CHAPTER TWO
Chapter Two

EXAMINATION OF THE PROCESS OF PROJECT MANAGEMENT IN MANUFACTURING INDUSTRY IN SUDAN

2.1 National Planning and Industrial Policies - A Historical Review

Economic development process and planning in Sudan took place immediately after 1956, the year of the country's independence. The then Parliamentary Government started an economic development programme which aimed at increasing the per capita income, raising the standard of living and improving the economic condition of the country. Industrialisation was conceived to take the form of import-substitution and to start by the production of manufactured consumer goods. Thereafter, it could move to the production of intermediate and capital goods. The private sector led the move. The Approved Enterprises (Concessions) Act, 1956, aimed to promote the industrial sector.

In 1958, a military government came to power in Sudan. It drafted the Ten Year Plan of Economic and Social Development of the Sudan (1961-62 - 1970-71).* The Plan aimed at alleviating poverty and improving the economic condition of the country. One method of achieving the Plan objectives
was to establish industries that help to substitute for imports, especially those industries depending on primary input materials which were produced locally. The stated objectives of general development policy in the Plan mainly aimed at import-substituting industrialisation.

During the Ten Year Plan, the Government directly intervened in the industrial sector by establishing nine factories. Some of them were considered to have strategic importance, e.g., Gunied and New Halfa sugar factories.

Successive democratic Governments took over after 1964 October Revolution. They reorganised the industrial sector and created an independent ministry for industry in 1966. They amended the 1956 Act which led to the Organisation and Promotion of Industrial Investment Act, 1967. This Act also stated the import-substituting industrialisation as a part of general development policy of the country.

The May Government (1969-1985) adopted a socialist ideology at the beginning. It socialised all economic activities and curtailed the size of private sector in these activities. Therefore, a process of nationalisation and confiscation of industrial firms took place in mid-1970 whereby the State took over almost all the large firms operating in the country at that time. Hence, 59 per cent of the total invested capital in industry became publicly owned.

* The Democratic Governments abandoned the Ten Year Plan after 1964.

A year later, on realising that it could not manage the nationalised firms, the Government returned some of the nationalised local firms and most of the confiscated ones to their original owners. To regain the faith of private and foreign investors, the Development and Encouragement of Industrial Investment Act, 1972, was put into force in 1972. This Act marked the beginning of the return to the private initiative and diluted Government involvement in industrial activities. The 1972 Act was replaced by the Development and Encouragement of Industrial Investment Act, 1974, which was in turn, replaced by the Encouragement of Investment Act, 1980.

The May Government drafted two economic development Plans: The Five Year Plan 1970-71 - 1974-75 and the Six Year Plan 1977-78 - 1982-83. In these plans, a high priority for manufacturing sector was accorded and the public sector contribution increased substantially in comparison with the share of private sector outlay. The increasing public sector involvement in the manufacturing sector took the form of either complete State ownership or equity participation with both local and foreign private capital.

The Six Year Plan was essentially conceived of as the first phase of a long-run perspective plan covering the period 1977-78 - 1994-95 and made up of three consecutive development plans of six years duration each. But because of the deteriorating economic condition of the country, the
development programme was re-evaluated to bring it in line with the three years' economic reform policy of 1979-82 designed by Sudan Government and the International Monetary Fund.

Therefore, since 1979 the time duration of the plans were shortened. The Three Year Investment Programmes aimed at rehabilitating and modernising the existing projects so as to increase their output. They also aim at completing the under-implementation projects.

2.2 Project Formulation and Evaluation

Prior to the establishment of a central office of project evaluation (PPU)* in 1976 in the Planning Department of Sudan, public sector manufacturing projects formulation and evaluation did not take a distinct feature. No specific system was laid out for the process; however, the following description may give some hints of what took place between 1970-76.

Two phases could be recognised. These are pre-feasibility and feasibility.

2.2.1 Pre-feasibility Phase

The pre-feasibility phase is the phase when project idea is born and discussed. If it looks promising, it is

* PPU stands for Projects Preparation Unit.
then assigned to an organisation for carrying on a feasibility study. Prior to 1976, ultimate decision-making powers with respect to important public sector manufacturing projects rested with the Head of State to initiate and/or approve them. Those projects, however, had to fall within the framework of the overall objective of the national plan, i.e., achieving self-sufficiency in strategic goods, substitute for imports, generating employment etc. Sometimes, however, proposals were laid to legislative organisations, e.g., the National People Council, for discussion and support.

