SUDAN

POVERTY REDUCTION STRATEGY PAPER

DRAFT

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List of Acronyms

ACLED	Armed Conflict Location & Event Data Project
ACSAD	Arab Center for the Studies of Arid Zones and Drylands
AfDB	African Development Bank
AML/CFT	Anti-Money Laundering and Combating Financing of Terrorism
BOT	Build, Operate, and Transfer
BPT	Business Profit Tax
CAADP	Comprehensive Africa Agriculture Development Program
CBoS	Central Bank of Sudan
CBS	Central Bureau of Statistics
CPA	Comprehensive Peace Agreement
CPI	Consumer Price Index
CSO	Civil Society Organization
CSP	Concentrating Solar Power
DDPD	Doha Document for Peace in Darfur
DDR	Disarmament, Demobilization, and Reintegration
ESSP	Education Sector Strategic Plan
FCS	Food Consumption Score
FDI	Foreign Direct Investment
FEWS NET	Famine Early Warning Systems Network
FFAMC	Fiscal Financial Allocation and Monitoring Commission
FGD	Focus Group Discussion
GDI	Gender Development Index
GDP	Gross Domestic Product
GEF	Global Environment Fund
GER	Gross Enrolment Rate
GNI	Gross National Income
GoS	Government of Sudan
HCENR	Higher Council for Environment and Natural Resources
HCI	Human Capital Index
HDI	Human Development Index
HEPRTF	Health Emergency Preparedness and Response Trust Fund
HiAPs	Health-in-All Policies
HIPC	Heavily Indebted Poor Countries
HR	Human Resources
HRMIS	HR Management Information System
I-PRSP	Interim Poverty Reduction Strategy Paper
ICC	International Criminal Court
IDA	International Development Association
IDP	Internally Displaced Person
IFI	International Financial Institution
IGAD	Inter-Governmental Authority on Development
IIAG	Ibrahim Index of African Governance
ILO	International Labour Organization
IMF	International Monetary Fund
INC	Interim National Constitution
IPP	Independent Power Producer
IPSAS	International Public Sector Accounting Standards
IPSDA	Investment and Private Sector Development Agency Authority
JEM	Justice and Equality Movement
LPG	Liquefied Petroleum Gas

M&E	Monitoring and Evaluation
MDG	Millennium Development Goal
MFI	Microfinance Institution
MICS	Multiple Indicator Cluster Survey
MIGA	Multilateral Investment Guarantee Agency
MoFEP	Ministry of Finance and Economic Planning
MoJ	Ministry of Justice
MSMEs	Micro, Small, and Medium Enterprises
NBHBS	National Baseline Household Budget Survey
NCRA	National Commission for Resource Allocation
NEC	National Electric Corporation
NGC	National Governance Conference
NGO	Nongovernmental Organization
NHBPS	National Household Budget and Poverty Survey
NHBS	National Household Baseline Survey
NHIF	National Health Insurance Fund
NHSP	National Health Strategic Plan
NISS	National Intelligence and Security Service
NPL	Nonperforming Loan
NPV	Net Present Value
NRF	National Revenue Fund
O&M	Operations and Maintenance
ODA	Official Development Assistance
PDS	Partners in Development Services
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIT	Personal Income Tax
PPA	Power Purchase Agreement
PPD	Public-Private Dialogue
PPP	Public-Private Partnership
PRSP	Poverty Reduction Strategy Paper
PV	Photovoltaic
RSF	Rapid Support Forces
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SE4ALL	Sustainable Energy for All
SFSP	Sudan Family Support Program
SLA	Sudan Liberation Army
SMEs	Small and Medium Enterprises
SMP	Staff-Monitored Program
SMPF	Sudan Multi-Partner Fund
SOE	State-Owned Enterprise
SPLM-N	Sudan People’s Liberation Movement-North
SSTL	State Sponsors of Terrorism List
STARS	Sudan Transition and Recovery Support
SWC	State Water Corporation
TA	Technical Assistance
TAA	Turn-Around Allocation
TSA	Treasury Single Account
TVET	Technical and Vocational Education and Training
UCT	Upper Credit Tranche
UN	United Nations
UNAMID	United Nations-African Union Mission in Darfur
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme

UNICEF	United Nations Children's Fund
UNITAMS	United Nations Integrated Transition Assistance Mission in Sudan
UNOCHA	United Nations Office for the Coordination of Humanitarian Affairs
VAT	Value Added Tax
WFP	World Food Programme

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EXECUTIVE SUMMARY

Since independence, Sudan's economic performance has been below expectations, particularly given the country's huge endowment in natural and other resources. Central to the poor economic performance is a history of internal conflict since independence in 1956. Poverty is widespread, human development indicators are very low, and the gross national income (GNI) per capita of US$590 masks the wide regional disparities in economic and social development. Physical infrastructure, including roads, railways, power, water and irrigation facilities are either non-existent, inadequate or dilapidated due to years of underinvestment, mismanagement and neglect.

The fundamental challenge to Sudan's prosperity is its deep-seated political issues. Sudan has experienced conflicts for most of its post-independence era. At the core of the conflicts lies the issue of considerable inequality and unfair distribution of power and wealth between the center, dominated by Khartoum, and the much larger periphery. The Juba Peace Agreement, signed on October 3, 2020, creates a window of opportunity for peace throughout Sudan and addresses the concerns of the peripheries, such as the Eastern States and Darfur.

The current government inherited a very fragile economic and political situation, and now needs to exploit a limited window of opportunity to realize the benefits of the revolution through economic and political adjustments. Major imbalances—linked to the loss of three quarters of oil exports following South Sudan's independence in 2011—continue to weigh on the economy. A lack of integration into international trade and a weak business environment restricts private investment, while years of economic mismanagement have depressed public investment. The inflation rate has been on the rise in the last year reaching a record 304 percent in January 2021. While inflation is expected to decline in 2021, it will continue to be a drag on private consumption, which accounts for almost 80 percent of gross domestic product (GDP). Investor sentiment remains weak and this will likely persist as the political transition continues, and future economic growth prospects remain challenging.

The government has a daunting task ahead for economic recovery and will need to address the interrelated challenges of improving political and economic governance. The priorities include stabilizing the economy, improving access to basic services, and promoting pro-poor growth to mitigate some of the main causes of conflict in several parts of Sudan. In this regard, improved capability, responsiveness, and accountability will be essential for development interventions to be effective and responsive to the needs of the Sudanese population, particularly the poor and marginalized groups, given general expectations for better living conditions following the peaceful revolution. Increasing pro-poor public spending—historically low even by Sub-Saharan African standards—is critical to extending basic services and maintaining peace and stability, particularly in conflict-affected and marginalized areas. While more pro-poor allocation of resources is vital, this will need to be accompanied by sustained economic growth to achieve long-lasting reductions in poverty and inequality.

The current national development plan reflects the government's desire to address the economic, political, and institutional issues that would lay a foundation for strong economic growth and poverty reduction. The main objective of this Poverty Reduction Strategy Paper (PRSP) is to outline how the Government of Sudan (GoS) plans to address poverty reduction in the next three years (2021–2023). This involves discussions and agreement with all key stakeholders on a national roadmap to alleviate poverty throughout Sudan and identify the

budgetary resources and priority sectors to achieve this objective. The PRSP would also serve another essential purpose of meeting the requirements for reaching the decision point of the Heavily Indebted Poor Countries (HIPC) Initiative. This would facilitate Sudan's debt relief, creating the fiscal space for pro-poor spending to improve living conditions for the Sudanese population. The preparation of the PRSP benefits from lessons learned from the 2012 Interim PRSP.

The guiding principles in the preparation of the PRSP were to

(a) Build a national consensus on a Poverty Reduction Strategy based on a comprehensive and evidence-based understanding of the nature, magnitude and causes of poverty in Sudan.

(b) Harness the capacities, experiences and resources of all key stakeholders, at the regional and local levels to contribute to the effective design, implementation, and monitoring of the PRSP.

(c) Create an awareness among the poor and vulnerable groups and communities for self-reliance, co-existence and collective action towards poverty reduction; and

(d) Build broad national commitment towards and ownership of the PRSP.

