The Domestic Origins of Sudan's External Debt Crisis

Abdel Rahman Ahmed Abdel Rahman

Abstract: Domestic factors played a significant role in Sudan's external debt crisis which emerged in the early 1980's. Personal rule and related political survival considerations undermined on-going economic adjustment programmes and prompted heavy external borrowing. Borrowing from abroad went unchecked because of the absence of an effective debt management system. It was also fuelled by economic corruption and the decline of cotton, Sudan's principal export crop. The absence of an effective debt management mechanism and economic corruption were a product of the lack of political and fiscal accountability in the context of personal rule.

Sudan's external debt crisis emerged all of a sudden in the early 1980s. The crisis manifested itself in the inability of the government to discharge its debt service obligations. This led to a rapid accumulation of external debt service arrears. The large size of the debt and its unexpected appearance thwarted efforts at economic stabilization and structural adjustment, undermined political stability, and seriously damaged Sudan's relations with its most important official multilateral creditor, the International Monetary Fund.

Sudan's external debt crisis, like many such crises in developing countries, was partly due to external factors. The oil shocks of the mid and late 1970s and early 1980s, coupled with high foreign real interest rates and the two recessions in the industrial world, had adverse effects on the external payments position of many countries in the developing world, particularly the oil-importing ones.¹

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However, as many people have argued, domestic factors were also responsible for the external debt crises in these countries. Such factors are usually lumped under the rubric of expansionary fiscal and monetary policies which lead to overvalued exchange rates and, consequently, to external payment crises which call for external borrowing.2

Domestic factors played a significant role in the emergence and development of Sudan’s external debt crisis. Indeed, some close observers of Sudan’s economic and political scenes tend to de-emphasize the role of external factors in the country’s external debt crisis.3 How did this crisis originate and develop? This study aims at exploring this question, drawing on previously confidential documents. The goal is to ferret out the lessons that can be drawn from Sudan’s experience. An outline of the study is in order.

Section I is an introduction which provides a profile of Sudan’s external debt. Section II examines in detail the origins and development of the crisis. The final section examines the short and long term effects of the crisis and the lessons that can be drawn from Sudan’s experience. In passing, a cautionary note is in order.

The focus of the study on domestic factors is not meant to downplay the impact of external factors, particularly the sharp increases in oil prices during the first and second halves of the 1970s. Sudan’s external payments accounts were adversely affected by these increases. For instance, 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 1980/81.4 However, as this study demonstrates, domestic factors also played a major role in the country’s huge external indebtedness.

SUDAN’S EXTERNAL DEBT

As previously noted, Sudan’s external debt crisis emerged when the country was unable to service its external debts in the late 1970s and early 1980s. This resulted in a rapid build-up of external debt service arrears which grew from US$ 0.2 billion in November 1979, to US$ 1.3 billion in June 1981, and to US$ 2.0 billion in June 1982.5 The size of the 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 percent of earnings from exports and non-factor services.

The large difference between the debt arrears and the actual debt service disbursements underscores Sudan’s extremely low level of debt servicing capacity. Indeed, interest payments arrears alone (that is, debt
service arrears excluding those on amortization of principal) far exceeded the country’s receipts from the export of goods and services in some years (see Table 1).

The external debt itself has grown considerably in the past few years. Between 1980 and 1989 (the latest year for which reliable figures are available), the country’s debt rose from US$ 5.163 billion to almost US$ 13 billion (see Table 1).

Table 1: Sudan’s External Debt, Debt Service, and Export Proceeds (In US$ Millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Debt outstanding</th>
<th>Export of Goods and Services</th>
<th>Debt Service</th>
<th>Debt Service Arrears¹</th>
<th>Debt Service Arrears Ratio %</th>
</tr>
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<tbody>
<tr>
<td>1980</td>
<td>5,163</td>
<td>1,034</td>
<td>264</td>
<td>25.5</td>
<td>49</td>
</tr>
<tr>
<td>1982</td>
<td>7,216</td>
<td>1,032</td>
<td>296</td>
<td>28.7</td>
<td>309</td>
</tr>
<tr>
<td>1983</td>
<td>7,600</td>
<td>1,246</td>
<td>226</td>
<td>18.1</td>
<td>381</td>
</tr>
<tr>
<td>1984</td>
<td>8,612</td>
<td>1,347</td>
<td>172</td>
<td>12.7</td>
<td>615</td>
</tr>
<tr>
<td>1985</td>
<td>9,127</td>
<td>1,245</td>
<td>149</td>
<td>12.0</td>
<td>899</td>
</tr>
<tr>
<td>1986</td>
<td>9,870</td>
<td>1,072</td>
<td>247</td>
<td>23.0</td>
<td>1,229</td>
</tr>
<tr>
<td>1987</td>
<td>11,563</td>
<td>962</td>
<td>97</td>
<td>10.0</td>
<td>1,788</td>
</tr>
<tr>
<td>1988</td>
<td>11,961</td>
<td>961</td>
<td>179</td>
<td>18.0</td>
<td>2,253</td>
</tr>
<tr>
<td>1989</td>
<td>12,963</td>
<td>1,233</td>
<td>97</td>
<td>7.9</td>
<td>2,874</td>
</tr>
</tbody>
</table>


¹ Interest arrears on long-term debt only.

A fairly large portion of Sudan’s debt, about US$ 2.8 billion or 22 percent of the total debt, is owed to official multilateral creditors such as the IMF (See Table 2). Sudan’s debt to the IMF totalled US$ 884 million or 32 percent of all its multilateral debts at the end of 1989. Such debts can not, of course, be written off or rescheduled. In fact, Sudan’s inability to discharge overdue financial obligations to the IMF led this multilateral creditor to declare the Sudan ineligible to use its resources.