Furthermore, after the introduction and approval of the project idea, a committee was constituted on an ad hoc basis. This ad hoc committee was to prepare a flash study to ensure the justification of the project. This study should broadly state, among other things, the objective of the project, its cost, divided into local and foreign components and schedule of implementation.

After discussing the pre-feasibility study and deciding that the feasibility of the project was to be studied, the Planning Department was to take the job of inviting the agency to conduct the study. Also the Planning Department was to find source of finance if no finance was assured in pre-feasibility phase. Of course assurance of finance in pre-feasibility phase guards against delay problems and cost increases because project implementation can start right after approval of the feasibility study.
Not all projects, however, passed through that process. Some might in fact go straight to feasibility phase if considered sufficiently important. And this decision might be taken by the initiating organisation.

2.2.2 **Feasibility Phase**

As far as feasibility phase is concerned, it is worth noting that not all the public sector manufacturing projects planned before the establishment of the PPU (1976) have had comprehensive feasibility studies. None of the Government textile projects planned during the period 1970-76 were preceded by a feasibility study in the true sense of the word. Only a broad pre-feasibility study for all of them was done.\(^2\) The argument behind this is that Sudan is a major producer of different kinds and grades of raw cotton and at the same time a great importer of textiles. This argument, as will be shown in chapter six, is weak; importation versus local production itself requires a feasibility study.

The ad hoc committee passed the pre-feasibility study of the project to the Planning Department which is responsible for finding an agency to conduct a feasibility study. In some cases, however, the Ministry of Industry was assigned this responsibility. There were no guidelines

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for evaluating and selecting contractors to conduct feasibility studies. The feasibility study was then sold to a financier who might be the same agent who conducted the study. Furthermore, this agent might take over the implementation of the project.

A point worth noting is that prior to 1976 no system of appraisal of feasibility studies existed. Only financiers, if satisfied, would take over the job of financing the project. This means they appraised the project study concentrating on implementation problems which were independent of project planning and which would affect them and raise their costs.

The general feature of the project planning system in public sector manufacturing industry in Sudan is that all projects originating in the public sector should pass through the Planning Department in order to be integrated into the national plan and the national budget. After conducting feasibility studies and ensuring availability of finance for a specific project and the schedule of implementation is prepared by contractors and the Ministry of Industry, the project would be integrated into the annual plan and the annual budget.

In 1975, because of problems faced during projects implementation, the Government came to recognise the need for good formulation and evaluation of projects in all the
sectors of the economy. Hence, a notion of establishing a central office of project evaluation came into being. This resulted in the establishment of the PPU.

2.2.3 **Projects Preparation Unit (PPU)**

The Projects Preparation Unit (PPU) was established in 1976 under a Technical Assistance Agreement with the International Development Association (IDA) as a unit within the Planning Department of the Ministry of Finance and Economic Planning. The IDA and Kuwait Fund contributed in financing pre-investment studies. The objectives of the PPU as stated in the office memo of the Planning Department are as follows:

1. Preparing feasibility studies of public sector projects.

2. Acting as communication link between Sudan Government and consulting agencies who conduct feasibility studies.

3. Encouraging and developing indigenous consultancy houses by assigning some projects to these indigenous consultants to carry out their feasibility studies in collaboration with foreign consultancy houses.

4. Training officers of the Unit in evaluating projects and appraising feasibility studies.

The function of the PPU is, therefore, to select high priority projects in the investment programme in consultation with ministries and other organisations. It conducts feasibility studies.

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studies or assigns the projects to appropriate consultants for preparing feasibility studies. The Unit assists in establishing an expanded body of expertise in the field of project evaluation in both public and private sector institutions.

The Unit recruited a permanent staff headed by a director in addition to a senior project adviser and four project analysts. Furthermore, some staff assist the Unit on a part-time basis; these are foreign and Sudanese experts from various ministries and consultancy houses. The organisation chart of the Project Preparation Unit is depicted in Figure 2.1

As far as the scrutiny process and selection of projects are concerned, different ministries and organisations forward project proposals which come in line with the Government economic policy and objectives stated in the plan and investment programmes to the Industrial Sector Wing in the Planning Department. All project proposals of the different sectors are usually discussed in a meeting of a committee headed by the Under-Secretary of Planning. Projects that generally fall within the objectives of the investment programme will be selected and passed to the PPU.

