

The Effect of the International Monetary Crisis on Capital Inflows to Sudan

A Preliminary note

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I. INTRODUCTION

The International Monetary crisis to which the World economy has been subject since the beginning of this decade has had drastic effects on the developing World. On the one hand, the extremely high rates of inflation in the industrialized countries have been reflected in the high prices of their manufactured exports. Though the prices of primary commodities experienced a rising trend, yet their increase was indeed modest to offset that of manufactured goods. Therefore the gains from trade which represented an important source of foreign exchange to developing countries have deteriorated. On the other hand, the industrialized countries witnessing worsening balance of payments intensified their aid-tying policies and rendered the inflow of capital quit expensive.

The objective of this article is to assess the effect of the International Monetary Crisis on financial inflows to the Sudan. It is going to be concerned mainly with two enquires: how far has the International Monetary Crisis affected the availability of financial inflows to the Sudan? and what are the effects on the costs and terms of supplying such inflows? It is the contention of this article to argue that despite the assumed belief that Sudan has benefited from foreign capital during its very early stages of development, yet the way in which foreign capital is being accommodated since the beginning of this decade endangers the long-term socio-economic development of the Country. Therefore, there is the need for the Government to re-examine the role of foreign capital in its strategy of development.

The article is structured as follows: Section two will attempt to show the important role so far played by foreign capital in Sudan's economic development. Sections three and four will compare and analyse the inflow of capital to the Sudan, before and after the International Monetary Crisis, in terms of magnitude and costs. Lastly some conclusions will be drawn.

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II. THE IMPORTANCE OF FOREIGN CAPITAL IN SUDAN'S ECONOMIC DEVELOPMENT

Foreign Capital in all its varied forms was early recognized as one of the two main factors that would have a great influence on the growth of the national economy, the first being foreign trade. This can be traced back to the beginning of this century when foreign capital was used in the development of the railways, the only port at Port-Sudan, and the Gezira Scheme. Table one depicts clearly the high dependence of Sudan's investments on external sources in the recent years (1).

**Table one : Total Capital Investment (Public sector) 1969-70 - 1973-74
(LS. Million)**

	1969-70	1970-71	1971-72	1972-73	1973-74
Total Capital Invested (1)	28.5	26.6	29.8	29.6	48.0
Domestic Sources (2)	15.7	15.1	19.1	20.4	16.0
(2) as % of (1)	55.1	56.8	64.0	68.9	33.3
External Sources (3) ..	12.8	11.5	10.7	9.2	32.0
(3) as % of (1)	44.9	43.2	36.0	31.1	66.7

Source : The revised 5-year Plan of Economic and Social Development 1970-71 - 1974-75, Ministry of Planning, Khartoum, p. 22.

During the period 1969-1974, the contribution of foreign capital to the public sector's development varied between 66.7 % and 31.1 %. The relative political instability between 1971-1973 may explain the low contribution of foreign capital in that period. This trend was however reversed radically in 1973-74 where foreign capital provided more than two-thirds of the sector's investments. Over the whole period under consideration, the average share of foreign capital was 44.2 %.

Of equal significance is the role played by foreign capital in redressing the current account of Sudan's balance of payments. Over the period 1958-1974, the average current account deficit was £S. 12.3 mil-

lions. The average inflow of capital was £S. 8.7 millions. This means that 71 % of the deficit has been financed by capital from abroad (2).

III. AVAILABILITY OF CAPITAL INFLOWS

There is apparently a well-established belief that the present International Monetary Crisis has affected the availability of foreign capital to the Sudan. Whether this is true or not remains to be seen. Table two portrays the aggregate position of loan credits and grants accruing to the Sudan during the period 1964-1974.

**Table Two : DISTRIBUTION OF FOREIGN LOANS BY AREA
1964-1974 (L.S. Million)**

Years Donor Countries	1964-69	% to total	1969-74	% to total	Total loans	% of total loans
Arab countries	34.1	41 %	130.8	45 %	164.9	44.7 %
Western countries & USA	12.0	14.4 %	60.6	20.8 %	72.6	19.4 %
Socialist Countries & USSR	14.8	17.8 %	67.4	23.2 %	82.2	21.9 %
International Organizations	22.3	26.8 %	32.1	11.0 %	54.4	14.0 %
Total	83.2	100.0 %	290.9	100.0 %	374.1	100.0 %

Source : These figures are compiled from the Actual Accounts of the Ministry of Finance.