With these principles in mind, the preparation of the PRSP adopted a participatory approach, including widespread consultations before, during, and after writing the strategy paper. Consultations took place across Sudan involving the government (central government and state governments) and key stakeholders including civil society organizations, private sector representatives, women's groups, representatives of the most disadvantaged social groups, research institutes and academics, and trade unions. Consultations also took place with bilateral and multilateral external development partners. Efforts were also made to reach the most vulnerable parts of the population in several states, such as the internally displaced and those involved in the informal sector. The process of broad participation and consensus building was undertaken to deliver a comprehensive poverty contextual analysis, sufficient to inform and guide the interventions of the government and its development partners. This is important for achieving desired development outcomes, particularly with regards to planning and budgeting, improving the effectiveness of public expenditure for efficiency gains in public finance, harmonizing development financing, and promoting accountability and transparency through effective monitoring and evaluation.

Poverty in Sudan is a complex phenomenon that is experienced in multiple, interrelated dimensions. The multiple dimensions include monetary poverty as well as non-monetary poverty indicators including poor access and quality of education and health services and overall low living standards. Based on this description, most of the Sudanese experience poverty in one form or another, with nearly two-third of Sudanese living below the national poverty line. Sudan's education, health and living standard indicators are generally lagging regional and global averages and far below targets for Sustainable Development Goals. Gender disparities are evident across various dimensions. While poverty remains a rural phenomenon, urban areas are experiencing a rise in poverty. Poverty rates vary significantly across sates, with the highest rates observed in conflict-affected states. Moreover, the depth and severity of poverty in Sudan point to extremely high levels of vulnerability arising from natural disasters driven by climate change and environmental degradation, as well as from conflict and displacement around the country.

The Poverty Reduction Strategy proposes a five-pillar plan that would build a solid foundation for a diversified economy and sustained growth with the aim to provide opportunities for inclusive growth and reducing poverty. The PRSP is consistent with the Government's Three-Year Program for Stability and Economic Development (2021-2023) and the Juba Peace Agreement. The five key pillars of the PRSP are as follows:

a. *Pillar 1: Promoting Macroeconomic Stability*. Improving domestic revenue, reallocating public resources towards social spending and key infrastructure investments, and providing the foundation for inclusive growth.

b. *Pillar 2: Fostering Inclusive and Sustainable Economic Growth.* Growth in agriculture and livestock, and the role of the private sector; enabling environment for private sector growth; strengthening of energy, transport, and infrastructure services; and protecting the environment.

c. *Pillar 3: Boosting Human and Social Development.* Investment in human development to build and enhance the population capabilities through education and better health and reducing the inequality in human development outcomes between states, regions, and gender.

d. *Pillar 4: Promoting Peace and Providing Equal Opportunities for All Sudanese*. Emphasizing peace in Sudan, including internally displaced persons (IDPs) and refugees' return; managing diversity, geographical disparities, competition over natural resources and land; and transitional justice.

e. *Pillar 5: Strengthening Governance and Institutional Capacity*. Improving institutional capacity through effective public financial management (PFM) and decentralization, peace, and security; fighting corruption; promoting human rights; and improving justice.

These organizing pillars align with the national development priorities. Strengthening gender and other kinds of social equity is a cross-cutting policy (imperative) that is integrated into each pillar, representing an important strategy for both targeting and prioritizing interventions.

At the national level, a focus on macroeconomic stability will be required to create the necessary conditions for economic stability and implement consistent economic policies to support growth and good economic governance. The government is also making concerted efforts to re-engage Sudan with the international community. This includes working towards having Sudan's arrears cleared with multilateral financial institutions to pave way towards debt relief under the HIPC Initiative. Sudan is articulating a long-term development vision, an essential part of which would be related to the achievement of the Sustainable Development Goals for which the poverty reduction strategy is fully integrated.

The recent peace agreement presents an opportunity for substantial dividends. However, in the short term, deep seated economic reforms are required due to the legacies of the prolonged conflict and the economic impact of the reliance on resource exports since 2005. The costs associated with conflict have been substantial in terms of human life, livelihoods, the disappearance of traditional safety net mechanisms, the creation of IDP camps, in addition to the problems related to those whose lives were directly affected by war. There is also loss of

economic assets, including the destruction of both economic and social infrastructure, destruction of market structures and institutions and disruption to trade routes and connectivity throughout the country that presents risks to food security to large parts of the country. This has also resulted in significant deterioration in the quality of institutions and governance.

Overcoming these challenges is necessary to address the root causes of poverty and achieve sustainable peace. There is an immediate humanitarian task of dealing with IDPs, orphans and those affected by conflict. There is also the task of rehabilitation and reconstruction of substantial parts of the country; the disarmament, demobilization and re-integration of soldiers and other combatants; and paving the way for the return of IDPs to their places of origin. However, these issues would have to be addressed in a way that does not jeopardize macroeconomic stability, which is a necessary condition for the sustainability of peace and poverty alleviation. Support from the international community is critical to implementing the peace agreement.

Governing Sudan requires political and fiscal decentralization with improved governance transparency and accountability. The empowerment of the local populations coupled with adequate transparency and improved PFM would improve governance and ensure broad participation in deciding what is best for local communities. The extent to which fiscal decentralization can be advanced will be limited by the administrative and institutional capacities and a concerted effort and an effective program of civil service reform designed to strengthen institutional and administrative capacity is necessary at the federal level, as well as at the state and locality levels. Strengthening the quality of the civil service over the medium term with the ultimate objective of improving both their institutional and absorptive capacities so as to enable a more far reaching program of devolution of powers in the future to the states/localities thereby enhancing their empowerment and their contribution as effective vehicles for service delivery throughout Sudan.

It will be necessary to renew the social contract between the government and the general population, one in which the state can deliver, responding to the aspirations of the population and the youth for greater participation, for transparency and for combatting of corruption; and for good economic governance overall. This is a critical challenge where the ability of the state to deliver is constrained by the damage done by the previous regime, including the deep fiscal crisis, low levels of trust and high expectations. Strengthening the social contract requires two overarching, and mutually reinforcing elements:

a. The importance of strengthening state capacity and country institutions to enact policies and regulations that address the socio-economic needs of the population, ensure their implementation, and continuously assess these policies and adapt them to support service delivery where it is most needed, foster development, reduce poverty, and respond to the aspirations of the population.

b. The importance of building trust, to navigate the complex economic and democratic transition and emerge stronger, through a commitment to open, accountable, and responsive state-society relations.

The PRSP identifies several challenges to implementation in Sudan, including those related to internal capacity constraints, multi-level coordination at the federal and state levels, as well as aid coordination. The strategy highlights the need to strengthen the monitoring and evaluation (M&E) system to monitor progress towards strategy implementation. The Ministry of Finance and Economic Planning will lead the implementation of the strategy in coordination with the Prime Minister's Office and the relevant ministries. Capacity building is a key factor in implementation, and continued support from development partners is essential in achieving progress in poverty reduction. The strategy prioritizes public awareness of the PRSP's objectives in matters of vital importance to the national development agenda.

The PRSP supports Sudan's integration into the international community. Sudan's poverty reduction challenges are daunting and substantial resources are needed to implement comprehensive and far-reaching reforms. There is a need for continued development partners' engagement in the country as it will be difficult for the transition government to implement reforms without normalized relationships with the international community, accessing debt relief, and obtaining concessional financing for a broad array of essential projects. Finally, the PRSP also provides development partners with a platform for coordination and policy dialogue with the government on key reforms towards poverty reduction.

1. COUNTRY CONTEXT: POLITICAL, ECONOMIC AND SOCIAL DEVELOPMENTS

1.1 Introduction

Sudan is endowed with substantial natural and physical resources. The country is rich in arable land, water (from the Nile River, rainfall, and underground water), forests, and livestock as well as recent natural resources such as oil and gold. Sudan is the third largest exporter of gold in Africa, after Ghana and South Africa. While a large part of the country is relatively arid, much of it enjoys rainfall sufficient for farming (that is, area of rain fed agriculture is about 17.1 million feddans). About 43 percent of the Nile basin lies within Sudan, and a significant area is irrigated (that is, area of irrigated agriculture amounts to 29.3 million feddans), including Gezira, one of the world's largest irrigation schemes. Sudan has one of the largest livestock herds in Africa (with an estimated total livestock population of 107 million heads of cattle, sheep, goats, and camels). Although Sudan holds tremendous potential, much of it remains unrealized due to conflict, weak governance institutions, and decades of economic mismanagement.