The PPU, in consultation with the concerned ministries and agencies, examines the projects and selects the ones that enjoy high priority in the investment programme. It then
Figure 2.1

ORGANISATION CHART OF THE PROJECTS PREPARATION UNIT (PPU)

Ministries and Government Undertakings

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Director (PPU)

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Senior Project Adviser

Agricultural Section

Infrastructure Section

Industrial Section

Administration Section

--- Authority relationship

--- Advisory relationship
establishes working parties consisting of representatives from the different Government agencies sponsoring the project as well as other members of relevant expertise. The working party determines the nature and scope of study, helps in drawing the terms of reference for the study and the schedule for its execution as well as short-listing of relevant consultants.

The terms of reference and the short list are then forwarded by the PPU to the financial institution which meets the cost of organising the study. After receiving its consent, the PPU invites the short-listed consultants requesting them to file their technical and financial proposals within a specified period of time. The PPU encloses the terms of reference with the invitations. Figure 2.2 shows the process-flow chart of Government project proposals.

On receipt of the proposals, the working parties, working under the supervision of the PPU, embark on reviewing and evaluating the proposals. They use criteria developed by the PPU and based on guidelines for use of consultants issued by the World Bank.*

After selecting the technically and financially best offer, the winning consultant is invited for detailed negotiations within the framework of a standard draft contract approved by the Attorney General Chambers. The

* It is worth noting that only in 1981 that the PPU set out criteria, regulations and procedures for choosing consultancy firms and foreign companies.
Figure 2.2

PROCESS-FLOW CHART OF GOVERNMENT PROJECT PROPOSALS (Sudan)

1. Ministries and Government Undertakings

2. Committee headed by Under-Secretary of Planning

3. Projects Preparation Unit

4. Financiers of Feasibility studies

5. Working Parties

6. Consultants for conducting Feasibility Studies
negotiated contract is then forwarded to the study financier. When the latter approves, the signing of the contract takes place between the PPU as a Client and the selected consultant as a Consultant.

From that stage, the working party becomes a Steering Committee, monitoring and following up the progress of the feasibility study right from the beginning to the final report. The working party submits its proposal to the Project Review Committee (PRC) for approval. The PRC directs and supervises the PPU; it approves the selection of projects before being referred to consultants. Furthermore, the PRC takes final decision concerning the selection of consultants, their fees, duration of the feasibility study and financial arrangements. The PRC is headed by the Under-Secretary of Planning and has members from UNDP, World Bank, Kuwait Fund, the financiers and other member(s) from other organisations as are appropriate depending on the project under consideration.

The projects thus studied are not appraised in the true sense of the word. The Steering Committee only assures that the study is carried out according to the contract. The PPU itself has no competent economists and engineers to appraise the feasibility studies. Thereafter, at the completion of the study, the Ministry of Finance and Economic Planning takes over the job of searching for finance if it was not assured in pre-feasibility phase.
The Steering Committee periodically reviews and evaluates contractors' studies. It appraises the studies and reports on that to the PRC. The reports are made at four stages of the study executions. After every stage, if the PRC approves the work reported-on, the contractor moves to the next stage.

After completion of the studies, in many cases, they are kept in the PPU because no finance for implementation is available. When the financier is found, the project has to be re-studied to allow for price changes, technology changes etc.

The PPU generally applies the net present value (NPV) as a criterion for selection of manufacturing projects and it follows UNIDO guidelines and manuals. But this is not followed strictly and no definite acceptance criteria were used. This type of evaluation is used, as it is argued, to ensure that the project is technically and financially feasible. No cost benefit analysis is carried as no economic parameters and accounting prices were estimated for Sudan. The social aspect concerning water and air pollution control is not considered in social appraisal.

In project selection, no group of alternative projects to make better decisions exists. The PPU itself is a coordinator rather than an appraiser of projects. It is a general rule rather than an exception that all the projects
which were studied during 1970-80 were appraised by those who did study them.* That is because, in most cases, they also financed and executed the projects. Examples are the public sector sugar projects at Sennar and Assalaya. But they usually study the project to make sure that its implementation, rather than what will happen next, is feasible.

The financier here appraises on behalf of the Sudan Government. But he puts more effort on contracts of implementation rather than on the feasibility study so as to make sure that no loopholes will befall him in cost increases. Therefore, as will be discussed later, although the country witnessed delays in all its public sector manufacturing projects (Appendix 1), the client suffered more than the contractor. The client has to bear delay costs and to postpone economic and social development for many years. Projects studied, and for which finance is secured, go to the implementation stage.

