in total employment remained unchanged at 84% between 1983 and 1986. The increase in regional employment during 1983 and 1986 was due mainly to the policy of decentralization and the delegation of more authority to the regions. The overall employment situation is expected to have deteriorated in 1988 as the upturn in economic activity lost momentum. However, the high share of the public sector in total wage employment coupled with the apparent overstaffing in the sector precluded any further meaningful expansion. Prospects for large increases in private sector wage employment are also unlikely in the medium term.

**Table 6: Modern Sector Employment, 1980-86 ('000)**

Sector	1980	1983	1985	1986
Central Government	103	112	82	85
Regional Government	219	230	250	252
Public Corporations	190 <sup>a)</sup>	193	186	188
Private Sector	90 <sup>a)</sup>	100	100	103

Source: "The Manufacturing Sector in Sudan: Setting the Stage for Restructuring", World Bank, Report No.6457-SU,1987; and "Employment and Economic Reform: Towards a Strategy for the Sudan", ILO, 1987.

a) Own Estimates.

Unlike the public and private sectors, the informal sector appears to provide the only potential source for large employment expansion in the near future. Although data on informal activities are scanty, ILO estimated that the share of the sector in total urban labor force increased from 25% in 1974 to 50% in 1983.<sup>4</sup> Given the ILO estimate for the size of the urban labor force of 1.3 million workers, some 0.65 million workers were employed in the informal sector in the early 1980s. Already low informal sector incomes are dwindling, however, as more petty traders and personal service people enter and compete for a share of a decreasing market. For sustaining employment growth in the informal sector by expanding its absorption and training

<sup>3</sup> In Sudan, comprehensive data on poverty are lacking. The population censuses of 1956, 1973 and 1983 are of a general nature and rarely updated by periodic sample surveys. Over the last twenty years, only two major surveys in the six northern regions have been undertaken: The Household Budget Survey (HBS), 1967/68 and the Household and Income and Expenditure Survey (HIES), 1978/79.

<sup>4</sup> "Employment and Economic Reform: Towards A Strategy for the Sudan", ILO, 1987, PP.39-40.

capacity, high priority should therefore be given in future structural adjustment policies to this important part of the economy.

### ***Income Distribution***

To assess the impact of the expected income shifts during the attempted adjustment period on income distribution, it is essential at the outset to draw attention to a number of important data issues. Firstly, actual trends in GDP, national income, and per capita income do not provide information on how changes in income are distributed among socio-economic groups and how income of the poor have been affected over time. Secondly, income data tend to ignore or underestimate income received through remittances from relatives working in urban areas or/and overseas. This is particularly important in view of the growing rates of rural-urban and external migration. Finally, national income data do not take into account wealth items such as livestock, tools,... etc. With these deficiencies in mind, available income distribution data will be examined below.

Although measurement of the degree of income equality or inequality in Sudan is constrained by the lack of appropriate data, information drawn by the ILO from HBS and HIES will be used as a proxy. The derived decile distribution of rural and urban household incomes is presented in Table 7. The decile distribution clearly indicates that the distribution of income in the Sudan had become more unequal by the end of the 1970s. The income share of the poorest half of the population (bottom to fifth decile) declined from 21.9% to 18.4% during 1967/68 - 1978/79, while the income share of the top decile (top 10 percent) rose from 33.1% to 37.8%. Moreover, the figures show that there were more inequalities in rural than urban areas.

**Table 7: Distribution Of Rural and Urban Household Income, 1967/68 -1978/79**

Deciles	Rural 1967-68	1978/79	Urban 1967/68	1978/79	Total 1967/68	1978/79
Bottom <sup>1]</sup>	2.3	1.0	2.1	2.1	1.9	1.0
Second	1.3	1.0	3.6	3.7	3.6	2.6
Third	5.5	3.6	1.7	4.9	4.7	4.0
Fourth	6.0	5.0	5.4	5.8	5.4	4.8
Fifth	6.6	5.1	6.5	6.8	6.3	6.0
Sixth	8.0	7.2	7.6	7.9	7.7	7.4
Seventh	9.7	8.8	9.5	9.5	9.7	9.4
Eighth	12.1	11.1	11.6	11.3	12.0	11.5
Ninth	14.8	15.3	15.7	14.9	15.0	15.5
Top	26.7	29.5	33.4	33.2	33.1	37.8

Source: "Employment and Economic Reform: Towards a Strategy for Sudan", ILO, 1987.