1.2 Conflict

The country has not succeeded in turning its diverse natural and human resources into inclusive and sustainable economic development; rather, inequality has led to conflict and civil war across many parts of Sudan. The war that started with South Sudan and resulted in its secession in 2011, was soon followed by other peripheral regions expressing similar marginalization grievances, namely in the states of South Kordofan and Blue Nile as well as in the three states of Eastern Sudan and the five states of Darfur. The total area of states affected by the conflict is about half of the size of the country[1] and home to about 43 percent of the population of Sudan.[2]

Inequalities in the allocation of public resources and in access to natural resources are the main drivers of conflict and fragility. Historical investment in infrastructure and processing capacity has created a relatively well-developed center, increasing the disparity among regions. Conflict in Sudan is a result of the long-standing economic disparities between different parts of the country. Since independence in 1956, Sudanese governments have failed to recognize the importance of equity for peace and nation building. Therefore, the emphasis on centralization has marginalized peripheries and led to a series of civil conflicts. These conflicts that engulfed the country have severely impeded its political, social, and economic development.

In some parts of Sudan, conflict is related to competition over access to natural resources between pastoralists and settled farmers. The lack of clear demarcation, land rights, and mapping of livestock routes was a key driver of conflict among pastoralists and farmers in the Darfur region, for example. Such local conflict often leads to violence due to weak institutions for conflict management and especially weak natural resources management regimes. Climate change and desertification are putting further pressure on already fragile ecosystems and livelihoods dependent on them and may lead to further conflicts.

[1] Eastern Sudan 17 percent, Darfur 26 percent and the two areas 8 percent of the total area of Sudan
[2] Eastern Sudan 16 percent, Darfur 23 percent and the two areas 4 percent of the total population

1.3 Weak Governance

Governance institutions necessary to uphold rule of law and sound public financial management (PFM); define and execute sectoral strategies; and ensure transparent, efficient, and equitable inter-governmental transfers, remain weak. The capacity to maintain peace and security; promote the rule of law; control corruption; and effectively manage public finance for the delivery of services to the population remains very low in absolute and in comparative terms and has hardly changed since 1996.[3] Substantive progress on peace and security and strengthening governance and accountability would help unlock Sudan's strong economic potential.

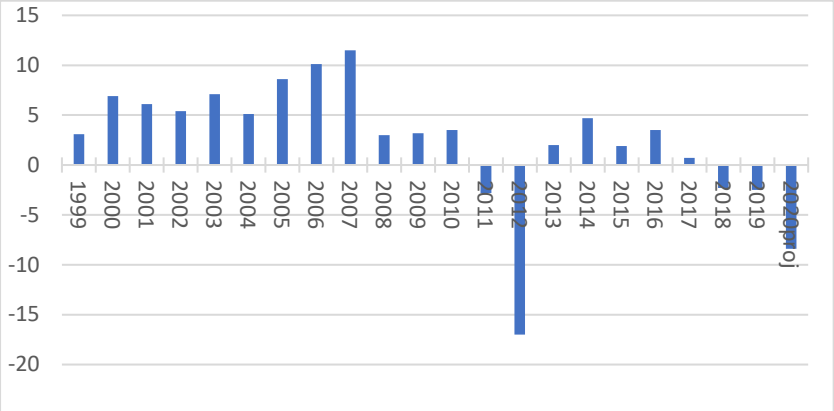
On the regional dimension of fragility, Sudan's foreign relations have been shaped by its strategic location at the crossroads of Sub-Saharan Africa and the Middle East. Sudan is a member of the Arab League, the African Union, and the Inter-Governmental Authority on Development (IGAD), a regional organization that covers the Horn of Africa countries. Sudan's relations with the United States and Europe remained tumultuous during the preceding regime, and the country suffered from international isolation. The relations remained tense during the longstanding US sanctions on Sudan (1997–2017) but have improved recently, following the lifting of the sanctions in October 2017 and the removal of Sudan from the State Sponsors of Terrorism List (SSTL) in December 2020.

1.4 Economic Mismanagement

Sudan has been downgraded from a middle -to low -income country in the last decade. During 1999–2011, Sudan had a decade of high real economic growth rates, driven by oil production and exportation, but this growth was not sustained. After the discovery of oil in 1999, the economy grew at an average of 7 percent, however, the country missed a golden opportunity to transform and build the foundations of a vibrant non-oil economy. Oil resources were not converted into equivalent public investments in productive sectors, infrastructure, and human capital, which has taken a cumulative toll on the pace of growth. Agriculture— a major source of employment and the country's main export before the discovery of oil— was neglected, and the country did not manage to diversify its economy and adjust to the large economic shock of losing 75 percent of its oil reserves with the secession of South Sudan in 2011. On the contrary, the advent of an oil-based economy and sharp fluctuations in global commodity prices presented new macroeconomic challenges, particularly for the competitiveness of exports of the non-oil economy and the management of a resource-based economy. Following the secession, growing macroeconomic imbalances led to destabilization and slower growth. Sudan's per capita gross national income (GNI) dropped from US$1,690 in 2015 to US$590 in 2019, making Sudan a low-income country according to the World Bank income classification of countries. The country has experienced a lost decade from the point of view of economic growth.

[3] Kaufman D., A. Kraay, and M. Mastruzzi (2011), *The Worldwide Governance Indicators: Methodology and Analytical Issues*

Figure 1.1: GDP growth in Sudan, 1999-2020 (annual % growth)



Source: Sudan Central Bureau of Statistics (CBS)

The Coronavirus pandemic and recent floods have compounded the challenges faced by the transitional government and are estimated to lead to a four percent point decline in growth in 2020. The pandemic and related containment measures (for example, closing schools and markets as well as banning public gatherings and other movement) have exacerbated the hardship. Despite strong containment measures the number of infected people has risen to 27,820 with 1,849 deceased, as of February 2021. The combination of the global economic crisis and domestic limitations triggered by COVID-19 led to a negative economic growth (-4 percent) in 2020.[4] In addition, the July-September floods have led to some 100 fatalities and the destruction of 100,000 homes affecting over 500,000 people, promoting a declaration of a state of emergency.

The shock to oil revenues after the secession of South Sudan drove the country's trade balance into deficit, which has now reached over 10 percent of gross domestic product (GDP) (Table 1.1). A simultaneous improvement in the income balance reflects the reduction of high payments to foreign oil producers according to production sharing agreements. As was the case in the past before 2011, sizeable current account deficits of over 10 percent of GDP have been offset in the balance of payments by capital inflows and, in recent years, errors and omissions. The recent large positive errors and emissions are believed to reflect large informal remittances which have avoided the official system due to the overvalued exchange rate. They could also reflect, to some degree, hidden inflows associated with sales of gold or fuel by smugglers. Formal annual capital inflows have remained a rather stable share of GDP, although their composition has changed notably since 2011. The majority of these inflows in the past constituted foreign direct investment (FDI), much of which went to the oil industry, but Sudan has more recently become dependent on other foreign inflows to sustain the balance of payments deficit without a significant depletion of official foreign reserves. Much of this has been in the form of bilateral foreign grants that are, in a sense, financing an overvalued exchange rate. In addition, the context of an overvalued exchange rate and the absence of forex reserves has created an environment when planned imports of subsidized commodities often need to be physically curtailed to maintain external balance. This can be associated with recent severe shortages of fuel and wheat in Sudan.

[4] Source: Central Bank of Sudan, Ministry of Finance and Economic Planning staff estimates and projections, and the World Bank (2020). Country Engagement Note for the Republic of Sudan (FY21-FY22.