2.3 Implementation System of Public Sector Manufacturing Projects

After conducting the feasibility study and assuring project finance, contractors prepare their bids which are

* As it is evident from the performance of the projects and the interviews with officials at the PPU, the appraisers concentrate on technical analysis and pay little attention to financial and social profitability analysis.
studied by technical committees in the Ministry of Industry. The committee includes, in addition to the Ministry's representative, members from the Bank of Sudan, Purchasing Department of the Ministry of Finance and Economic Planning and the Attorney General Chambers. A bidder is chosen by the Ministry of Industry on behalf of the Government.

During the 1970s, the legal adviser at the implementing organisation* first goes over the details of the contracts to assure sound terms. The Attorney General representative, however, is to be present and to approve the main contract while the Ministry of Industry signs. The Projects Bureau (PB), however, is not a participant in any of the pre-implementation phases. This means less familiarity with the nature of projects and hence more time is to be taken in order to solve unforeseen problems.

The distinct shape which the implementation phase of public sector manufacturing projects took in the 1970s is due to the bulk of Government investments in industrial ventures as stated in chapter one. The Industrial Projects Implementation Corporation (IPIC) was created in 1972 to see to it that the ventures were successfully implemented. However, all the public sector manufacturing projects were contracted

* The implementing organisation is the Projects Bureau of the Ministry of Industry which was established in 1972 to supervise public sector manufacturing projects during implementation.
out on turn-key basis. This left a more or less advisory role for the IPIC to play.

2.3.1 Organisational Aspects in the Implementation Phase

The Industrial Projects Implementation Corporation (IPIC) was created in September 1972 as an autonomous body to function as the agency for supervising the implementation of public sector manufacturing projects. It had a board of directors which set out its policy and appointed executive managers for projects under implementation. The IPIC was directly responsible to the Minister of Industry. To have the projects implemented successfully, the IPIC was mainly to undertake the following activities:

a) Monitoring implementation progress, facilitating coordination of all efforts involved in implementation and evaluating performance.

b) Designing tenders, selecting contractors and facilitating contractors' work regarding payment.

c) Preparing implementation schedules, reporting on progress and signing commission contracts.

Because the matrix type organisation was new to the IPIC and other agencies contributing in implementation, the monitoring of the projects, as will be discussed later, was not successful. Therefore, in April 1973, a Ministerial Decree was passed according to which the role of the IPIC was re-defined to be purely advisory. It was to advise the
Minister of Industry while project managers were to be appointed by, and were made responsible to, the Minister. The IPIC was to appoint resident engineers who were technically responsible to the IPIC and administratively responsible to project managers.

In the Ministerial Decree of 1973 the relation between the IPIC and consultants who contracted with the Ministry of Industry was not clarified. The foreign contractors made further contracts with indigenous contractors to perform some supporting activities. There was no clear statement in the Decree showing how work could be coordinated between such indigenous contractors and the IPIC. Furthermore, the relation between the main contractor and the IPIC was not clarified. The relation between the resident engineer and the main contractor from one side, and between the main contractor and the IPIC from the other side, was not mentioned at all. The organisation chart of Government projects implementation is shown in Figure 2.3.

The Decree, thus, left a lot to be tackled in mutual respect and understanding. But this created further misunderstanding between the different agencies involved in implementation and, as will be shown in chapter six, hampered the smooth implementation of the projects.

In September 1974, the IPIC was dissolved and reconstituted as the Projects General Secretariat. It was made
Figure 2.3

ORGANISATION CHART OF GOVERNMENT PROJECTS IMPLEMENTATION
SUDAN (1973)

Industrial Projects Implementation Corporation

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Ministry of Industry

Foreign Contractors

Project Managers

Supporting Staff

Resident Engineers

Local Contractor

Local Contractor

--- Authority relationship

- - - Advisory relationship
responsible to the Under-Secretary of the Ministry of Industry and took over all functions of the IPIC. However, the organisational problems mentioned above could not be solved and they continued to affect the implementation process.

Hence, in July 1975, the Minister of Industry announced a reorganised structure of the Ministry in which it was divided into three departments (Projects, Industrial Control and petroleum) to be directly responsible to the Minister.