1] Often used as an indicator for the welfare of the poor.

In 1978, the absolute poverty income level for urban Sudan is estimated at US\$137.<sup>5</sup> By using this and the relevant GNP figures as well as the data contained in Table 7, it is estimated that about 30% of all households in Sudan were below the absolute poverty line by the end of the 1970s.

Knowing from the preceding discussion that the major economic indicators influencing incomes were down over the period under consideration, it becomes clear that poverty levels between and within urban and rural areas are likely to have increased sharply over the 1980s. Estimates by the World Bank suggest that currently some 40% of the population of northern Sudan lives in absolute poverty, while a further 10% lives on the verge of absolute poverty.<sup>6</sup> This implies that the standard of living for most Sudanese, in particular those living in or having migrated from, the troubled southern and western regions, had been declining rapidly throughout the 1980s.

### ***Social Indicators of Poverty***

Although it is considered a low-income country, various recent social indicators show living conditions in Sudan to be far poorer than those of an average low-income country (Table 8). Access to basic social services such as education, health care, nutritional programs for children, and safe water is extremely limited. Enrollment rates at primary and secondary schools are estimated to be 49% and 17%, respectively; indications are that the poor are least able to gain access to quality education. The literacy rate is estimated at no more than 20% and barely 10% in rural areas; the rate for women is believed to be even lower. Health care facilities, once considered to be the best in Africa, are now poorly staffed and equipped due to inadequate funding. The poor health and nutritional status of the population has contributed to the exceptionally high infant mortality and high death rates. Sanitation conditions are extremely poor throughout the country, with Khartoum being the only urban area having a sewerage system. It is estimated that over 90% of the urban population, but only about 43% of the rural population has access to safe water.

According to available information on selected social indicators by regional location, the areas with the highest incidence of poverty are the war- and drought-stricken southern, western and eastern regions (Table 9). These regions combined account for approximately 50% of Sudan's total population. Because of this, the generally high proportion of rural population, and a decade of declining incomes, many of the poor in Sudan are to be found in rural areas. However, the rural poor may be poorer in absolute terms, but they are less directly affected by structural changes in the economy as most of them can produce their own food. This is certainly not true for Sudan's rural poor in the southern and western regions where the combination of war, armed banditry, and droughts are adversely affecting agricultural production.

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<sup>5</sup> See "Problems of Economic Adjustment," World Bank, Report No.6491-SU, 1987, Statistical annex, Table 3A.

<sup>6</sup> "Sudan: Toward and Action Plan for Food Security," World Bank Report No. 8167-SU, 1990

**Table 8: Social and Demographic Indicators, 1989**

<u>Population characteristics</u>	<u>Sudan</u> <sup>1]</sup>	<u>LIC</u> <sup>2]</sup>
Life expectancy at birth (years)	50	60
Infant mortality rate (per thousand)	150	72
Child death rate (per thousand)	18	12 <sup>3]</sup>
Urban population (in %)	22	35
Prevalence of malnutrition (under 5)		
(in % of age group)	55	30
<u>Health, education and nutrition</u>		
Per capita daily supply of calories	1,996	2,384
Population per physician (thousand)	10.1	5.6 <sup>4]</sup>
Access to safe water (% of population)	50	65 <sup>3]</sup>
% of urban population	96.0	-
% of rural population	43.0	-
Primary education enrollment rate (% of eligible children)	49	76 <sup>5]</sup>
Secondary education enrollment rate (% eligible children)	17	26 <sup>5]</sup>

Source: "Social Indicators of Development", World Bank; and "World Development Report 1990", World Bank, 1991.