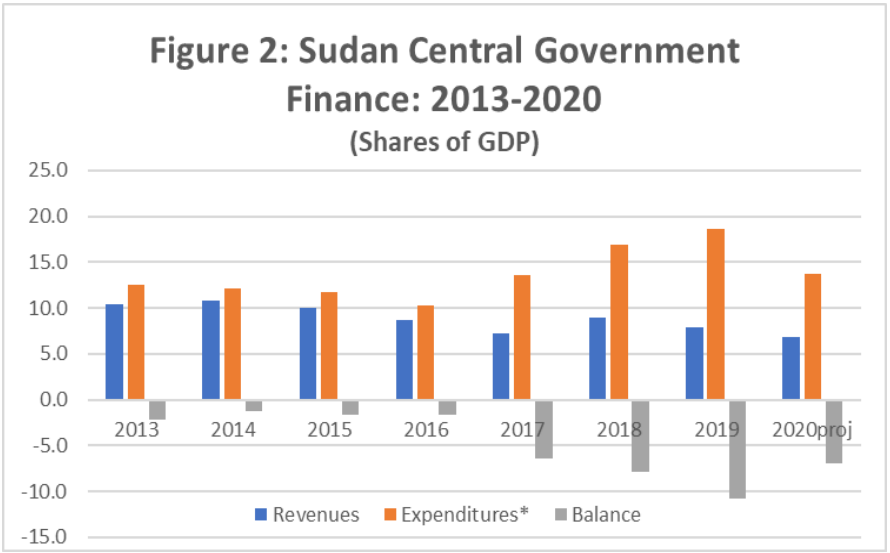
Table 1.1: Sudan balance of payments (% of GDP)

	2007	2017	2018	2019	2020proj
Current Account	-12.5	-10.0	-13.1	-15.1	-12.7
Exports	19.1	8.9	9.8	11.9	14.2
Imports	16.6	17.9	19.8	25.2	25.0
Net services	-6.3	0.4	1.0	-0.2	-0.3
Trade balance	2.5	-8.6	-9.1	-13.4	-11.1
Income balance	-8.7	-1.5	-4.0	-1.7	-0.9
Net Capital and Financial account	8.8	7.7	8.8	11.4	9.8
Net FDI and portfolio investments.	6.5	2.3	3.2	2.9	2.5
Overall Balance	-3.7	-2.3	-4.3	-3.7	-2.9
Change in Reserves*	-3.0	-0.1	-0.1	0.0	0.4
Errors and omissions	0.7	2.4	4.4	3.6	2.5

Source: Central Bank of Sudan, Ministry of Finance and Economic Planning staff estimates and projections, and the World Bank (2020). Country Engagement Note for the Republic of Sudan (FY21-FY22

Rapidly growing macroeconomic imbalances in Sudan since 2018 were driven by a soaring public sector deficit, most of which has been financed directly by the Central Bank. Higher public sector deficits, in turn, mirror rapidly increasing commodity subsidies, mostly for fuel, part of which was financed directly off budget by the Central Bank until 2020. Figure 1.2 illustrates the rapidly growing public sector imbalance since 2017 that includes estimates of commodity subsidy expenditures, both on and off budget. Figure 1.3 shows the simultaneous changing composition of public sector expenditures toward commodity subsidies that drove the imbalances in until 2020. This trend was reversed in 2020 due to significant reductions in fuel subsidies, although a significant deficit remains for reasons discussed below.

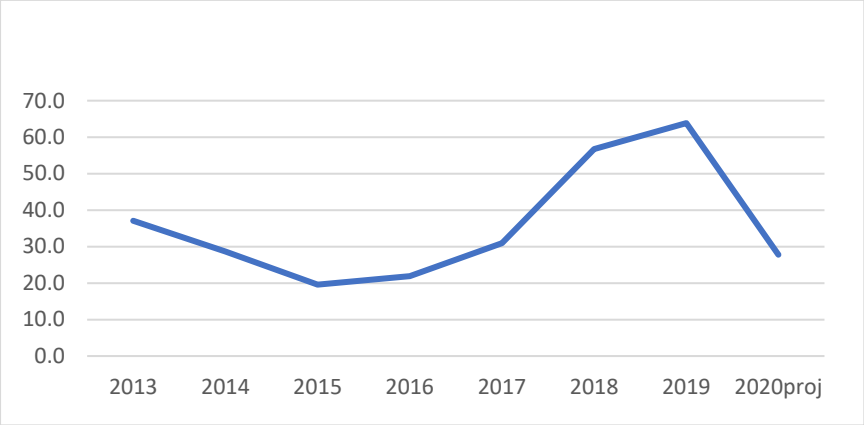
Figure 1.2: Sudan Central Government Finance, 2013-2020 (shares of GDP)



Source: Central Bank of Sudan, Ministry of Finance and Economic Planning staff estimates and projections, and the World Bank (2020). Country Engagement Note for the Republic of Sudan (FY21-FY22

Note: Expenditures include estimates of off-budget commodity subsidies

Figure 1.3: Share of commodity subsidies in central government expenditure*

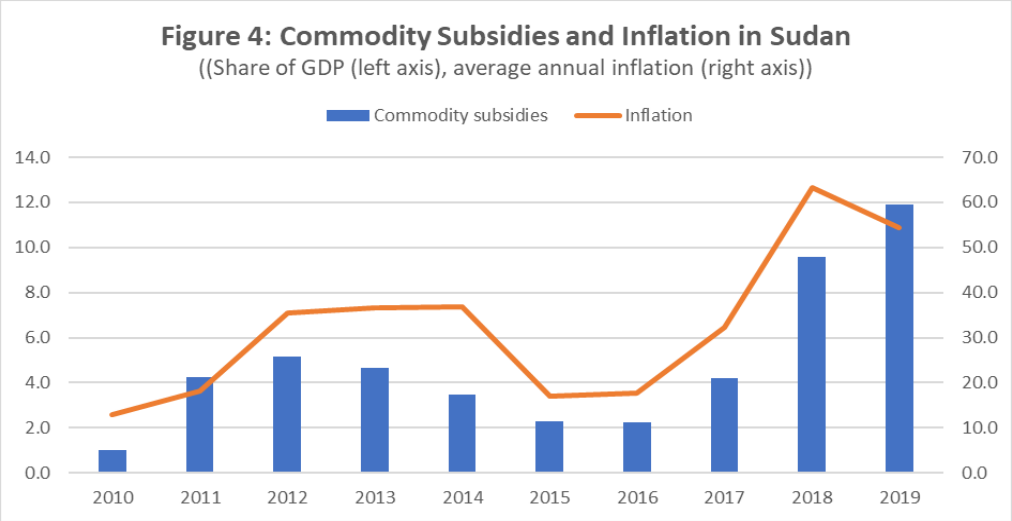


Source: Central Bank of Sudan, Ministry of Finance and Economic Planning staff estimates and projections, and the World Bank (2020). Country Engagement Note for the Republic of Sudan (FY21-FY22.

Given that the recent monetary expansion in Sudan through 2019 was oriented toward financing mounting commodity subsidies that are not targeted toward the poor, there exists is a rather strong relationship between the level of commodity subsidies and inflation (Figure1. 4). This reflects the relationship between the expansion of money supply in the country through 2019 and growth in subsidies. Similar only to Republica Bolivariana Venezuela and the Islamic Republic of Iran, commodity subsidies in Sudan grew so large (over 100 percent of government revenues in 2018-2019) to have become the primary cause of macroeconomic instability in the country.

The recent rapid growth in the size of the subsidy bill in Sudan in 2018-2019 was only partly due to higher international oil prices. It owed primarily to a particular vicious circle in the financing of subsidies. The largest portion of commodity subsidies was implemented in the form of cheap foreign exchange for fuel importers. To obtain hard currency, the Central Bank purchased gold from domestic producers for export, financed through monetary expansion. In addition, given ample opportunities for smuggling gold out of the country, the Central Bank could only attract gold sellers by offering the international price of gold at something close to the parallel market exchange rate. In this context, printing money to buy gold put more upward pressure on inflation and caused further depreciation of the parallel market exchange rate. This, in turn, increased the price that the Central Bank had to pay for gold, causing monetary expansion at any even faster rate. The price in Sudanese pounds that the Central Bank had to pay more than doubled in 2018, and then more than quintupled again in 2019. The process became quite unsustainable from the macroeconomic point of view.