The Projects Department consisted of five divisions. These were:

a) Programmes and Industrial Planning,
b) Finance and Investment
c) Research
d) Training
e) Projects Bureau

The fifth division, Projects Bureau (PB), replaced the Projects General Secretariat and took over its functions. The project managers were made responsible to the PB in the new organisation. However, this change also, as will be examined later, could not bring about a team-work to achieve the targets of implementation schedules and costs.

A point that deserves mentioning here is that the staff of the PB were not included in the salary structure of the Ministry of Industry. Many project managers were ex-army officers and were not familiar with functional type of
organisation is industry and business, let alone matrix organisation.

After 1980, five projects were still under implementation, and the PB span of supervision was limited to only Melut Sugar Project and Tonj Kenaf (Sacks) Project. The other three projects were handed over to the Industrial Production Corporation. All the projects, however, except Melut were at a stand-still. Even Melut, as will be described in chapter three, is only infested with unnecessary committees and overbusy with non-productive meetings. There were, however, some rehabilitation projects started in 1981 in sugar and textile industry (for those projects implemented during 1970-80) which were supervised by the Industrial Production Corporation.

2.3.2 Payment System

Method of payment to contractors, indigenous and/or foreign, were shown and specified in the contracts agreed upon between them and the Ministry of Industry or the PB. Payment was made according to progress of execution through two methods; request of payment and letter of credit. The request of payment method, shown in figure 2.4, is a system which goes as follows:

(a) The contractor submits his application for payment to the resident engineer who is to forward it to the project manager at the headquarters.
(b) Such application is studied and compared with the progress of work and specifications in the contracts and schedules.

(c) If found justifiable, the application is further forwarded to the Finance and Investment Division of the Ministry of Industry where it is again checked and sent to the Planning Department.

(d) The application may be kept for more than a month in the Industrial Sector Wing of the Planning Department to be checked against the budgets already approved. The planners may insist to know some technical aspects concerning the contract of the project. This calls for sending letters to the Ministry of Industry, the PB, original contractor etc.

(e) When satisfied, the planners approve and send the application to the Banks and Currency Division of the Ministry of Finance and Economic Planning. There again, because of shortages of funds, the application is to be processed according to priorities.

The second method of payment was through the letter of credit. This is a letter bearing a monetary sum for meeting payment of equipment costs, contractors costs, materials etc. The letter (account) is opened by the Finance and Investment Division of the Ministry of Industry in a commercial bank after getting consent of the Finance Department. Payment is to be made according to specified terms agreed upon between the contractor and the Ministry of Industry or the PB. The contractor is to submit progress invoice which is to be
approved by the resident engineer or a PB consultant at the project site. Then he takes that to the bank. It is worth mentioning that foreign contractors were paid through the letter of credit while indigenous contractors were paid according to the request of payment system as shown in figure 2.4.

2.3.3 Monitoring System

Monitoring is defined as "the process of inducing action for adherence to schedule by measuring, reviewing and reporting performance."\(^4\) The Industrial Projects Implementation Corporation (IPIC) installed a monitoring system in October 1972. It designed progress report forms to be filled by project managers who used project implementation schedules, divided into small activities as their standards. To achieve the goal of the monitoring system, the IPIC organised an on-the-job training for project managers. It explained to them the objectives of the system and how the forms were to be filled. It, however, put the following as criteria for the success of the system:

(a) Commitment of all agencies involved in implementation to the planned implementation schedule.

(b) Optimum utilisation and allocation of resources of the project.

Figure 2.4

PROCESS-FLOW CHART OF THE REQUEST OF PAYMENT (SUDAN)

Contractor

Resident Engineer (Project Site)

Project Manager (Headquarters of PB)

Finance & Investment Division (Ministry of Industry)

Industrial Sector Wing (Planning Department)

Banks and Currency Division (Finance Department)

Bank of Sudan

Application and decision flow

Two-way clarification flow
(c) Spelling out hinderances of implementation, their causes and proposed solutions.

When put to use, the system of implementation could not work as proposed. Reporting itself was not frequent as planned, and it reflected progress in fiscal rather than in physical terms. Only foreign contractors prepared schedules of implementation for their assigned activities.

Therefore, the IPIC thought of redesigning the monitoring system. In December 1972, it hired foreign expertise. A UNIDO expert, after studying the old system of monitoring, designed new reporting forms and charts to be used in the new system. He put two conditions for the success of the new system, namely:

(a) Availability and adequacy of system inputs. These were planned and actual implementation periods and costs, activity-wise.