DOMESTIC POLICIES AND THE DEBT CRISIS

A host of factors combined in the 1970s to produce Sudan’s external debt crisis in the 1980s and 1990s. Government policy actions and inactions
created conditions that sowed the seeds of a future external debt crisis. In broad terms, these factors were the neglect of Sudan's principal export crop (that is, cotton), the substitution of external borrowing for badly needed economic adjustment policies, the absence of an external debt management mechanism in the country, and economic corruption. These factors were closely related. The neglect of Sudan's principal export crop resulted from the almost exclusive focus in public investment programmes on new investments. As a result, no adequate provisions were made for existing investments, particularly cotton-growing schemes. The resulting increase in external development finance and the decline in export volumes and earnings led to heavy external borrowing. The ready availability of external finance, coupled with domestic political constraints, damaged ongoing economic adjustment programmes and precluded the introduction of new ones. External borrowing went unchecked because no debt management mechanism was in place.

Table 2: Sudan's External Debt and Creditors
(In US$ Millions)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Multilateral</td>
<td>2,454</td>
<td>389</td>
<td>2,843</td>
</tr>
<tr>
<td>Non-Paris Club</td>
<td>2,871</td>
<td>1,128</td>
<td>3,999</td>
</tr>
<tr>
<td>Bilateral Paris Club</td>
<td>2,348</td>
<td>1,064</td>
<td>3,412</td>
</tr>
<tr>
<td>Foreign Commercial Banks</td>
<td>1,812</td>
<td>284</td>
<td>2,0961</td>
</tr>
<tr>
<td>Foreign Suppliers</td>
<td>496</td>
<td>-</td>
<td>496</td>
</tr>
</tbody>
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THE COTTON PRODUCTION CRISIS

In the 1970s, cotton production was in a crisis which manifested itself in a downward trend in yields. This trend became particularly pronounced between 1978/79 and 1980/81 (see Table 3). For the period as a whole, yields declined annually by an average amount of 0.20 kantar per feddan. This represents a 5.3 percent annual average decrease in total output.

The contraction of output had a negative effect on exports. Export volumes declined from 1.2 million bales in fiscal 1972/73 to 0.8 million bales in 1977/78, and to 0.4 million bales in fiscal 1980/81. The drop in export volumes led to a reduction in export earnings, even though cotton export prices kept rising, particularly in the second half of the decade. Thus, earnings dropped from US$ 296 million in 1977/78 to US$ 182 million in 1980/81, and to US$ 69.4 million in 1981/82. Since cotton was, and still is, the country’s principal foreign exchange earner, the decline in exports coupled with the rise in Sudan’s oil import bill in the mid and late 1970s and early 1980s led to unprecedented current account deficits.

What then were the factors behind the cotton production crisis? Cotton production, undertaken in public irrigation schemes, has traditionally suffered from problems associated with irrigation, agricultural pests, availability of production inputs, and labour shortages at harvesting time. However, there were more important factors behind the crop’s production crisis. These factors were decapitalization and financial disincentives to cotton cultivation in the public irrigation schemes, and exchange-rate discrimination against cotton exports and production.

Decapitalization and Disincentives to Cotton Cultivation in the Gezira Scheme

As previously noted, in Sudan cotton is grown in public irrigation schemes. The largest and most important of these schemes is the Gezira Scheme, which accounts for 80 per cent of cotton production in the country. In the 1970s, the government simply neglected cotton production and hence the Scheme.

The neglect of cotton stemmed from government efforts to diversify the country’s exports to reduce its primary dependence on cotton. Consequently, non-cotton crops were accorded priority over cotton and new projects over existing ones, including cotton-growing schemes.
Table 3: Cotton Production, 1970-81

<table>
<thead>
<tr>
<th>Year</th>
<th>Area</th>
<th>Output</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970/71</td>
<td>1203</td>
<td>5082</td>
<td>4.2</td>
</tr>
<tr>
<td>1971/72</td>
<td>1203</td>
<td>4741</td>
<td>4.0</td>
</tr>
<tr>
<td>1972/73</td>
<td>1179</td>
<td>3997</td>
<td>3.4</td>
</tr>
<tr>
<td>1973/74</td>
<td>1178</td>
<td>4741</td>
<td>4.0</td>
</tr>
<tr>
<td>1974/75</td>
<td>1228</td>
<td>4534</td>
<td>3.7</td>
</tr>
<tr>
<td>1975/76</td>
<td>988</td>
<td>2276</td>
<td>2.3</td>
</tr>
<tr>
<td>1976/77</td>
<td>1030</td>
<td>3268</td>
<td>3.2</td>
</tr>
<tr>
<td>1977/78</td>
<td>1139</td>
<td>3901</td>
<td>3.4</td>
</tr>
<tr>
<td>1978/79</td>
<td>997</td>
<td>2758</td>
<td>2.8</td>
</tr>
<tr>
<td>1979/80</td>
<td>979</td>
<td>2287</td>
<td>2.3</td>
</tr>
<tr>
<td>1980/81</td>
<td>932</td>
<td>1998</td>
<td>2.1</td>
</tr>
</tbody>
</table>


1 Area is in feddan which is the basic unit of agricultural tenancy in the Sudan. It is equal to 1.04 acres.
2 Output is in kantars. A kantar of seedcotton is equal to 50 kilograms.

This approach had two adverse consequences for the Gezira Scheme: serious decapitalization in the Scheme, and lack of policy initiatives to restructure the Scheme's outmoded and grossly inefficient financial relationships in order to remove disincentives to cotton cultivation.