Figure 1.4: Commodity subsidies and inflation in Sudan



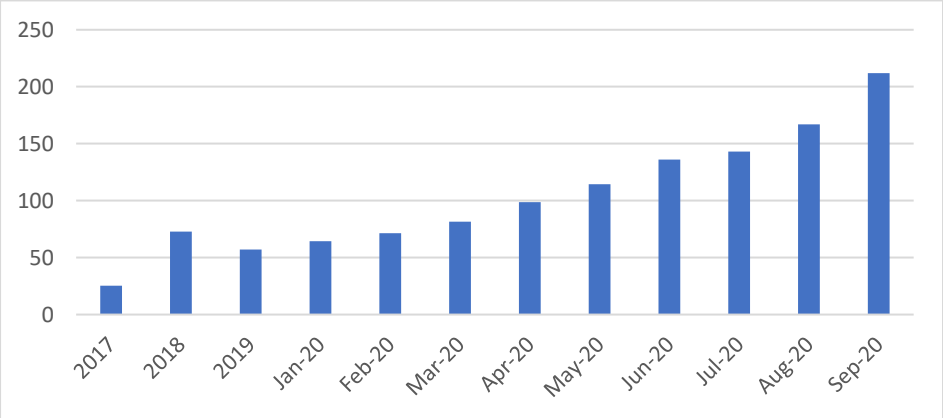
Source: Central Bank of Sudan, Ministry of Finance and Economic Planning staff estimates and projections, and the World Bank (2020). Country Engagement Note for the Republic of Sudan (FY21-FY22.

Sudan continues to experience soaring inflation, suffering from one of the highest inflation rates in the world. The annual inflation rate reached 304 percent in January 2021, reflecting a substantial increase from previous months (269.33 percent in December 2020 and 166.6 percent in August 2020). The increased inflation rate between November 2020 and December 2020 was mainly driven by surging transport and food prices. During this period transport prices increased by about 127 percent and food prices by about 39 percent. Increased health prices (by 10 percent) also contributed to the increased inflation rate. Transport prices increased substantially more in rural areas; by 168 percent compared to 86 percent in urban areas. On the other hand, food prices increased only in urban areas (by 14 percent). The increase in health prices in urban areas (about 12 percent) was twice that experienced in rural areas. Continuous food price hikes are likely exacerbating poverty levels in Sudan, particularly for urban households. This is especially the case because, before 2020, the expansion in the public sector deficit did not include major increases in social benefits or transfers for the population. Such increases could have theoretically facilitated an increase in nominal incomes and benefits to the population that might have cushioned the impact of higher inflation. Instead, the increase in public sector spending through 2019 was primarily for commodity subsidies, and primarily (80 percent) for fuel subsidies. Some estimate that as much as 50 percent of these fuel subsidies may have been captured by black marketeers and smugglers. In addition, the World Bank estimated that, due to higher energy consumption, the wealthiest 20 percent of Sudanese households have received about two thirds of the direct benefits of the fuel subsidies. Many of the urban poor therefore found themselves with rapidly declining real incomes with the acceleration of inflation, and with exceedingly little benefit from the high public spending that drove this inflation.

The year 2020 began in similar fashion to 2019, with commodity subsidies planned at 12.3 percent of GDP (36 percent of government expenditures), an amount equivalent to 140 percent of expected tax revenues. However, a series of shocks to the economy and the pursuit of major reforms changed the picture dramatically by the second quarter of the year. COVID-19 related four-month lockdown, a locust infestation of agriculture, and massive flooding in some parts of the country negatively impacted economic growth and government revenues, while placing significant pressures on needed emergency expenditures. While Sudan had been poised to resume positive economic growth in 2020, output is now expected to contract on the order of

4 percent. In addition to emergency social expenditures, Sudan adjusted public sector wages by more than four times in 2020, following a major erosion in their real value through inflation during 2018-2019. Given unexpectedly poor revenue performance during the year, the 2020 wage bill accelerated to almost 100 percent of expected government budgetary receipts other than foreign grants. At the same time, the government began to reduce fuel subsidies in the second quarter of the year. Nevertheless, the net effect on government finance was highly negative in the first half of the year, increasing the public sector deficit for the first three quarters of the 2020. The consequential monetary expansion drove annualized CPI inflation to over 200 percent by September 2020 (Figure 1.5).

Figure 1.5: Sudan annualized CPI inflation (percentage change)



Source: Central Bureau of Statistics

In contrast to the past, the final 2020 budget included a major reallocation away from commodity subsidies towards social spending. Table 1.2 compares 2019 budgetary allocations with those embedded in the revised 2020 budget that now underlies an IMF Staff Monitored Program. Given the imperative of macroeconomic stabilization, the revised budget provides for a reduction in the deficit (which includes off-budgetary expenditures on subsidies in 2019) from 10.9 to 6.9 percent of GDP. This reduction is financed partly from the expectation of higher foreign grants in 2020, which includes new assistance from the Friends of Sudan and World Bank. The reallocation of resources from commodity subsidies to wages and social spending is striking. Budgetary savings of 9 percent of GDP from lower spending on commodity subsidies are being employed partly for helping reduce the public sector deficit, and partly for increasing the share of central government spending on wages and social outlays from 3.6 percent of GDP in 2019 to an expected 7.3 percent in 2020. The increase in social spending includes emergency programs in response to COVID-19 and the natural disasters as well as the Sudan Family Support Program (SFSP) that allocates a per capita transfer equivalent to US$ 5 dollars to approximately 80 percent of the population.

Table 1.2: Sudan central government budget, 2019-2020 (share of GDP)

	2019	2020proj
Revenue and Grants	7.9	5.1
Taxes	5.5	3.3
Grants	0.5	0.1
Expenditures	18.8	13.6

Wages	2.9	4.4
Subsidies	11.9	5.1
Transfers	1.7	1.6
Social	0.7	2.2
Balance	-10.9	-8.4

Source: IMF, Subsidy expenditures of 2019 include estimates of off-budgetary subsidies implemented by the Central Bank.

Despite the budgetary consolidation envisioned in the revised 2020 budget, as well as a much more pro-poor orientation of expenditures, the overall macroeconomic situation in Sudan has become progressively difficult in the second half of 2020. Accelerating inflation and currency depreciation threaten to destabilize expectations further, challenging efforts to achieve the macroeconomic stabilization that Sudan desperately needs. Much of the population has become understandably impatient with a perceived continued deterioration of their welfare and security. Yet the fundamental change in government finance gets at the root problem of macroeconomic instability in Sudan and gives promise for achieving much needed economic stabilization in the future. The 2021 budget reflects increased allocation towards social spending from savings on subsidies reform.

Sudan faces an exceedingly high external debt burden for an economy of its size and the high external debt and prolonged international isolation have limited the country's access to external support. External debt is projected to reach US$57.5 billion at end-2020 (or 311 percent of GDP). The preceding government disengaged from the international community, that led to almost all of Sudan's debt to international financial institutions (IFIs) and other creditors to accumulate into long-term arrears. Arrears on repayment of prior lending from IFIs, bars Sudan access to significant external financing usually available to developing countries. The prior government's policies also triggered international sanctions which have had a lasting impact in cutting off the country from regular financial transactions. Sudan was on the United States' State Sponsors of Terrorism List (SSTL) for nearly thirty years and the recent delisting in December 2020 is expected to facilitate re-engagement with international community, debt relief and access to external finance.

1.5 Poverty and Social Development

The ongoing economic difficulties in Sudan has exacerbated poverty and inequality. Recent food price hikes have had adverse welfare impacts, particularly on the urban poor. Available estimates suggest that poverty in Sudan has increased consistently in recent years, rising from 46.5 percent in 2014/15 to 61.1 percent in 2019 as detailed in the next chapter. However, the national poverty rate masks wide disparities across Sudan's 18 states. For example, the states of South Kordofan, Central and West Darfur have the highest poverty rate followed by East and South Darfur states and Red Sea state in eastern Sudan.

Social indicators remain low, lagging Sustainable Development Goals. Sudan's education outcomes lag comparable countries. Similarly, Sudan continues to have high child and maternal mortality rates. The maternal mortality rate of 521 per 100,000 is significantly higher than the SDG target of 70. Access to water, sanitation as well as a host of other services show similar patterns. Sudan ranked 166 out of 187 countries in the 2018 Human Development Index. Sudan's Gender Development Index is 0.837, placing it in the group of countries furthest from

achieving gender parity (UNDP 2019)[5]. In terms of food insecurity, 6.4 million people (15%) are classified as food insecure (IPC analysis, August 2019). Stunting rate increased from 34% in 2010 to 38.2 % in 2014 and wasting remains high at16.3%, with under-five mortality rate also high at 63 per 1,000 live births.[6] Population displacement indicates that 1.2 million refugees from South Sudan, Ethiopia, Eritrea, Syrian Arab Republic, Republic of Yemen, and Chad are hosted in Sudan, and IDPs are estimated at 1.86 million[7].