- 1] Indicators are extrapolations by the World Bank Based on partial survey data compiled mainly during 1980-83.
- 2] LIC = low-income countries.
- 3] Estimate.
- 4] 1984.
- 5] Low income countries excluding China and India. If these are included, the figures will be substantially higher.

**Table 9: Selected Social Indicators By Region**

	Food Deficit/Surplus in 000 Tons <sup>1)</sup>	Grains (1982-84) as % Population <sup>2)</sup>	Drought (1982-84) as % Population <sup>2)</sup>	Victims as %	Percent of Poor and Vulnerable in 1988 <sup>3)</sup>	Nutrition Status of Chronically malnourished children (%)	Enrollment rate & Primary Education (age 7-12)	Percent admitted to the University of Khartoum	Students to the University of Khartoum				
	80/81	83/84	86/87	Affected	Dis-	Rural	Urban	Tot.	79/80	86/87	79/80	84/85	8/89
KHARTOUM	-202	-234	-307	-	-	28	37	35	67.2	86.0	25.9	34.4	45.3
NORTHERN REGION	- 85	-118	-113	13.8	4.6	30	22	28	74.5	91.7	16.3	13.3	9.7
CENTRAL REGION	+183	+612	+960	33.6	10.5	28	22	27	50.2	71.0	33.8	32.3	29.9
EASTERN REGION	+561	+988	+847	54.3	18.0	21	23	26	27.1	44.8	7.6	6.9	7.6
KORDOFAN REGION	+ 61	+142	+ 77	92.7	13.7	29	24	29	28.6	46.7	10.3	7.8	4.8
DARFUR REGION	-115	- 35	-223	91.4	16.2	25	24	24	22.2	41.2	5.6	3.9	2.5
SOUTHERN REGION	-329	-672	-372	N/A	N/A	N/A	N/A	N/A	26.6	24.1	.4	.4	.2
SUDAN	+ 74	+399	+715	53	8.7	28	27	28	38.7	51.4	-	-	-

**Sources:**

Maxwell, S: "Food Insecurity in Sudan", IDS, December 1988; Vital Statistics Annual Reports - Ministry of Health; Educational Statistics - Ministry of Education; 'After The Famine' - "A program of Action" - ILO September 1985; Agricultural Statistics Department, Ministry of Agriculture, "Agricultural Simulation outlook Reports; Economic Survey, Ministry of Finance and Economic Planning."

- 1) Including sorghum, millet, and wheat.
- 2) The total is for Northern Sudan only.
- 3) The vulnerable and poor as % of population is estimated of those whose incomes as subject to natural hazards (droughts, etc.) and ill-conceived policies (ecological hazards, pricing policies) and whose consumption is almost stagnant or declining according to the criteria set in the Source below.

In urban areas, many of the poor are to be found in settlements with no legalized status (shanty towns), inhabited by households which were mainly displaced by drought or uprooted by the ongoing civil war in the South. Most of the urban poor who work have jobs in low-paying formal or informal sector at wages rarely exceeding the minimum wage. This is partly due to the limited bargaining position of the urban poor, especially the very poor among them. Because of their illegal status, the social distress of these households is being compounded by their dependence on the parallel market for their basic commodities, where prices are substantially in excess of official prices prevailing in legalized settlements. Removal of food subsidies in Sudan would therefore not adversely affect the very poor among the urban poor.

### ***Prices and Wages***

The only measure for price movements in Sudan is the cost of living index for Khartoum. Developments in the index over the years 1974-88 show a history of strong inflationary episodes (Table 10). During this period, the economy has remained largely under repressive price controls with demand pressures being vented through the parallel market, while official price movements have partially reflected those in the parallel market. The major factors behind Sudan's inflation, some of which are interrelated, appear to be the following: increased deficit financing by the Government, buoyant private demand, increases in money wages and salaries (1978, 1983, 1986 and 1988) and successive downward adjustments of the Sudanese currency. However, inflation for 1989 was considerably higher (over 80%) as the deterioration in internal and external accounts continues. The failure to contain inflation clearly reflects the Government's inability to achieve structural adjustment's major objective of financial stabilization.