(b) Making use of system outputs. These were progress of work (time and cost) as well as problems hindering implementation.

As with the previous system, an on-the-job training took place. Hence, the system was explained to the project managers and an operations room in the headquarters office was prepared with charts and critical path figures as tools in the new system. However, for reasons to be discussed in chapter six, this system could not fulfil its objectives.
2.3.4 **Commissioning Stage**

After the projects were implemented they had to undergo run-tests. A commission committee to be appointed by the Minister of Industry would approve the test. The project is thereafter handed over to the Industrial Production Corporation which nominates key-personnel for running it. This is to be approved by the Minister of Industry.

2.4 **Licensing Apparatus and the Selection of Private Sector Manufacturing Projects**

Governments influence private sector projects selection through their industrial policies which are usually reflected in licensing documents and concession acts. This, in Sudan, is embodied in the different concession Acts since 1956. These Acts constituted the basic legislation for industrial policy in Sudan. They defined industrial licensing apparatus and determined the key policy elements composing the industrial incentives framework. These Acts were the Approved Enterprises (Concessions) Act, 1956, the Organisation and Promotion of Industrial Investment Act, 1967, the Development and Encouragement of Industrial Investment Acts of 1972 and 1974 and the Encouragement of Investment Act, 1980. A review of the last three acts enforced by the May Government is presented below:
2.4.1 Industrial Licensing and Project Evaluation 1970-85

The political regime of 1969 enforced two Acts in its first five years of power. They were the Development and Encouragement of Industrial Investment Acts, 1972 and 1974. Both the Acts called for the establishment of a Technical Advisory Committee for industrial development. The Committee's function was to assess the applications of new and expansion projects, advise the Minister of Industry and Mining on the desirability of a particular project and the kind and extent of concessions to be granted. The Committee was led by the Under-Secretary of the Ministry of Industry and Mining. Although, in most cases, the recommendations of the Committee were accepted, they were in no way binding on him.

Both the 1972 and 1974 Acts applied a set of criteria for evaluating and approving a project which was basically the same as those of the previous Acts. Those criteria included defence or strategic importance, utilisation of local raw materials and the encouragement of their production, whole or partial self-sufficiency in imports substitution, promotion of manufactured exports, direct and indirect employment generation, willingness to locate projects in the rural areas and increase national income. A new provision added in the Act was: "If the enterprise contributes in achieving the aims of economic cooperation and integration
with Arab and African states, it could be entitled to State assistance."


The 1980 Act aimed at unifying the incentives granted to all kinds of projects, public and cooperative investments in the different sectors. It was clearly stated that the 1980 Act "encourages investment in agricultural, animal, mining, industrial, transport, tourism, storage and housing fields and any other economic field prescribed by the Ministerial Committee". Also "it encourages investments initiated by the public sector, cooperative sector, mixed sector, national and private sectors and the foreign sector." 6

Under the 1980 Act, a Ministerial Committee was formed to supervise the encouragement of all kinds of economic investments and was composed by the President of the State who may reconstitute the Committee when circumstances call for that. 7 The 1980 Act provides more or less the same old

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7 Ibid., p.12.
criteria for selecting projects and granting concessions. Specifically, it encourages investments in projects which

(a) "contribute effectively in the increase in national income and widening of the base of national economy and strengthening of its activity, or

(b) contribute in the removal of any bottlenecks obstructing development, or

(c) make available necessary services which contribute in the consolidation of economic and social development, or

(d) the production of which depends on local material or the establishment of which is encouraged for production of such materials, or

(e) assist in the realisation of self-sufficiency and creation of surpluses for export, or

(f) assist effectively in the consolidation of balance of payment, or

(g) make available directly or indirectly chances of labour for citizens, or

(h) have defence or strategic importance, or

(i) contribute in the realisation of the objectives of economic cooperation or integration with Arab and African countries." 8

A project which satisfies any of the above criteria may be

8 Ibid., p. 3.
approved and/or entitled to the concession(s) specified in the Act. The concessions consist of exemption from business profit tax and foreign trade taxes, deduction of costs of electricity and transport, preferential facilities for regional development etc.⁹ These concessions are not linked to the criteria above but left to the discretion of the Minister.

In the 1980 Act, the powers were vested in the Minister of Finance and Economic Planning who has the final decision to approve an enterprise and to grant concessions. A unified organisation, the Secretariat General for Investment (SGI), was established in 1980. The SGI consists of a Secretary General, a Technical Secretariat and a Consultative Committee.