1.6 Poverty Reduction Efforts in the Past

In 2012, Sudan adopted an Interim Poverty Reduction Strategy that aimed to reduce poverty through rapid and sustainable shared economic growth. The strategy was clustered around four pillars: (i) promote economic growth and employment creation, focusing on agriculture and infra structure; (ii) develop human resources, emphasizing education, health and social protection; (iii) reintegrate IDPs and other displaced populations; and (iv) strengthening governance and institutional capacity of the public sector, focusing on human rights, peace and Security, decentralization and public finance management. The strategy was endorsed by the Executive Boards of the World Bank Group and the IMF in October 2013.

Public resources allocated to the Interim Poverty Reduction Strategy Paper (I-PRSP) pillars with the view of targeting the poor remained low even by Sub-Saharan African standards. Sudan's pro-poor public expenditures increased marginally from 4.2 percent of GDP in 2012 to an average of 5 percent of GDP during 2013-2017. The I-PRSP did not spell out specific targets for increasing pro poor expenditure over its implementation period. A comparison with African countries that reached Highly Indebted Poor Countries (HIPC) decision point shows the average for poverty reducing expenditures is 9 percent of GDP. However, this average hides wide variation across countries, for example, Ethiopia (15 percent of GDP), Uganda (10 percent of GDP), Mozambique (16 percent of GDP), while Chad, Zambia and Sierra Leone have much lower ratios than the HIPC average (about 5 percent of GDP). The lack of a significant growth in pro-poor spending is attributed to many factors including poor macroeconomic performance, difficult economic situation following South Sudan's secession, economic sanctions and limited access to concessional financing due to the external debt, and continuing internal conflicts as noted earlier.

2. STAKEHOLDER CONSULTATIONS

2.1 Introduction

The Government embarked on a fully participatory approach to develop the Poverty Reduction Strategy Paper (PRSP), involving civil society and grassroots organizations at the national and states levels, private sector, academia, and the international community (donors and development partners). Two rounds of consultations were conducted. The first round was conducted during March-July 2018, covering all states of Sudan. The PRSP process was halted because of nationwide public protests against the previous regime throughout the country,

[5] GDI, based on the sex-disaggregated Human Development Index (HDI), defined as a ratio of the female to the male HDI. Available at: *http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/SDN.pdf*
[6] Sudan: Multi Indicators Cluster Survey, 2014
[7] UNOCHA, Sudan March 2019

which eventually resulted in ousting of the regime in April 2019, and the formation of the transitional government in September 2019. Given the long-time lapse, the earlier consultation process was complemented with a second round of consultations to reflect the new realities in the country. The second round of consultations took place during February and Mach 2021 involving stakeholders in the states and in Khartoum.

2.2 First Round of Consultations

The Ministry of Finance and Economic Planning (MoFEP) was assisted by a local firm: Partners in Development Services (PDS), which was commissioned, based on the procurement regulations of the African Development Bank (AfDB), as national consultants to perform the responsibility of undertaking the consultation for the PRSP at the states and grassroots levels. The consultations were carried out with leadership and oversight from the staff of the MoFEP to ensure government ownership of the process. PDS played an important role in both ensuring inclusive participation and identifying suitable participation mechanisms that helped MoFEP in conducting a transparent round of consultations.

The Consultations started in mid-March 2019 with the three states of Kordofan, and continued to include two states in Eastern Sudan in first week of April, the five states of Darfur in mid-April, the four states of Central Sudan and the two states of Northern Sudan in the beginning of June and ended with Khartoum state where consultations were conducted in mid July 2019.

2.3 Objective

The main objective of the consultations at the states level was to:

i) Strengthen the capacity of the Government to better understand the people's needs, and how they perceive their poverty situation, its causes and their priorities to be lifted from poverty; which are all critical for successful poverty reduction strategy and consequently improving the policy design and implementation of the PRSP;
ii) Build a national consensus with respect to the Government's poverty strategy; and
iii) Ensure ownership by the stakeholders including grassroots representatives in sub national Governments.

2.4 Approach and Methodology

An inclusive consultation approach was followed to cover all types of stakeholders in the states. The participatory processes opened a frank dialogue with stakeholders. This approach allowed exchange of views, as well as enabling the general citizenry to have a clear understanding of the PRSP process and its benefits. Hence, the participatory process provided a window of opportunity for collaboration as well as building broad internal consensus around priorities to ensure national ownership and convey to the government the priorities for poverty reduction.

The key principles that guided the consultation process approach were: (i) clarification of the scope and objectives of the consultation; (ii) sharing of information on PRSP with stakeholders focusing on what is PRSP, its nature, objectives, process and importance; (iii) preparedness to listen and be influenced; (iv) ownership of all key stakeholder, ensuring that the government is as fully engaged in the process as the other stakeholders; (vi) inclusivity of stakeholders; (vi) ensuring of effective participation of youth, women and minorities (cultural and occupational); (vii) neutrality and accountability.

Moreover, an outcome-oriented participatory approach was adopted during the consultations, which were not entirely open-ended. A combination of structured and open-ended methods of

consultation was followed. The specific questions addressed from the perception of the participants during the consultations were the following: (i) definition of poverty; (ii) causes of poverty; (iii) adequacy of government efforts to reduce poverty; and (iv) the strategic priority areas to address poverty.

Consultations were conducted through different channels including (i) Government Consultation workshops; (ii) Civil society organizations (CSOs) Consultation Workshops and (iii) Focus Group Discussions (FGDs).

2.5 Coverage

The consultation process covered 17 states of the 18 states:: the five states of Darfur (South, East, North, Central and West Darfur), two states in Eastern Sudan (Kassala and Red Sea), the two states of Northern Sudan (Northern and Rive Nile), the three states of Kordofan (North, South and West Kordofan), the four states of Central Sudan (Gezira, Sennar, White Nile and Blue Nile) and the state of Khartoum. Gadaref State did not participate in the first round of consultations because of security reasons at the time. A total number of 2,714 participants across the 17 states participated in the consultations. About 57 percent of them participated in the FGDs, 23 percent in the government consultations and 20 percent in the civil society consultations. Both men and women participated in the consultations. Table 2.1 summarizes participation by state and gender.

Table 2.1: Number of participants in the first round of consultations disaggregated by state and gender

	Government Consultations Workshops			Civil Society Consultations Workshops			Focus Groups Discussions			Overall		
	Total	M (%)	F (%)	Total	M (%)	F (%)	Total	M (%)	F (%)	Total	M (%)	F (%)
Blue Nile	22	36%	64%	47	55%	45%	142	32%	68%	211	37%	63%
Sennar	49	57%	43%	40	55%	45%	87	78%	22%	176	67%	33%
White Nile	34	59%	41%	26	54%	46%	101	63%	37%	161	61%	39%
Kassala	24	38%	63%	22	64%	36%	70	59%	41%	116	55%	45%
Red Sea	52	33%	67%	35	46%	54%	96	75%	25%	183	57%	43%
North Kordofan	41	63%	37%	79	68%	32%	34	56%	44%	154	64%	36%
South Kordofan	57	68%	32%	34	74%	26%	100	76%	24%	191	73%	27%
West Kordofan	57	67%	33%	23	83%	17%	93	77%	23%	173	75%	25%
Northern	32	59%	41%	22	41%	59%	63	71%	29%	117	62%	38%
River Nile	51	61%	39%	37	84%	16%	77	79%	21%	165	75%	25%
Al Gazira	35	49%	51%	85	51%	49%	77	96%	4%	197	68%	32%
North Darfur	22	73%	27%	9	67%	33%	71	66%	34%	102	68%	32%
Central Darfur	26	54%	46%	14	71%	29%	57	77%	23%	97	70%	30%
West Darfur	19	74%	26%	18	61%	39%	60	62%	38%	97	64%	36%
South Darfur	44	57%	43%	19	68%	32%	106	58%	42%	169	59%	41%
East Darfur	35	57%	43%	17	59%	41%	102	64%	36%	154	62%	38%
Khartoum	26	69%	31%	15	73%	27%	210	57%	43%	251	59%	41%
Total Sudan	626	57%	43%	542	62%	38%	1,546	65%	35%	2714	63%	37%

Government Workshops

Government workshops were conducted in each of the 17 states: one workshop in each state. They were attended by 626 participants, 43 percent of them were females. In some states like Red Sea, Kassala and Blue Nile, female participation compared to males exceeded 60 percent.