Decapitalization in the Gezira Scheme

The capital stock of the Scheme is huge. It includes, among other things, an irrigation complex, the core of which is the Sennar Dam, 14 gins, roads, hundreds of vehicles, and a railway network of 1,055 kilometres of track, known as the Gezira Light Railway.

The government's neglect of the Scheme led to substantial deterioration of its capital infrastructure. A case in point is the telephone system which is the original means of communication for water indenting. The system was not operational by the mid-1970s. Another case is the rolling stock of the Gezira Light Railway, which transports production inputs as well as cotton to ginning and marketing centres. The
rolling stock could not be replaced, and by 1981, 50 of the 100 locomotives were unserviceable and 25 percent of the wagons inoperative. A third case is the dredging equipment, most of which was out of order. This led to high levels of siltation in irrigation canals.12

In March 1980, a programme to rehabilitate the worn-out capital stock of the Scheme was launched with the support of the World Bank. Although badly needed, the rehabilitation programme came too late because by 1980 both cotton production and Sudan's balance of payments were in a serious crisis.

Financial Disincentives to Cotton Cultivation

During the 1960s and 1970s, the structure of financial incentives in the Gezira Scheme was biased against cotton cultivation relative to other crops grown alongside cotton in the Scheme.

Financial relationships in the Gezira Scheme were based on a partnership between the Central Government, which provided water, owned the land and the investment capital; the Scheme's Board, which managed the Scheme; and tenant farmers who supplied labour. The three partners shared net profits from cotton sales on the basis of fixed proportions.

The bias against cotton cultivation had three aspects which were related to the Scheme's more than fifty-year-old financial systems. First, the systems averaged out cotton production costs and the farmers' share in net cotton profits among the farmers. In other words, farmers shared profits and costs, regardless of their relative productive efficiencies. This means that efficient farmers (that is, those with more than average yields) were penalized; the systems made them subsidize less efficient ones. Second, the financial systems were not applied to some other crops introduced in the early 1960s. In the cultivation of these crops, not only did the farmer incur costs individually but also reaped the entire net profits from crop sales. Third, the Government and the Board recovered the costs of water delivery, investment capital, and scheme administration from cotton sale proceeds rather than from the sale proceeds of each crop grown in the Scheme.

Evidently, the Scheme's financial arrangements made the cultivation of non-cotton crops more financially attractive. In the 1960s and 1970s, various reports concluded that the arrangements created disincentives to cotton cultivation and that they were, therefore, partly responsible for the crop's production crisis. The reports called for reform, mostly seen in
terms of replacing the cost- and profit-sharing systems with an individual charge system. The government, however, did not take any action until the late 1970s - the time when Sudan defaulted and found it difficult to get external loans. The reason for this inaction was primarily political; restructuring the financial arrangements in the Scheme would not be acceptable to the militant Gezira Farmers Union, which successfully resisted many a reform proposal in the past.13

**Exchange-Rate Discrimination against Cotton**

The government's neglect of cotton was also manifested in the exchange-rate treatment of cotton export earnings. Exchange-rate policies discriminated against these earnings. This discrimination stemmed from efforts to encourage the export of non-cotton crops. Attempts to achieve this led to exchange-rate policies more favourable to these crops, some of which are grown alongside cotton in the Gezira Scheme.

The policy began in the early 1970s and continued throughout the decade. In March 1972, an exchange rate tax/subsidy scheme, designed to restrain the demand for imports and encourage the exports of crops other than cotton, was applied to the fixed (official) exchange rate of £Sd. 1 = US$ 2.87516.14 The scheme created an effective exchange rate of £Sd. 1 = US$ 2.5. This more depreciated rate was applied to foreign exchange receipts from all non-cotton export crops. The less favourable official rate was applied to proceeds from cotton exports.

Exchange-rate discrimination against cotton exports remained after each devaluation of the Sudanese pound in the 1970s, even as these devaluations were intended to encourage cotton exports. On June 8, 1978, the pound was devalued by 25 per cent, from £Sd.1 = US$ 2.87516 to £Sd. 1 = US$ 2.5. The exchange rate tax/subsidy scheme, introduced in March 1972, was increased by 25 per cent, yielding another more depreciated exchange rate of £Sd. 1 = US$ 2.0. The new official rate was applied to proceeds from cotton exports while the more depreciated and, therefore, more export-promoting rate was applied to export earnings from non-cotton crops.15

A less depreciated rate was also applied to cotton export earnings after the second official devaluation of the Sudanese pound on September 16, 1979. Cotton export proceeds continued to be converted at this rate until June 1981 when the exchange rate discriminatory treatment against cotton was finally terminated.
SUDAN’S EXTERNAL DEBT CRISIS

Reforms

Sudan’s severe external payments crisis in the late 1970s forced the government to introduce reforms supported by the IMF and the World Bank. The reforms were extensive; they encompassed the rehabilitation of the Scheme’s worn-out capital stock, the dismantling of its financial systems, and the termination of the exchange-rate policy discrimination against cotton. However, the implementation of reforms, particularly the dismantling of the financial systems, was resisted by the Gezira Farmers Union. This produced considerable delay in implementing the reforms.

The implementation of reforms in the early 1980s reversed the downward trend in cotton yields and output; it led to the recovery of the crop. However, this came too late to have any significant effect on the country’s external payments crisis.

The cotton production crisis might not have mattered much had the government development programme been export-oriented. The programme was described and analyzed elsewhere. Suffice it here to note that the 1970s witnessed development efforts unprecedented in the modern history of the Sudan. The government formulated and implemented large-scale multi-year development plans. The initiation of the plans was influenced by the availability of external finance, particularly from the oil-rich Arab countries.

The development programme went wrong; a large number of projects ran into implementation difficulties and were not completed. However, even if the programme had been fully implemented, the external payments position would not have benefited much, since a large portion of the investment programme was devoted to building economic infrastructure and to non-export-oriented projects.