Table two shows that the total authorized loans and credits during the period 1964-1974 amounted to £S. 374.1 million. Out of this total Arab countries supplied 44.7 %, Western Countries 19.4 %, Socialist countries 21.9 %, and International Organizations 14 %.

Comparing the periods 1964-1969 with 1969-74, it is clear that foreign capital has increased tremendously in the latter period. The loans avail-

lable to the Sudan in the period 1969-1974 were triple those of 1964-1969. There is however a marked shift of weight from the traditional donors (Western Countries and International Organizations) in favour of Arab Countries in particular and Socialist countries in general. This shift is due on the one hand to the stringent economic measures taken by Western countries in an attempt to redress their balance of payments, and on the other hand to the cooling of relations between the Sudan and International Organizations. But still, and within these constraints, foreign capital from these countries, and to the Sudan was increasing, at least in absolute terms.

IV. THE RISING COST OF CAPITAL INFLOWS

Though Capital inflows to the Sudan increased and particularly during the early seventies, yet in real terms, they did decline. One can attribute this decline to world inflation and to the terms and conditions imposed on such inflows.

A. THE EFFECT OF WORLD INFLATION

Reviewing the distribution of loans among the various economic sectors of the economy, the four major sectors (transport and communications, agriculture and irrigation, industry, and public utilities, managed to capture 67.8 % (3) of the average annual loans accruing to the country during the period 1966-1973. It is quite obvious that these sectors utilized these loans for importing capital goods whose prices have been escalating. During the period 1969-1973, imported capital goods price index witnessed an increase of 46 % (4), and this implied a more or less equal decline in the purchasing power of these loans.

Two fairly recent demonstrations of the effect of inflation on the costs of development projects are seen in relation to the Rahad Agricultural Project (5), and Kenana Sugar Scheme (6). The appraisal estimate for the cost of the Rahad Project in 1972 was £L. 33.5 millions. In May and December 1974, this estimate was revised and it was found that the cost of the project would be £S. 58.8 and £L. 70.7 millions respectively. This made the cost of the project to be more than double the appraisal estimate. Calculations (7) revealed that World inflation was responsible for £S. 24.6 millions. This is equivalent to an increase of 73.4 % over the appraisal estimate. As for Kenana Sugar Scheme, the estimated cost in 1975 was £S. 83.3 millions. It has recently emerged that the revised estimate of the scheme has gone up to £S. 186.8 millions. This additional sum, it has been stated, would likely be required in the light of inflation and unexpected difficulties with the infrastructure in Sudan (8). One is really tempted to wonder whether these fantastic increase would not endanger the economies and the viability of these projects. This is especially the case if we realize that the Rahad project and the Kenana Scheme will produce agricultural products (cotton in the case of the former, and sugar in the case of the latter), whose prices are highly unstable.

B. CONDITIONS AND CONSEQUENCES OF CAPITAL INFLOWS

By now, it has already been established that capital inflows have become effectively costly. This is true even if one takes it for granted that they are given as grants, free of any interest payments.

However, the usual practice is that capital inflows carry with them a commitment of repaying the principle over and above a specific rate interest. The longer the grace and maturity periods, and the smaller the rate of interest, the more profitable the loan becomes and vice-versa. According to the IBRD official documents (9), the grant element of loans is the face value of loan commitments less the discounted present value of the future flow of amortizations, and payment of interest, using the customary discount rate of 10 % expressed as a percentage of the face value. Table three compares the grant element accruing to the Sudan before and after the acute monetary crisis.

Table three : **Average Interest Rate, Grace, Maturity, Periods, and Grant Elements of Loans 1965-1968 and 1969-1974.**

	1965-68 (a)	1969-74 (b)
Average Interest Rate	4.2 %	6.2 %
Average Grace Period	4.6 years	2.8 years
Average Maturity Period	19.6 years	7.9 years
Average Grant Element	39 %	15.1 %

(a) IBRD, Document of IBRD and IDA-World Debt Tables, Dec. 15, 1973, p. 157.

(b) These figures are computed from the Actual Accounts of the Ministry of Economics and Finance. The calculation underlied the following remarks :

(a) Interest is paid at the approval of the loan.