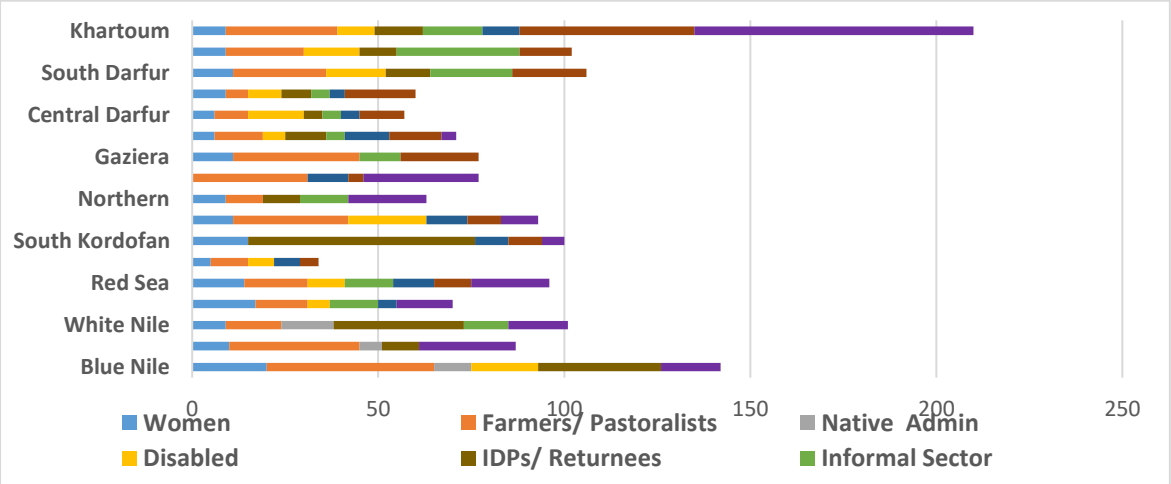
Civil Society Organizations

CSOs workshops were conducted in each of the 17 states: one workshop in each state. They were attended by 542 participants of whom 38 percent were female. Participants represented women organizations, nongovernmental organizations (NGOs) (national and international), youth organizations, university staff, Sudanese Businessmen and Employers Federation representatives, native administration, farmer's union, pastoralists union and UN and other agencies in the state.

Focus Groups Discussions

A total of about 102 FGDs were conducted across the 17 states, attended by 1,546 representatives of whom 63 percent were males and 37 percent were females. Blue Nile state had the highest ratio of female's participation compared to males; 68 percent, whereas Gezira state has the lowest ratio of female's participation of only 4 percent. The participants of the FGDs included: farmers and pastoralists (24 percent), IDPs (14 percent), youth groups (13 percent), women groups (12 percent), informal sector (10 percent), people with special needs (9 percent), teachers (3 percent) artisanal miners (3 percent), native administration and village settings (2 percent), fishermen (2 percent), and others (8 percent). Figure 2.1 illustrates this representation.

Figure 2.1: Focus group discussions by stakeholder



Source: PRSP consultations.

These consultations provided a large quantity of very interesting and useful information regarding: (i) populations' perception of poverty; (ii) their analysis of the causes of poverty; and (iii) their suggestions regarding ways to reduce the poverty.

2.6 Poverty Perception

The participants in the 17 states varied in their perception of poverty, even within each group in the same states. They defined poverty from different perspectives. However, most of them converged around the definition that poverty is the lack of basic needs. Poverty as defined by the participants can be summarized as follows:

1) Poverty is hunger and lack of food
2) Poverty is lack of a decent work
3) Poverty is lack of shelter (or have shelter built with non-permanent materials)
4) Poverty is poor clothing (torn clothes)
5) Poverty is being unable to send children to school or allow them to complete school
6) Poverty is when you are sick and cannot have access to health care
7) Poverty is when you do not have nearby access to drinking water.

Box 2.1. Poverty perception quotes

Food and hunger featured frequently as defined by the different socioeconomic groups. In a FGDs in Blue Nile state: A minor Mohamed Elmoaiz said: the poor are "Those who lost their parents, displaced, unable to pay school fees, eat one meal. Another child said "When you are hungry you are tired. It is difficult to concentrate in school. You fall asleep, your stomach hurts like you have worms. …. you cannot do anything except think of food", and in women FGDs in While Nile State said "Poverty is hunger and the uncertainty of where the next meal is going to come from"

Source: PRSP consultations

Many participants also viewed the definition of the poor from their context as follows:

1. Not having a minimum number of livestock (Red Sea state pastoralists)
2. Those who are landless (mainly farmers)
3. The poor is the one who lost his assets due to conflict (IDPs in Darfur, and participants in Blue Nile and South Kordofan which are conflict areas)
4. Not enjoying human rights (some participants from Red Sea)
5. The powerless and the one who mainly depends on charity (Zakat) (participants in River Nile)

Regarding the perception of the poor and the extremely poor, the consultations revealed the following,

Box 2.2. Perception of the poor and extremely poor

The extremely poor	Those who cannot meet immediate needs (food, shelter, and clothing); cannot invest for the future; and have exhausted the charity and goodwill of others; they have dirty/torn clothes and completely isolated; cannot meet medical expenses when they fall ill; they are physically challenged. Those without husbands/wives and children to care for them also fall into this category.
The poor	They can meet some of their daily needs including a meal per day though may not be nutritious. They can barely afford to send their children to school and have no savings. They can hardly afford the cost of medical care.

Source: PRSP consultations

2.7 Causes of Poverty

The participatory perception for the causes of poverty method seeks to understand the causes of poverty from the perspective of the poor by stressing their realities to identify their needs and priorities with the aim of informing policy decisions.

The consultations provided detailed information about the perception of the participants in the states with respect to the causes of poverty. There is a consensus among the participants in both the workshops and the FGDs as to the main causes of poverty; however, there are certain differences in the socio-economic groups' perceptions of the causes of poverty which are group specific. Table 2.2 reflects the causes of poverty in the different regions as revealed by the participants.

The causes and their detailed discussions are grouped under the following broad categories as expressed by the participants regarding the causes of poverty.

Table 2.2: Causes of poverty by region

Central Region (Gezira, Sennar, Blue Nile and White Nile states)	Darfur Region (South, West, North, East and Central Darfur states)	Khartoum state	Eastern Region (Red Sea and Kassala states)	Kordofan Region (North, South and West Kordofan states
• War and lack of security • Land grabbing • Favoritism and bias in Zakat distributing and microfinance • Lack of education and of schools • Negligence of the fisheries sector • Weak infrastructure • Marginalization of livestock and lack agriculture inputs • Lack of efforts by the government to reduce poverty • Youth unemployment • floods • Corruption	• War and tribal conflicts • No attention to the natural resource base and desertification • Land reoccupation by others and land grabbing • Lack of equity in microfinance opportunities • No government solutions to reduce poverty • Unavailability of agricultural inputs • Poor education and illiteracy • Water scarcity • Lack of infrastructure and water supply • High fees for health care • Corruption	• Low salaries and wages and delays • Displacement • Corruption and monopoly • Migration to Khartoum • Economic mismanagement • High prices for health • Negligence of agriculture by the government • Unemployment • High prices and inflation • Collapse of the banking sector • Bad government policies • Lack of legal accountability • Lack of vocational training	• High inflation • Corruption • Tribal cultural obstacles against women and against education • Neglecting agriculture • Lack of basic services in rural areas like water and education • No government policy to reduce poverty • Floods • Conflict between farmer and pastoralists • Forests degradation • Illiteracy • floods	• Bad government policies • Tribal conflicts • Lack of credit • High taxes • Lack of agriculture services • Neglecting artisanal fisheries • Desertification • Youth migration • Lack of income opportunities • Illiteracy • Insecurity and conflicts • Corruption

Source: PRSP consultations

Low Incomes

Participants in the consultations, mainly from the rural communities stated that decline of incomes from agriculture and livestock activities is a major cause of poverty. They clearly indicated that decline and loss of incomes was due to low productivity as a result of expensive agriculture inputs, weak services, poor infrastructure affecting their marketing, and the shortages of labor resulting from agriculture workers migrating to urban areas and to the gold mining sites. Nomadic population and livestock owners also mentioned loss of assets as a cause of poverty, manifested in the loss of livestock due to water scarcity and diseases.