DOMESTIC ECONOMIC ADJUSTMENT AND EXTERNAL BORROWING

In the late 1960s and early 1970s, the Sudan experienced acute external payments deficits, the seriousness of which was indicated by a series of IMF-supported economic stabilization programmes implemented in the country in these periods.

In the first half of the 1970s, the Sudan entered into three stand-by arrangements with the IMF, which provided support for three stabilization programmes covering fiscal 1972/73, 1973/74, and 1974/75. However, the last two programmes were abandoned in mid course, due to domestic political pressures. External finance, readily available in this
period, made it easy for government leaders to abandon the programmes; it enabled them to simply substitute external borrowing (financing) for unpopular economic adjustment. These two factors also precluded the introduction of economic adjustment for most of the second half of the 1970s, notwithstanding the pressing need for such adjustment.

**Economic Adjustment and the Primacy of Politics**

Economic adjustment programmes in the Sudan are bedeviled by domestic politics. When dealing with frequent balance of payments crises, the government had to choose between economically sound but politically unpopular economic adjustment and economically unsound but politically expedient external financing or borrowing. More often than not, the government substituted external financing for badly needed economic adjustment. Domestic political pressure, rather than the state of the country's economy, was the single most important factor affecting the commitment of government leaders to economic adjustment.

Among the myriad sources of domestic political pressure, trade unions and urban dwellers in general are the most important. The country has had a long tradition of militant public-sector-employment-based trade unions. Trade-union militancy has manifested itself in the strike being the weapon of first resort rather than the ultimate recourse for extracting concessions from the government.21

Sudanese trade unions and professional associations played a key role in political changes in the country. One of the most important of these changes was the overthrow of a military regime in October 1964. To bring down the regime, the unions used their most effective weapon; namely, the general political strike.22 October's general strike and its aftermath has left a politically significant legacy. It has always been a reminder to government leaders that the disaffection of organized labour is detrimental to political survival.

This was particularly the case with Nimeiri's rule (1969 - 1985). Nimeiri's rule was, to all intents and purposes, personal, despite the numerous institutions established during his era. Lacking popular-based political legitimacy, his rule was seriously at risk. Indeed, Nimeiri's grip on power in the 1970s was very precarious; throughout the decade, there was widespread discontent with his regime and its policies. This led to many an attempt at toppling his authoritarian rule.23

Precarious personal rule and the potential power of urban dwellers to overthrow the government led to policies designed to keep these dwellers
contested. One form such policies took was subsidizing the prices of some imported basic consumer goods, notably, sugar, wheat, and petroleum. The government has a monopoly on the importation of these goods and fixes their domestic retail prices. When their international or import prices increase, the government insulates urban consumers from such increases by keeping the retail prices of these goods unchanged. The resulting loss is borne by the government. 

The political necessity of subsidizing the prices of imported essential consumer goods to eschew the wrath of urban dwellers posed a particularly serious obstacle to the control of government expenditures, especially after increases in the international prices of these goods. More often than not, the government incurred unexpected budgetary costs because it did not pass increases in the import prices of these goods to consumers.

This was particularly damaging to the government’s efforts at economic adjustment. Such increases placed the government in a dilemma when it had an economic adjustment programme in place. If it passed the increases to urban consumers, it would run the risk of urban unrest which could escalate into a general strike, the political reverberations of which could be the overthrow of the government. On the other hand, if it shielded urban dwellers from the increases, it would have to increase its expenditures which would, in turn, undermine its economic adjustment programme.

In the 1970s, the best alternative, from Nimeiri’s perspective, was to insulate domestic consumers from import price increases. The worst alternative was to save an on-going adjustment programme by passing import price increases to domestic consumers.

Political survival considerations, coupled with the ready availability of external finance in this period, led Nimeiri’s government to discontinue politically risky adjustment programmes in the wake of increases in the prices of its major imports. As the following cases demonstrate, the government allowed such increases to simply destroy its economic adjustment programmes. At the same time, it resorted to heavy external borrowing.

The 1973/74 Programme
A basic objective of the programme was to reduce bank financing of the government deficit. The government was unable to achieve this objective. It did not pass to domestic consumers increases in the prices of its major
imports. This resulted in an unexpected increase in its expenditures which had to be financed by bank borrowing.

This unexpected subsidy expenditure was officially admitted to have undermined the programme's objective of controlling government expenditure and, hence, of reducing its reliance on the domestic banking system. This was acknowledged by the Minister of Finance in a letter to the IMF Managing Director. In the letter, the Minister explained why the authorities were unable to achieve the fiscal targets of the programme. 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 government efforts to reduce its reliance on the domestic banking system in line with the program.25

The 1974/75 Programme

The 1974/75 Programme allowed £Sd. 23 million in price subsidies for fiscal 1974/75 whose budget was £Sd. 256 million. The IMF mission which helped with the formulation of the programme indicated clearly that the "effectiveness of the program will crucially depend on the ability of the Government to contain the subsidies...within the budgeted levels."26

However, the government failed to do this. Its expenditure on subsidies exceeded the budgeted amount by £Sd. 6.8 million. The government's overall expenditures rose to £Sd. 264 million, exceeding the budget by £Sd. 8.0 million. Evidently, the bulk of the overall expenditure overrun (that is, £Sd. 8 million) is accounted for by the subsidy overexpenditure (that is, £Sd. 6.8 million or 85 per cent of the overall expenditure overrun).27

Both the 1973/74 and 1974/75 programmes were abandoned. This was followed by a sharp rise in external borrowing. Thus, between 1974 and 1977 alone, Sudan's loan commitments amounted to US$ 2,400 million or 35 percent of its external debt outstanding at the end of fiscal 1981/82 when the external debt crisis emerged.28

Apart from damaging on-going adjustment programmes, domestic
political pressures and the easy availability of external finance also precluded the resumption of economic adjustment in the mid 1970s. The Fund was in favour of providing further assistance to the Sudan despite the latter's abandonment of economic adjustment in the first half of the 1970s. Thus, in 1975, Fund mission officials were ready to recommend, to the Fund Executive Board, the approval of an upper-credit-tranche facility for the Sudan to help it undertake economic stabilization.