**Table 10: Changes in Wage Employment, Minimum Wages, and Consumer Prices**

	Average long-term growth rates					
	1974/78	1979/84	1985	1986	1987	1988
Wage employment	--	4.0 <sup>a)</sup>	-1.7 <sup>b)</sup>	1.6 <sup>b)</sup>	0.3 <sup>c)</sup>	0.3 <sup>c)</sup>
Current minimum wage per month <sup>(d)</sup>	25.3	10.0	0.0	42.8	0.0	233.3
Inflation index	18.0	27.0	46.0	28.0	31.0	45.0
Real minimum wage per month	7.3	-17.0	-46.0	13.0	-31.0	188.3

Source: Various Sources.

- a) Based on data for central government only since data for the whole modern sector are lacking.
- b) Own estimate based on Table (6) and ILO data.
- c) Own estimate assuming that growth took place mainly in the public sector.
- d) Official minimum wage stood at LSD 13.9 in 1974. It was raised to LSD 28.0 in 1978; 42.0 in 1983; 60.0 in 1986, and 200.0 (300.0 with allowances in 1988).

The impact of continuing high inflation on wage incomes is demonstrated in Table 10. Unfortunately, time series data on the various salaries and wages by scale or occupation are not available. Instead, data on official minimum wages are being used as an example for showing the consequences of inflation for wage earners. The derived figures indicate that the nominal rate of growth of minimum wages in Sudan was far below that of inflation over the attempted adjustment years 1979-87 with the gap widening more rapidly between 1985 and 1987. During these years, the real minimum wage fell by 64% compared with 85% for 1979-84.

But the significant wage adjustments granted in 1988 ended the downward trend and increased real wages by 39% for the whole period 1979-88. However, despite this impressive improvement, the new minimum of LSD 300 (including allowances) is equal to only one third of the estimated household expenditure for Khartoum (Table 11). In addition, the new wage increases do not seem to constitute a new policy direction to raise real wages to a market-clearing level on a continuous basis because of the current high inflation rates and the difficult financial position of both public and private sectors.

**Table 11: Average Household Expenditure For Khartoum, 1978/79 - 1987/88 (in LSD)**

Item	Weights (%)	1978/80	1987/88 <sup>a)</sup>
Food	54.4	718	5039
Housing	20.5	270	1899
Clothing	3.1	41	287
Other	22.0	291	2037

Source: Drawn from "Employment and Economic Reform: Towards a Strategy for Sudan", ILO, 1987, Table 2.7, page 38.

- a) Own estimates using the inflation rates for the period 1981/83 - 1987 /88 and the 1978/80 weights assuming that average household expenditure in Khartoum kept pace with the increases in the price index.

**Table 12: GNP Per Capita, 1978/79 - 1987/88 (in US\$)**

Year	Amount	% Change
1978/79	371.0	-
1979/80	370.9	9.0
1980/81	422.0	+13.8
1981/82	387.3	-9.0
1982/83	359.6	-7.7
1983/84	343.6	-4.7
1984/85	358.8	+4.4
1985/86	358.6	0.0
1986/87	340.5	-5.3
1987.88	330.4	-3.1

Sources: World Bank and Bank of Sudan Data.

It is evident that the erosion in real wages was also accompanied by a fall in national average income of 12% during 1978/79 - 1987/88 (Table 12). This decline represents a reduction in GNP per capita of 1.3% per annum. Since socio-economic groups are expected to have defended themselves differently against such income losses, it is evident that wage earners were among the losers in the process of attempting to adjust the economy.