(b) Principle repayments start after the grace period and in equal instalments.

(c) The face value of the loan is discounted by 10 % cumulative over the years of repayment to arrive at the present value of the loans (flow of payment)

$$(1 + 10 \%)^n$$

The grant element of loans as shown in table three has declined substantially between the periods 1965-68 and 1969-74. The average interest rate increased from 4.2 % in 1965-68 to 6.2 % in 1969-74. The average grace and maturity periods decreased from 4.6 and 19.6 years to 2.8 and 7.9 years during the two periods respectively. This accounted for a sharp decline in the grant element (10) from 39 % to 15.1 %.

If most of the loans have to be repaid within such a short period, it is evident that the amortization will impose a great burden on the

country, long before the results of economic development launched by means of these loans have revealed themselves. It is here that the debt service problem poses itself out. Relating total annual debt service to the country's export earnings, the ratio until 1970 was below 10 %. From thereafter, it started to increase reaching 22.6 % (11) in 1974. Now since the permissible limit to borrow is often taken by the World Bank and some European countries to be 15 % (12), then it seems that the country's credit worthiness is at stake. Indeed, the debt service problem has become or is about to become an acute problem for Sudan. This carries with it serious implications for Sudan's future development.

IV. CONCLUDING REMARKS

The external financial inflows to the Sudan may have had, and at a certain time, a satisfactory effect on the country's economic and social development. However, on the light of the prevailing International Monetary Crisis, such means of financing development is likely to breed serious economic problems in the future.

Though the volume of foreign capital increased significantly after the crisis, yet the escalating world prices have effectively lessened the value of such inflows. The other set-back has been the heavy amortization and interest payments to be met on the sizeable short and medium debts contracted. Interest rates, grace and amortization terms have been so hard that the structure of external indebtedness has not been adapted to foreseeable payment capacity during the next few years. The likely outcome would be the emergence of bottlenecks in the external sector handicapping the development process.

As a matter of fact, Sudan can not for economic, political, and sociological considerations allow its development to be subordinate to a growing dependence on external loans and aids over the course of several decades. Domestic effort has to be raised to reasonable levels so as to allow for a sizeable reduction in external financial resources. This is at least to minimize the perils of external debt and to ensure a continuous self-sustained development.

FOOTNOTES

- (1) Since the Government is the major investor and since statistical data on capital invested by the private sector is either lacking or unreliable, the latter's share of foreign capital has been ignored.
- (2) Bank of Sudan, Annual Reports, various issues.
- (3) Actual Accounts of the Ministry of Finance and Economics.
- (4) National Income Accounts and supporting tables, Department of Statistics, Khartoum.
- (5) The Rahad Agricultural Project aims at reclaiming and providing regular irrigation for 300,000 feddans in its first phase. It will allow for a settled livelihood of 77,000 tenants.

- (6) Kenana Sugar Scheme is one of the World's largest for sugar production. When it is completed, it is to produce 350,000 tons of sugar a year.
- (7) Calculations were done by Officials of the Rahad Agricultural Corporation, Khartoum,
- (8) Financial Times, March 4, 1977.
- (9) IBRD, Document of IBRD and IDA, World Debt Tables, Dec. 15, 1973, p. viii.
- (10) Grant elements of loans in Burundi, Chad, Central African Empire, Somalia and Uganda, were found to be 71 %, 61 %, 58 %, 79 %, and 57 % respectively. These figures are taken from IBRD, World Debt Tables, Dec. 15, 1973, pp. 96-171.
- (11) Bank of Sudan, Annual Report, Various issues.
- (12) Ali Abdalla Ali, Some problems of External Balance and Planning in Sudan, Khartoum, 1974.

RÉSUMÉ

L'objectif de cet article est d'évaluer les effets de la crise monétaire internationale sur les rentrées de devises au Soudan. Selon l'auteur de l'article, malgré l'opinion selon laquelle le Soudan a bénéficié du capital étranger au cours de la première partie de son développement, la façon dont le capital étranger est utilisé depuis le début de la décennie actuelle met en danger le développement socio-économique à long terme du pays. L'auteur conclut en demandant un ré-examen radical du rôle du capital étranger dans la stratégie du développement au Soudan.