However, the officials made this recommendation conditional on a commitment from the Sudan to limit its external borrowing. Thus, in September 1975, an IMF mission was ready to recommend granting the country the newly established Extended Fund Facility provided that the Sudan agreed to limit its external borrowing. This was indicated to the Minister of Finance by the Head of an IMF Technical Team. This official noted:

... we notice that Sudan is now engaged in short term borrowing and we would like to have a promise of no increase in the outstanding commitments beyond the present level ....... We can go into the process of extended facility; but we would like to have a commitment regarding the short term borrowing, a ceiling figure.

The Cabinet was divided. Populists, including the President, favoured the continuation of external borrowing. This group prevailed over those who supported economic stabilization and austerity. Consequently, the Sudan and the Fund did not agree on an economic stabilization programme for most of the second half of the 1970s.

The 1979-1982 Programme

Fund-supported economic adjustment was resumed in the late 1970s after the Sudan found it difficult to get external loans because it had begun to default on its debt service obligations. In May 1979, the Fund approved for the Sudan an Extended Fund Facility in support of the country's three-year (1979 - 1982) economic stabilization programme. Under this arrangement, the Fund committed SDR 427 million, the largest amount it has ever granted the Sudan.

Nonetheless, the programme was abandoned; domestic political pressure once again undermined the commitment of the government to economic reforms. The first year of the programme witnessed widespread protests by organized labour and the public at large.

The protests forced the government to rescind some price increases carried out as part of the adjustment programme. More importantly, a
protest strike by the Gezira Farmers Union prevented the government from implementing the core adjustment policy ingredient of the programme, namely, the restructuring of financial relationships in the Gezira Scheme to remove disincentives to cotton cultivation.\textsuperscript{34}

The government was also forced to incur unbudgeted outlays on subsidies after the international prices of two of its major imports (petroleum and sugar) rose in the first year of the programme. The government did not pass the price increases to the consumers. This was considered one of the factors undermining the three-year stabilization programme. In this respect, a Fund mission, in a report to the IMF Executive Board, noted:

\begin{quote}
...increases in the international prices of petroleum products and sugar also contributed to the 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 the 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.\textsuperscript{35}
\end{quote}

Fear of further protests led the government to abandon the three-year stabilization programme. At the end of the programme’s second year, the government rejected a principal Fund policy prescription; namely, the unification of the two exchange rates that had resulted from the September 16, 1979 devaluation of the pound. This unification would have resulted in a further devaluation of the pound and given rise to subsidies that would have to be eliminated. This would have entailed increases in the domestic retail prices of the major imports of the government. Fearing the political reverberations of such price adjustments, the government told Fund officials that the domestic situation would not permit the required exchange rate and upward price adjustments.\textsuperscript{36} This prompted the Fund to cancel the Extended Arrangement at the end of its second year. As a result, the Sudan utilized only SDR 251 million or 59 percent of the SDR 427 million originally committed by the Fund.

Like the two programmes preceding it, the three-year economic stabilization programme was abandoned because of the precedence of
domestic politics over economic sense. The commitment of the government to implementing the programme evaporated as it encountered domestic opposition to its austerity measures.

The Precedence of Economic Adjustment over Politics

The emergence of the external debt crisis in the early 1980s forced the government to be seriously committed to economic adjustment. This was manifested in the full implementation of Fund-supported economic stabilization programmes in this period.37

Despite widespread urban protests, the government persisted with the implementation of austerity measures.38 This was an indication of the abandonment of populist economic policies in favour of economic adjustment and austerity. However, the shift made the regime increasingly unpopular and paved the way for its overthrow by an urban uprising in April 1985, in the wake of official increases in the retail prices of petrol and bread.39

The implementation of economic stabilization programmes in this period, coupled with substantial capital inflows generated by stand-by arrangements with the Fund, led to some improvements in Sudan's external payments situation in the early 1980s.40 However, these improvements were dwarfed by the country's large external debt which had emerged.

EXTERNAL DEBT MANAGEMENT

A tragic truth about Sudan's external debt crisis is that the country's external indebtedness was not known until after it began to default on its external payments obligations and to build up sizable external debt payments arrears in the early 1980s. Before then, nobody knew the total external indebtedness of the country and to whom the debts were owed. The simple reason for this was that an effective external debt management apparatus did not, and still does not, exist. In fact, the country has never had any system to manage any debt, internal or external. To appreciate the implications of the absence of an external debt management mechanism for the country's external indebtedness, a synopsis of what such a system means is in order.

In a recent conference on external debt management systems sponsored by the World Bank, participants agreed that "sound debt management is, first and foremost, a sensible and flexible way to aid governments in taking informed decisions to minimize the costs of borrowing, refinancing or reducing the country's debt burden".41
Although experts note that there is no "one best" model for organizing an external debt office, they agree that some basic functions must be performed by such an office.42 First, a policy-making function is needed to decide which government or public-sector entity should borrow abroad and by how much in a particular year. Second, a control function is needed to analyze and recommend the sustainable level of debt servicing burden as well as the composition of the foreign borrowing appropriate to that level and to monitor compliance with the guidelines issued in the policy-making stage. Third, an advisory function is required to enable the authorities, by informing them about developments and trends in international financial markets, to monitor the country’s market access, borrowing capacity, and cost of borrowing. Fourth, a statistical function is needed to register all loan agreements and contracts and to prepare periodic reports on the overall debt situation of the country.