The Technical Secretariat is headed by the Secretary General and is the focal organisation for receiving applications for licences and concessions. It determines the abilities of investment and considers applications for licence, feasibility studies and any other applications submitted by the investor and carries out necessary studies and enquiries about the projects.¹⁰

The Secretary General, on the other hand, supervises the work of the SGI, recommends on licensing and concessions

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⁹ Ibid., pp. 4-6.
¹⁰ Ibid., pp. 9-10.
under the 1980 Act and acts as a link between SGI and the different organisations concerned with investment projects in the country. The Secretary General passes his recommendations to the Minister or Consultative Committee within two months of the receipt of complete application.

The Consultative Committee, led by the Secretary General, makes recommendations to the Minister with respect to applications for granting licence and concessions for the projects and evaluates the feasibility studies. In addition to the Secretary General as Chairman, the Consultative Committee consists of such members representing organisations directly connected with investment as the President of the State may appoint, provided that four of them represent the private sector, whose tenure of membership is three renewable years.

An applicant seeking project licence and/or concessions submits an application along with documents stated to the SGI. The application is processed by the Technical Secretariat. But as the SGI lacks technical cadre to undertake technical appraisal it sends the feasibility study to advisers in some organisations of the public sector, e.g., Industrial Research and Consultancy Institute, Buildings and Road Construction Research Institute, Food Research Institute etc. The economic appraisal is done by the SGI officers. The officers study the

11 See Appendix 10 which shows the application form.
objectives of the project and appraise its financial profitability concentrating on the payback period.

The appraisal exercise along with the concessions applied-for are summarised and submitted to the Consultative Committee. The Consultative Committee discusses and evaluates the documents along with the recommendations of the officers of the SGI. Within two months of the receipt of the complete application, it submits its recommendations to the Minister who is the final decision-maker.

In the evaluation process described above, no consideration is given to the social element of air and water pollution. This, while the financial aspects are emphasised to the extent that the entrepreneur should submit a financial ability certificate from a commercial bank along with the application.

2.5 Term-Lending Institutions and Industrial Project Evaluation

This section presents the process of industrial projects evaluation as exercised by two term-lending institutions in Sudan. These are the Industrial Bank of Sudan (IBS) and the Sudan Development Corporation (SDC). Both require a licence and a feasibility study as pre-requisites for lending.
2.5.1 The Industrial Bank of Sudan (IBS)

The IBS, the first Sudanese term-lending institution for private sector industry, is a Government-owned institution. It was established in 1961 as a specialised bank for lending medium and long-term loans for industry with an authorised capital of LS 3 million and paid-up capital of LS 2 million. 12 81 per cent of the IBS shares are owned by the Bank of Sudan (the central bank) and 19 per cent are owned by the Ministry of Finance and Economic Planning. The IBS's authorised capital was raised to LS 50 million out of which LS 18.7 million was paid till 1986. The IBS aims at encouraging the establishment of new industrial ventures and modernising and rehabilitating the already set-up projects. Its activities, however, were directed towards the private sector.

Till 1985, an applicant seeking loan from the IBS was to obtain a licence first and then to secure, at least, one third of the estimated capital needed for the project. And the IBS extended a loan secured by 120 per cent of its value from fixed assets within the project. If this percentage did not cover the security, then from real estate of other fixed property owned by the applicant outside the project. Nowadays, the IBS is operating according to Murabaha, an

12 "Industrial Bank of Sudan Act, 1961", p.3.
Islamic non-interest financial system where gains and losses are shared between lender and borrower according to some agreement. Here the IBS lends only tangible assets, i.e., it is a resale of goods with specific profit margin. The duration of lending as specified by the IBS is from 2-15 years. But actually it is between 2-7 years. The duration depends on the type of the project. The IBS also finances equity; it purchases shares in companies and sells them later on.

As far as the procedure of processing of applications is concerned, the initiator or owner of the project submits a feasibility study along with the application. The officers in the IBS appraise the feasibility study concentrating on financial profitability. The net present value and payback period of initial investment are two important indicators of profitability used by the IBS. If an outside financier is a participant then the IBS approval of the feasibility study and application is provisional. Only after the outside financier's approval is secured then the IBS may disburse the loan. Periodic visits to the project site and reporting on that is very important for follow-up and monitoring; this is done by the follow-up section in the IBS.