### ***Pricing and Farming***

Sudan's attempted structural adjustment policies included elements specifically designed to be positive for the farm sector. As mentioned earlier, some producer prices were raised significantly, reforms were planned to improve the effectiveness of the marketing system, and an effort was made to strengthen the agricultural extension system with special focus on smallholders. However, small farmers, who predominantly produce for their own subsistence, do not have access to the surplus labor or the credit necessary in order to take advantage of the new opportunities. Furthermore, as producer prices were not adjusted continuously to inflation, small farmers, in particular, may have found themselves worse off than before the adjustment effort was embarked on. This has, in all likelihood, led to increased inequalities between better off and poorer rural households.

To sum up, although comprehensive data are lacking, indicators are that poverty, both urban and rural, is a widespread phenomenon in Sudan. Thus, there is an urgent need for consistent poverty focus in economic policy formulation in view of the declining economy and the high population growth. Stabilizing the economy and providing incentives for growth will not be enough to effectively address the plight of the poor. By the time the "trickle down" effects (if ever) reach them, it may be too late for many to benefit. It is therefore necessary to develop policies and programs that cater to specific poverty target groups in order to allow them to participate fully in future economic growth.

## **IV. ADJUSTMENT AND THE POOR: POLICY SYNTHESIS**

Adjustment programs hurt poor groups by changes in relative prices and cutbacks in Government expenditure. But despite increasing population and deteriorating living conditions during recent adjustment efforts, Sudan still lacks a consistent poverty-focused policy that would protect vulnerable groups during adjustment. While restoring internal and external equilibrium is a pre-condition for the resumption of sustained economic growth, such a high priority objective alone is not sufficient for protecting the poor against the negative social impact of adjustment. Since economic reform takes place over time, this emphasizes the need for short- and long-term policies and programs to protect the poor during the reform period. While short-run measures aim primarily at alleviating the transitory social costs of adjustment, longer term measures focus on ensuring the full participation of the poor in future economic growth. Easing the hardships of adjustment on the poor should help gain the popular support needed for policy reforms. This, in turn, contributes to the sustainability of adjustment programs.



## **A. Short-Term Measures**

### ***Targeted Subsidies***

In Sudan, universal subsidies in total Government current expenditure have reached unsustainable levels (over 20% in 1989/90). Targeting available financial resources to the poor is thus urgently warranted. This would provide a partial solution to the problem of universal subsidies as well as the potential for improving the equity of social expenditure without additional resources.

The efficiency cost resulting from the undercosting of the targeted subsidized commodities and services would be justified by the social welfare benefits. However, redirecting budgetary resources is for technical and political reasons a complex task and should, therefore, be carried out gradually. Such an approach is also desirable since resolving the problem of identifying those who qualify for targeting would require a substantial amount of resources and time. With these concerns in mind, the following discussion will focus on targeted food and public services subsidies.

Food outlays account for over half of average Sudanese household expenditure (Table 11). Because of this, poverty groups (i.e., farmers in rainfed areas, wage earners, and displaced people) are particularly vulnerable to food price increases resulting from relative price changes induced by adjustment measures. To partly protect the basic nutritional needs of the poor against rising food prices during adjustment, a targeted food subsidy scheme to replace existing universal subsidies is needed as a matter of priority. For the scheme to be cost effective, cross-subsidization (i.e., free market sugar and special bread to subsidize common bread) would appear most desirable as it limits the need for additional resources.

Structural adjustment programs require, among other things, stringent fiscal policy which necessitates, in turn, overall expenditure cutbacks. Since subsidies for public services in Sudan are global, such cutbacks tend to affect primarily lower-income users. To correct this situation by making available more public resources to target the poor, there is a need for a better allocation of public social expenditures. This could be accomplished through a number of options: (a) shifting part of social services from the public to the private sector (i.e., privatizing some hospital services); (b) maintaining public social expenditures for the poor by recovering the full cost of rendered services from the better off; (c) improving cost recovery and shifting part of public social services to the private sector; and (d) eliminating all subsidies in public services and replacing them by programs targeted to the poor (i.e., direct provision of health care in poor localities). The expenditure savings resulting from any of these options could be enhanced considerably if combined with streamlining and improving of the operations of the existing weak social service administrative agencies.