It is clear that these functions allow the responsible government ministry or agency, first, to contract such loans that are within the country’s debt service capacity; second, to prevent unauthorized external borrowing; and, third, to know at any point of time the size of the country’s external indebtedness. Such knowledge is vital since it serves as an early warning to the government to do something to avert a future external debt crisis. It seems then that the statistical function is the bare minimum function that a country engaged in external borrowing should have.

The Sudan did not even have an entity that would perform this basic function. The result was that nobody knew, as noted earlier, the country’s external debt situation when it was involved in heavy external borrowing in the 1970s. In fact, 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 find out the size of the country’s external indebtedness and to whom the debts were owed.43

Sudan’s enormous external indebtedness gives rise to several questions: how were its external debts managed, and how did this contribute to its external indebtedness? Why wasn’t there any external debt management mechanism that would have provided an overall picture of the debt situation?

Up to 1978, no entity was effectively in charge of external borrowing of the public sector in the country, though the Ministry of Finance was nominally responsible for authorizing such borrowing. This deficiency allowed public-sector entities, whose number mushroomed in the 1970s
because of the socialist orientation of the regime, to borrow abroad to
finance current expenditures, though external borrowing was permitted
only for capital or development expenditures. Describing the
management of external borrowing before 1978, a recent external debt
advisor to Sudan wrote:

There was virtually no centralized control over the contracting of
foreign debt and individual ministries and public corporations resorted
to borrowing without the approval or knowledge of the Ministry of
Finance and Economic Planning or the central bank.

It is impossible to precisely estimate the impact of the absence of such
control on the country's external indebtedness. Apart from the intrinsic
difficulties involved, there are also data constraints. Detailed data (that
is, all debts incurred each year, the government entities incurring them,
whether the loans were authorized or not, etc.) are simply not available.
However, a very crude assessment is attempted below.

The Sudan contracted huge loans in the second half of the 1970s. This
is not just coincidental. In this period, the country experienced severe
external payments difficulties, the policy response to which was,
basically, heavy external borrowing, though economic adjustment was
initially attempted.

The public sector contracted US$ 2.64 billion worth of loans between
1974 and 1977. Of this amount, US$ 1.67 billion (that is, 68 percent)
was on hard terms, with a 7.1 percent interest rate and a nine-year
maturity. These loans can be contrasted with those concluded earlier.

Clearly, the amount of loans concluded in the more recent period is
relatively substantial. This amount was supposed to be needed for
financing essential government imports, including sugar, petroleum,
wheat and capital goods for the public development programme. Loans
for these purposes would represent officially sanctioned borrowing by the
Ministry of Finance. If the total amount borrowed abroad in this period
was officially sanctioned, it should be close to the public-sector import
bill, the payment of which was the responsibility of the Ministry of
Finance.

Between 1974 and 1977, the public-sector import bill totalled £Sd.
330.8 million or US$ 827 million. The large excess of loans contracted
in the period over the costs of public-sector imports suggests that the
amount of loans contracted was more than what was needed for import
purposes. This further suggests that these loans were not, in all
probability, officially sanctioned by the Ministry of Finance.

The Role of the IMF and the World Bank

Amidst Sudan's recourse to heavy external borrowing, the IMF and the World Bank began to urge caution. Specifically, 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 relying on these kinds of external borrowing. For instance, in a report submitted to the IMF Executive Board in July 1974, an IMF mission staff wrote:

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.49

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. In addition, the report urged the government to set up a unit that would be responsible for centralizing all records regarding external debt.50

The IMF and the World Bank recommendations notwithstanding, the government took no immediate action in regard to external debt management. It was only after Sudan began to default on debt service obligations in 1978, and after more pressure from the World Bank, that the government took concrete steps to establish an external debt management mechanism. In that year, the Ministry of Finance was made the sole central agency responsible for the collection of debt information. In addition, the sole authority to engage in external borrowing was vested in the Minister of Finance.51 In 1979, an external debt management unit was set up within the Economy Wing of the Ministry of Finance. The unit was to fulfil the objectives of centralized control, establishment of comprehensive accounting on external flows, and preparation of regular management reports and operational statistics.52

The External Debt Unit

The newly created unit (which still exists) could not function. Half a
dozen units and departments in the three wings of the Ministry of
Finance (that is, the Economy Wing, the Finance Wing and the Planning
Wing) and in the Bank of Sudan were responsible for some aspect of
external debt management. The functioning of the newly created unit
required administrative changes for the transfer of functions and records
from these entities. However, each unit or department was unwilling to
transfer its functions as this would lead to the derogation of its
responsibilities. To be sure, locating the unit in one of the Ministry’s
wings rekindled, officials maintain, traditional interdepartmental
rivalries.

Rivalries among the different wings of the Ministry of Finance and
between the Ministry and the Bank of Sudan are commonplace. Since the
creation of an effective debt management system would lead to the
transfer of functions among the wings of the Ministry and between the
Ministry and the Bank of Sudan, the whole endeavour fell prey to pre-
existing traditional rivalries. As a result, infighting and interdepartmental
bickering prevented agreement on the terms of reference of the newly
established unit. In fact, institutional rivalries repeatedly thwarted
attempts to organize a debt management system in the 1980s.