The IBS has a ceiling for the value of assets it lends. The ceiling is limited to certain proportion of the capital of the enterprise depending on the type of ownership of the
enterprise. It is 25 per cent if the private project is owned and operated by a cooperative society or a limited liability company, 20 per cent if it is a partnership and 15 per cent in other cases.

Prior to 1986, the IBS only financed fixed assets of the projects. The projects were to seek working capital from other sources (commercial banks, self-financing etc.). They encountered a major problem in securing working capital. Therefore, the IBS amended its Act in April 1986 to allow for working capital finance.

2.5.2 The Sudan Development Corporation (SDC)

The SDC was established by a Presidential Decree in March 1974 as an investment finance institution wholly owned by the Government of Sudan. Its authorised share capital is $500 million out of which $200 million has been paid up. The objectives of the SDC as defined by its Act are:

"(1) To contribute to the promotion and acceleration of development of the Sudan through the provision of financial assistance to new revenue-bearing projects.

(2) To encourage the participation of capital and skills, domestic and foreign, in the economic development of the Sudan with the view of contributing directly to the increase of earnings and/or saving of foreign exchange through export promotion or import substitution."
(3) To initiate and encourage the extension of technical and management assistance in the identification, formulation, study and management of revenue-bearing projects, whether such projects shall be financed by the Corporation or otherwise.

(4) To facilitate the creation of a healthy climate for investment in the Sudan for both domestic and foreign capital, whether public or private, by the adoption of conductive policies and practices.

(5) To conduct its operations on a self-sustaining profitable basis.

(6) To act as a catalyst by combining in the project joint ventures, local funds and entrepreneurship with advance of technology and finance from foreign and Arab sources.\textsuperscript{13}

The financial policy of the SDC is to own a share in the equity capital equal to or less than 40 per cent of the total paid-up capital of the project. It disposes of its shares in the project which is able to operate and progress without its financial assistance and can service and pay its debt to the corporation in full.

Prior to 1985, the SDC offered loans, guarantees and acquired shares in companies. After that date, and as the case with the IBS, it is financing investment projects following the Murabaha system. The ceiling of the SDC loan to any

project is limited to 50 per cent of the total cost of the project.

The SDC relied on capital paid by the Sudan Government and foreign borrowings. It has been lending fixed assets and holding equity shares in large scale industrial investments with private foreign and local investors.

The final approval of a project for financing is vested in the board of directors of the SDC. The sponsor of the project has to prepare a study justifying its feasibility. The project to be liable for financing should

(1) "have substantial development value within the context of the national development plan,

(2) be commercially viable,

(3) achieve value added to Sudanese products or materials,

(4) create employment opportunities, and

(5) introduce appropriate technology, promote competent management and improve local skills."

The SDC applies discounting techniques to judge the financial profitability of a project. It has a representative in the board of directors of any project which it financed. The SDC periodically sends officers from its follow-up division to the project site to report on progress of work.

during implementation. After the take-off stage, if the project shows competence to financially stand on its feet, the SDC disposes of its shares. Both the SDC and the IBS relaxed the pre-requisite of the guarantee of promoter's financial standing since 1985.

2.6 Chapter Summary

National planning was ushered in Sudan immediately after independence in 1956. Industrial laws were enforced since then which mainly aimed at import-substitution industrialisation. The PPU and the PB were established to formulate projects and to control implementation respectively. But because of the lack of indigenous expertise, feasibility studies as well as projects implementation were carried out by foreign contractors. Indigenous experts were involved in minor cases and no sound coordination was made. Concentration was on technical appraisal and local needs were underestimated. In addition, there were organisational problems of the PB, shortage of finance and inefficient monitoring system.

The licensing Acts since 1956 applied more or less the same criteria for project selection. The Encouragement of Investment Act, 1980, however, was generalised for all types of projects while the Acts of 1972 and 1974 were only confined to industrial projects. Concessions granted were not linked
to the criteria mentioned in the Act, and decision-making is highly centralised with the Minister of Finance.

The Industrial Bank of Sudan (IBS) and the Sudan Development Corporation (SDC), the two main term-lending institutions to private industry, require a licence and a feasibility study as a pre-condition for lending. They appraise financial profitability and follow the Murabaha (profit sharing) System in lending money. The SDC, however, developed criteria which draw on both financial profitability and social worthiness of the project.