### ***Compensation for Displaced Workers***

In Sudan, expansion in Government employment since independence without clearly defined functions and responsibilities has led to pervasive overstaffing in public administration.

Although the growth in Government employment has been curtailed in recent years, overstaffing is still an issue of major concern. Future adjustment policies should focus, therefore, on measures to limit the size of Government through gradual labor retrenchment. This would mostly affect workers, especially unskilled ones, and employees at the lower salary levels. To protect these groups, provision of a transitory package could broadly consist of: (a) six months' pay; (b) one week's salary for every year of service; and (c) free retraining for a period of five to six months. Direct payments to the displaced workers could be borne by the Government budget without the need for additional resources. But due to the financial discipline required by structural adjustment programs, financing of needed retraining for displaced workers should be left to UN-specialized agencies, international and regional aid institutions, and NGOs. Government involvement should be limited only to the provision of logistic support (i.e., land and tax and duty exemption for imported equipment and materials).

### ***Temporary Employment***

The more urgent, perhaps the most important, poverty problem in Sudan at present is one of urban unemployment workers. This reflects the urgent need for an expanded employment program for this group in order to mitigate the social costs of adjustment.<sup>7</sup> Given the acute maintenance and rehabilitation needs of public infrastructure (i.e., schools, hospitals, and roads), the program could best be developed in the area of public works. To offset the financial costs of the program, local taxes (i.e., personal property tax) should be re-examined and realistically adjusted. But in order to maintain macro-economic stability, the program would have to be limited in scope. For timely implementation of the program, particular attention should be given, however, to policy measures directed toward: (a) ensuring appropriate staffing, and (b) improving channels of consultation and coordination between the responsible government departments and agencies.

### ***Service Programs for Forced Migrants***

Due to drought and insecurity in recent years, an estimated 2.0 million people from the southern and western parts of Sudan were forced to leave their constituencies. Most of these people have temporarily settled at the outskirts of northern urban centres, especially Khartoum, where an estimated 1.0 million forced migrants currently live. These displaced people lack skills as well as access to basic public services and goods. This together with tight labor markets has led to widespread malnutrition, disease, and crime among forced migrants. Temporary service programs aimed at providing these groups with basic health care, education and training, sanitation facilities, security, and subsidized essential consumer goods should, therefore, be given high priority. In view of the need for maintaining macro-economic stability and the weak executive capacity of implementing Government agencies, designing, financing, and implementation of such programs could best be accomplished by assistance of international and regional aid agencies and NGOs.

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<sup>7</sup> Food-for-work programs are not likely to have much success in Sudan since they will be viewed as unethical and, thus, socially unacceptable.

## **B. Long-Term Measures**

Resumption of sustained economic growth is a precondition for the pursuit of long-term poverty-oriented objectives. The growth, income distribution, and poverty alleviation aspects of the structural adjustment strategy should, therefore, be consistent with each other. Reform policies designed to restructure the pattern of economic growth, including revitalizing agriculture, should improve income distribution and help alleviate poverty by raising the incomes of the poor, providing them with expanded access to productive employment and increasing the productive assets available to them. To this end, the following discussion focuses on measures to: (a) raise agricultural productivity; (b) redirect social expenditures; (c) increase output in marginalized rainfed areas; (d) stimulate informal sector activities; (e) promote small scale industry including handicrafts; and (f) resettle displaced people.

### ***Increasing Agricultural Productivity***

Most Sudanese are poor (Table 7) and depend on traditional agriculture for their livelihood. Consequently, poverty in Sudan is overwhelmingly a rural phenomenon, with its roots in low income, low productivity agriculture. To assist the poor, increasing agricultural productivity should thus be the major focus of future Government policy. In this context, measures such as imposition of realistic producer prices based on world market prices and marketing structures would provide better returns to farmers.