Failure to establish a unified unit rendered the whole debt
management apparatus rather fragmented and altogether ineffective.
Identical debt management aspects were scattered among different units.
For instance, loan contracting and commitments and recording of
disbursements were spread among four units: the Planning Wing of the
Ministry of Finance, the Commodity Aid Committee (a permanent
interdepartmental committee), the Loans and Foreign Exchange Section
of the Economy Wing of the Ministry of Finance, and the Foreign Debt
Rescheduling Department of the Bank of Sudan. The four entities were
responsible, respectively, for the contracting of loans for development
projects, commodity aid loans, cash loans, and for the
rescheduling/refinancing of debts.

Such fragmentation would not have mattered much had the different
entities been used to coordinating their activities and sharing information.
However, there were no periodic meetings or reports. Since
information flows were inadequate, each unit had partial information and
was thus unable to function properly. This is particularly the case with
the Loans and Foreign Exchange Section of the Economy Wing. Charged
with formulating the foreign exchange budget, the unit would
need information on all loan commitments, disbursements, and
repayments. In other words, it would need information from all the units.
However, the lack of coordination among the entities deprived the unit of this information. One result of this is that the unit, unaware of loans already contracted by other units, would more often than not contract cash loans in excess of what was needed.

Even if it had been effective, the external debt management unit came too late to have any effect on the country's external indebtedness; in the very same year the unit was set up (that is, 1979), Sudan began to incur, as previously noted, substantial arrears on the loans that had earlier been contracted.

An effective debt management unit was badly needed in the mid 1970s. The Sudan missed the opportunity to set one up. It may seem strange that a country engaged in heavy external borrowing should ignore urgent pleas to establish a system to manage its external debts. An important factor in this puzzle may be the intertwining of external borrowing with domestic corruption.

**ECONOMIC CORRUPTION AND EXTERNAL BORROWING**

Observers of the Sudanese economic and political scene generally associate corruption with former President Nimeiri's regime. To be sure, there is wide popular belief in the Sudan that Nimeiri's era witnessed unprecedented corruption in the recent history of the Sudan. Yet, documentation of corruption has been extremely scanty. There are, however, a few very well-documented cases, some of which have a direct bearing on the country's external indebtedness. The initiative came from some insiders, most notably Dr Mansour Khalid, the Sudanese foreign minister in the 1970s.

These cases reveal clearly that the enormous external indebtedness of the Sudan had domestic corruption as one of its important roots. The tragic thing was that Sudanese officials at the highest levels were closely involved in corruption.

The most revealing case was based on a loan guarantee of two hundred million US dollars granted to the Sudan by Saudi Arabia. In negotiating and contracting the loan, high-ranking Sudanese officials excluded both the Bank of Sudan and the Ministry of Finance; arrangements were made for the loan to be negotiated by a non-Sudanese business tycoon. The latter negotiated a Eurodollar loan syndicated by 31 banks. With a seven-year maturity and a three-year grace period, the loan carried a fluctuating interest rate that reached a staggering 16 percent in one year. The terms of the loan also included other charges and a 2 percent commission for the tycoon. In fact, the chairman of the
SUDAN'S EXTERNAL DEBT CRISIS

Sudanese Development Corporation (SDC), who was to receive 200 million US dollars as capital for the SDC, received only 190 million US dollars; ten million US dollars were deposited abroad. Of this amount, four million dollars went to the loan negotiator as commission on the operation; the rest was believed to have gone to high-ranking officials in the Presidential Palace.  

The loan episode was not as serious as its long-term consequences for the country's external indebtedness. In the late 1970s, accumulated interest on the loan was equal to the principal. The loan also prevented the Sudan from getting concessional International Development Association (IDA) loans at the time; the President of the World Bank refused to grant such loans because the Sudan had gone ahead with the Eurodollar loan against the advice of the Bank. A far more damaging result was that the special arrangements made to by-pass the Ministry of Finance and the Bank of Sudan led to a plethora of external loans contracted without the knowledge of these two entities.

AFTERMATH OF THE CRISIS

One of the most important outcomes of the crisis was that it damaged Sudan's relations with its multi-lateral creditors, particularly the International Monetary Fund. Sudan's relations with the IMF began to deteriorate in the mid-1980s when the country's acute shortage of foreign exchange led to a rapid build-up of debt payments arrears to the IMF. In October 1985, Sudan's overdue financial obligations to the Fund totalled SDR 173.6 million; in 1989, the figure increased to more than SDR 800 million.

Sudan's inability to discharge its overdue financial obligations to the Fund led to a progressive deterioration in their relations. Thus, the Fund declared the Sudan ineligible to use its resources in February 1985, declared it a non-cooperative member in 1990, and suspended its membership in 1993.

This worsening of relations led to two serious consequences for the Sudan. The first of these was that it undermined the country's efforts at economic adjustment which were jointly supported by the Fund and the World Bank. These efforts, begun in the late 1970s and continued in the first half of the 1980s, came to an end as the country began to incur debt arrears to the Fund. In 1984, the Fund declared inoperative its last standby arrangement in support of the country's economic stabilization programme for fiscal 1984/85.

The second consequence was that the absence of an IMF seal of
approval (that is, IMF support in the form of a stand-by arrangement) has, since the mid 1980s, virtually prevented capital inflows from official and private bilateral sources. This produced (and continues to produce) a severe foreign exchange crisis, and led subsequently to a sharp rise in the prices of imported goods. In March/April 1985, sharp increases in the prices of some imported essential consumer items precipitated massive street demonstrations and a general political strike that led to the overthrow of Nimeiri’s sixteen-year-old regime.

At present, Sudan’s external debt has, according to the Minister of Finance, reached US$ 15 billion. The debt crisis, together with a spell of droughts in the mid 1980s and early 1990s and a ten-year-old civil war, has produced an economic and social crisis of appalling proportions. Gross domestic product growth rates were negative for some years. Inflation has for some time been running at more than 25 percent a month. The severe shortage of foreign exchange led to the collapse of the Sudanese pound. In the mid 1980s, one US dollar was exchanged for 5 pounds; today, one US dollar is worth more than 1,000 pounds.

Social services have collapsed since the early 1980s. This, coupled with the rampant inflation, has led to a significant deterioration in the living standards of most Sudanese.

SUMMARY AND CONCLUSIONS

Sudan’s present external debt crisis is largely of its own making. The crisis struck root in the 1970s, as a result of the government’s policy actions and inactions.

A turning point in the origins of the crisis was the mid 1970s. It was clear by then that the Sudan needed to take strong measures to avert a future external debt crisis. The balance of payments was in crisis. To deal with it, the government did, initially, undertake economic adjustment but chose to abandon it in favour of external borrowing to finance the country’s external payments deficits.

The substitution of external borrowing for economic adjustment was a principal origin of Sudan’s external debt crisis. Economic adjustment would have reduced the excessive demand for external funds which was fuelling external borrowing. On the supply side, it could have expanded cotton production through the rehabilitation of the worn-out capital stock of the Gezira Scheme and through reforming its financial systems. In short, economic adjustment would have curbed excessive demand and increased the production and exports of cotton whose decline was an important origin of the debt crisis.
The absence of an external debt management mechanism was another important origin of the crisis. This contributed to the crisis because, in the absence of such a mechanism, external borrowing went unchecked and without any assessment of the country's capacity to repay the debts or of the appropriateness of borrowing terms. At minimum, such a system would have served as an early warning device.

Sudan's resort to heavy external borrowing in the mid 1970s should have prompted the government to establish an external debt management system. The government was aware of this need, thanks to the urging of the IMF and the World Bank. However, it chose not to act until it was too late. Corruption in high places might have something to do with this; external borrowing was used by some high-ranking officials as a means for personal gain.

What lessons can be learned from Sudan's experience? One lesson is that Sudan's case is a reminder that personal rule is ill-equipped for sound economic management and that it could, as a result, lead to colossal economic costs for the country. To be specific, personal rule is ill-suited to undertaking economic adjustment. To be politically sustainable, economic adjustment or austerity must be accepted by the politically conscious urban dwellers. To secure such acceptance, political leaders have to appeal to the people.

Personal rule is most unlikely to succeed here; it is out of touch with the public. A popular-based legitimate government has an advantage here; it establishes political communication between government leaders and the masses. This can be used to appeal to the people to tighten their belts in the context of economic adjustment.

Personal rule also is fiscally unaccountable because it is politically unaccountable; a politically accountable government is also answerable for its fiscal performance. The absence of political and fiscal accountability provides a propitious environment for corruption and fiscal mismanagement. Sudan's experience with external-borrowing-related corruption and the absence of an external debt management system are but the symptoms of its lack, in the context of personal rule, of political and fiscal accountability.

Notes

1. For some discussion on this issue, see John Loxley, *Debt and Disorder*


5. Ibid., 63; and Sudan: Staff Report for the 1982 Article IV Consultation, SM/82/174 (Washington, D.C.: International Monetary Fund, August 1982), 15.


9. The problem of cotton production is discussed by Karim Nashashibi, who was a member of various IMF missions to the Sudan in the late 1970s and early 1980s; see Karim Nashashibi, "A Supply Framework for Exchange Reform in Developing Countries: The Experience of the Sudan," *IMF Staff Papers* 27 (1980): 24-78.


15. Sudan: Request for Stand-By Arrangement, EBS/82/7, 50.


17. Ibid., 63-64.

18. Ibid., 70-82.

19. For some comments on the public investment programme, see Khalid, Nimeiri and the Revolution, 106-133, and 243-253; Brown, "The IMF Stabilisation Programme in Sudan," 52-57; and Sudan: Outline of Current Status.


21. Ibid., 32-36.

22. The events leading to the military relinquishing power were vividly described by Mohammed Ahmed Mahgoub, who suggested in a meeting of the Sudanese Bar Association the idea of using general strike to bring down the military regime, see M. A. Mahgoub, Democracy on Trial: Reflections on Arab and African Politics (London: Andre Deutsch, 1974), 189-190.


24. The preferential treatment of urban residents through price support and control policies is widely practised in Africa. Students of African political economy view it as performing a key political insurance function, namely, the maintenance in power of fragile governments in general and personal rule in particular. The argument is that such treatment is one way to keep powerful urban groups (principally, civil servants and members of the armed forces) contented. The political rationale for this is that the political disaffection of such groups is potentially pernicious to the existence of regimes and personal rule; see Robert Bates, Markets and States in Tropical Africa (Berkeley: University of California Press, 1981), 30-40 and Robert Bates, Report on the Conference on Economic Reform in Africa: Lessons from Current Experience, Center for Research on Economic Development (Ann Arbor: University of Michigan,


25. Ibid., 19.


32. Ibid., 246.

33. Ibid., 64-68.


36. Ibid., 70-80.

37. Ibid., 248-255.

38. Ibid., 254-255.

39. Ibid., 70-81.


43. Ibid., 29.


47. Sudan Article XIV Consultation (Minutes of Meeting No. 4), (Washington, D.C.: International Monetary Fund, April 23, 1975); and Bank of Sudan Annual Report (Khartoum: Bank of Sudan, 1981), 102.


54. UNDP, Project of the Government of Sudan, 4.

55. Ibid., 4-5.

56. Ibid., 3-4.


58. Ibid., 5.


60. For a detailed description of this case and others, see Khalid, Nimeiri and the Revolution, 95-138.

61. Ibid., 102.

62. Ibid., 97.

63. Ibid., 135.


65. Ibid., 3.

66. Ibid., 9.