In addition, there has to be a concerted effort towards direct improvements in labor productivity and technological efficiency by increasing the skills of the workforce, and improving management techniques, agronomic practices and varieties, especially for less progressive farmers and those on lower potential lands. The Government should take further steps in improving the technical and management ability of farmers and streamlining land registration procedures. All these measures will increase the rate of return from agricultural investment, enhance the viability of agro-enterprises, encourage financial institutions to lend, and accelerate smallholder production and incomes.

A strong positive impact on agricultural productivity and incomes could also be achieved through the rationalization of industrial protection and incentives. Rationalization of the trade regime by removal of quantitative restrictions on imports, coupled with compensated devaluation, would tend to raise agricultural prices and incomes relative to those in the industrial sector. At the same time, these measures would encourage a pattern of industrialization, both for export and for the domestic market, which is based on the use of domestic inputs rather than processing imported raw materials. This would, for example, encourage development of agriculturally based industries, again with beneficial implications for rural output and employment. A more realistic level and structure of interest rates would also have a favourable impact on the relative use of labor and capital.

Changing industrial incentives so that they are based on the use of labor rather than on capital would promote employment. Structuring these incentives so that they favor poorer regions of the country would also have a beneficial indirect impact on agriculture by providing the

increased incomes and borrowing capacity needed to undertake agricultural innovation.

### ***Re-directing Social Expenditures***

The preceding discussion does not imply that all that has to be done is to "get the price right" (i.e., exchange and interest rates) and depend on the effects of growth to trickle down to the poor. The poverty-alleviating effects of sustained growth of output and employment can be enhanced by expanded public services such as primary education and basic health services in an equitable and efficient manner. Since the present education system in Sudan is largely academic in orientation and thus contributes to unemployment by producing academic graduates well in excess of labor market demand, future Government policy should focus on shifting resources from the over-extended tertiary education towards basic education, youth training and technical education. In the health sector, special attention should be given to: (a) controlling communicable diseases through hygiene improvement, nutrition-oriented programs, and vaccination; and (b) improving and expanding the provision of other basic health services, including family planning assistance, sanitation and water, targeted to poor communities.

There are, however, constraints on the extent to which public expenditures can play an equalizing or poverty-oriented role. First, there is the very tight budgetary situation. Because of this, it is essential that the government improve its resource mobilization effort. On the expenditure side, it is imperative that public services projects and programs be evaluated carefully and re-organized according to new priorities in order to achieve better targeting of the poor.

A second major constraint on the expansion of program design to improve the lot of the poor is manpower. A stronger effort in social development requires increasing the number and upgrading the quality of technicians (i.e., health specialists, teachers,...etc.) and managers who have the responsibility for carrying out programs. For the Government to retain its trained personnel in career services and, at the same time, encourage entry into those fields, an attractive remuneration scheme should be devised within the framework of required macroeconomic stability.

### ***Increasing The Productivity Of Marginalized Areas***

Legal and illicit mechanized farming expansion in an endeavor to increase cash crops has ignored the rights of small holding cultivators in rainfed areas. The situation of these groups has been compounded by lack of infrastructure, and by drought, increased soil degradation, desertification, and displaced people. With no access to capital, farmers resort to money lenders' "sheil system" with exorbitant interest rates.

All these factors have resulted in the marginalization of large number of small farmer groups. The most viable alternative to integrate these groups in the future is by increasing their productivity and incomes. As a first step, a policy to realistically adjust producer prices on a regular basis as well as adequate investment in infrastructure is thus needed. A land use plan to restore the ecological imbalances between livestock and the carrying capacity of the grazing land

and between small holding and large mechanized farming is also a high priority. Moreover, special attention should be given to: (a) land laws to provide ownership rights for both land development and collateral purposes; (b) revolving funds linked with either land collateral or collective security to provide financial resources to farmers (including pre-harvest consumption needs; (c) technical assistance to help in the modalities of alternative methods of organizing beneficiaries, management, and administration of the proposed fund. To implement such programs, regional planning capabilities in sectoral planning, project preparation, implementation, and monitoring should be enhanced.

### ***Promoting Informal Sector Employment***

In Sudan, informal sector activities are heterogeneous, ranging from lucrative small-scale business to casual street selling. Although large in size and with a good potential for growth, the sector suffers at present from low and erratic demand. This is due to the declining purchasing power of the urban population and poor standards of workmanship. However, the concept of informal sector employment is still vague in Sudan and socially not yet fully recognized as a source of income-earning. Government policy gives little attention, therefore, to the development of productive and socially accepted informal sector activities.

But in view of stagnant labor markets and increasing urban unemployment, the promotion of informal sector is crucial for the future accommodation of the urban and semi-urban poor, especially women and youth. To accomplish this, serious consideration should be given to: (a) deregulation of price controls; (b) removal of administrative constraints (i.e., restricted market entry) placed by local authorities on the development of economically and socially desirable informal sector employment; and (c) introduction of a comprehensive extension service for small-scale entrepreneurs comprising technical non-formal vocational training, bookkeeping, and the provision of infrastructure, including transportation, tools and credit and marketing facilities.

### ***Resettlement of Displaced People***

While short-run policies aim at improving living conditions for forced migrants in their temporary settlement, such policies should be carefully matched with a long-term policy to resettle a large number of these groups in their original homelands. This reflects the need for a comprehensive resettlement program. The main focus of such a program should be the provision of compensatory assets in the form of cash or kind, training programs, basic public services and infrastructure. Since the return to stability in the homelands of displaced people would take some time, it is desirable to prepare the needed resettlement program in the interim period. Given the Government's tight resource position, international support should be sought for financing this program.

## ANNEX

### THE ADJUSTMENT EFFORT: SUMMARY OF MEASURES TAKEN

#### The period 1979/80 - 1983/84

##### *1) Exchange Rate Measures*

- a) In 1980, all exports (except cotton and imports, excluding petroleum, sugar, wheat, milk and drugs) were to be valued at the parallel exchange rate. In respective order this represented an increase of 64% and 68% of the value of aggregate exports and imports concerned.
- b) In 1981, official and parallel rates were unified at one LS. = US\$1.11.
- c) In 1982, a maximum rate was set for free market transactions one LS. = US\$88 and an official rate of one LS. = US\$77 was introduced.
- d) In 1983/84, commercial banks were authorized to deal in foreign exchange and a free market for hard currencies was set into motion. All imports, except drugs, were moved to the free market and so are all exports excluding cotton and gum arabicum.

##### *2) Fiscal Measures*

- a) An increase of custom duties by 10% surcharge on imports, imposition of a defense tax of 10% (1981), an increase in excise duties (1981/82), and shift of custom valuation to the new exchange rate (1982/83).
- b) Raising public utilities rates (1979/81) and departmental fees (1980/81).
- c) Introduction of a 10% tax on Sudanese nationals working abroad (1981).
- d) Reduction of public consumption and subsidies through price increases for sugar (1982), petroleum (74/81/82/83), milk powder and drugs (1981) and wheat (1982).

##### *3) Monetary Measures*

- a) Continued credit ceilings for both private and public sectors to contain money supply (1979/1984).
- b) Raising interest rates on deposits and loans (1981/83).

##### *4) Real Sector Measures*

- a) Elimination of export tax on cotton (1982).

- b) Declaration of rehabilitation of irrigated sector as a top priority in investments (1980/81).
- c) Abolition of point account system in irrigated sector (where costs were shared between Government, scheme management and tenant) and its replacement by individual account system (1981).
- e) Immediate payment to farmers upon delivery of cotton for ginning (1982).

**The Period 1987/1988**

- a) Unification of the exchange rate at LS. = US\$.22 to be applied to all foreign transactions.
- b) Increase excise duties for cement and import duties for others, and new tax measures imposed at regional government level (i.e., livestock and crops) and increase prices of sugar and benzine to full cost recovery levels.

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