Unemployment

High unemployment particularly for youth was a principal cause of poverty. Participants numerated several factors related to unemployment including lack of job opportunities, migration from rural to urban areas looking for jobs, and lack of access to finance (banks and microfinance) because youth are unable to provide the required collateral and because of favoritism. Other factors mentioned by the participants included the bias in recruitment due to political, ethnic, tribal and affiliations. In addition, many participants mentioned the lack of appropriate education and training of the youth as a constraint for youth employment. People with disabilities mentioned that they are at a disadvantage as they are unable to access education training and employment compared to others.

Poor Access to Social Services

Households feel that the difficulty of accessing education, health, and water supply is a major problem in daily life causing poverty. Inability to access these services is due to unavailability of the service within a reasonable distance (schools, clinics, and so on) or the high costs that they have to pay to access services. Even when they are available, there is a problem of shortages of personnel, equipment, materials (like medicines) which were commonly mentioned during focus group discussions and interviewed participants. A major cause of poverty mentioned by many participants is the high illiteracy rates particularly among farmers and pastoralists, which does not help in improving their business and incomes. In education, urban participants alluded to the weakness and low priority given by the government to vocational and technical education. Some participants mentioned drop out from education as a cause for poverty.

Conflicts

There was a unanimous agreement among the consulted groups and FGDs participants that conflict is a major cause of poverty in Sudan. The groups mentioned political armed conflict, conflict over land and inter-tribal conflict. IDPs interviewed stated that by remaining in camps; they were deprived from access to their farms and they lost their animals with adverse consequence on their sustained incomes. IDPs are concerned about recurrence of the conflict if there is no lasting peace

Environmental Degradation

Desertification, and deforestation and misuse of natural resources all affecting the natural resources from which people obtain their incomes, are factors stated by the participants as cause of poverty.

Bad Policies

There was an agreement among those interviewed that one of the causes of poverty is the little attention given by the government to address poverty. Participants felt that addressing poverty as a priority did not figure out clearly in the government plans and there is a lack of poverty reduction actions in the states. They view localities, which could play a major role in rural poverty alleviation, as weak bodies which lack finance and facilities. Some participants complained about the multiple taxes imposed by the federal, state governments and localities. All participants felt that the government policies are causing high price increases which affect their incomes and consumption

Poor Governance

Many participants indicated corruption as a cause of poverty. Land issues were mentioned by participants especially in war affected areas and Northern Sudan (presence of large-scale Arab investments in agriculture). These include land grabbing, unfair distribution of states land to investors who do not care about developing the local area and deprive communities from their land, and illegal occupation of land by others using force because of the conflict.

Ineffective Social Safety Nets

The safety net programs as identified by the participants in the consultation meetings included: Zakat (Islamic charity), microfinance, and activities provided by the NGOs. According to the participants there is clear misuse. Many of the beneficiaries believe that a large number of beneficiaries of Zakat and microfinance are ineligible for this assistance but were there because of corruption. In addition, equipment distributed to the poor by charity organizations and Zakat for self-employment activities are distributed to people without building their capacities in managing these kinds of activities, leading to frequent failures.

Other Causes

Some drivers of poverty mentioned by some participants are location -specific or confined to special socioeconomic group. For example, traditions and customs in certain areas (like in some areas of Red Sea and Kassala state) do not allow women to work outside the household and earn income or get education, fragmentation of land due to heritage turning some of the people in these areas into landless farmers, high inflation affecting purchasing power, bad policies which impacted negatively the Gezira scheme (a major irrigated project) resulted in the impoverishment of the population in the scheme.

2.8 Priority Areas to Address Poverty

Several priorities for poverty reduction were highlighted by the participants. These priories identified by participants in workshops and the FGDs are classified under the following sectors/themes.

Agriculture and livestock

- Financing agricultural investments
- Providing seeds, fertilizers, machinery, extension
- Provide agriculture financing by banks before the agriculture season
- Providing livestock with needs (like medicines and water)
- Providing small ruminants to the poor households
- Developing the gum Arabic sector
- Organize the producers particularly the small-scale farmers
- Constructing roads
- Water harvesting

Small-scale industries

- Leather industries
- Food industries as tomato paste
- Handicrafts

Mining

- Providing basic services like health services and water
- Providing safety equipment
- Reducing the risks of chemicals
- Fighting child labor

Services

- Providing free education
- Providing water supply
- Providing free health services
- Rehabilitating and building of hospitals and health centers and schools

Social programs

- Eliminating political interventions and favoritism and increasing coverage of Health Insurance, Zakat,
- Easing conditions and expand microfinance
- Increasing interventions from NGOs
- Providing income generating activities supported by microfinancing, insurance for youth and women
- Providing cash support to the poor

Land

- Reallocating land to the original IDPs owners who were displaced from it due to conflict
- Revisiting the distribution of large tracts of agricultural lands to foreign investors
- Consulting the local communities in land distribution
- Stopping land grabbing
- Enacting land laws

Conflict

- Stopping wars and tribal conflicts
- Rehabilitating war affected areas
- Providing livelihoods for IDPs
- Providing security for IDPs

Governance

- Providing security (priority by all participants in war affected area)
- Fighting corruption
- Managing natural resources
- Enforcing rules and laws for natural resource governance
- Reducing taxes
- Revitalizing cooperative societies

Employment

- Establishing capacity development centers for graduates to help in job creation.
- Supporting youth productive projects and programs
- Training centers for women and youth
- Providing loans for small projects to young people
- Providing access to productive assets and resources for women

Environment

- Planting forests (afforestation) and supporting community forests
- Harvesting solar energy
- Regulating mechanized agriculture
- Imposing penalties on those causing damage to the environment
- Demarcating livestock routes
- Rehabilitating grazing areas
- Training communities

2.9 Second Round of Consultations

Results from the second round of consultations generally confirmed the poverty reduction priorities identified during the first round of consultations. This is probably not surprising because while there has been a change in government, the root causes of the problems remain unchanged.

The state's consultations for the second round were carried out during the period first week February 2021 to 3rd March 2021. The consultations covered five states each representing a region in Sudan. States covered were River Nile state, representing Northern Region; North Kordofan state, representing Kordofan Region; Red Sea state, representing Eastern Region, Blue Nile State, representing Central Region and North Darfur, representing Darfur Region. The consultation teams were led by the Federal Ministry of Finance and Economic Planning.

In each of the states, a joint meeting was held for government officials and civil society organizations. Followed by a separate meeting for each group for detailed discussions. Total number of participants were 178. State government included representatives from State Ministries of Finance, Agriculture, Education, Health, Youth and Sports, Bureau of Statistics, State Water Supply Authority, localities commissioners, executive directors of the localities, Forest Corporation, Humanitarian Commission, Health Insurance Fund, Zakat Fund, State Council for Child Welfare. The civil society organizations included representatives from Chamber of Commerce, Freedom and Change (political custodian of the government), Farmers Union, Pastoralists Union, Media, Women Union, Fisheries Sector Committee, state universities, Resistance Committees, NGOs, and Blind Union.

Table 2.3: Number of participants in the second round of consultations disaggregated by state and type

	Number of participants		
	Government	Civil society	Total
River Nile state	22	12	34
Red Sea state	22	15	37
North Kordofan state	23	8	31
Blue Nile state	28	11	39
North Darfur state	33	4	37
Total	128	50	178

Source: PRSP consultations.

The participants clearly emphasized the multi-dimensional aspect of poverty. The participant's definition of the poor centered around the person who has no food and lacks access to basic services like education, health, and water; and unemployed.

The participants discussed the causers of poverty, and all their answers centered around the following causes (i) bad economic policies; (ii) ignoring production activities; low productivity, lack of feeder roads to connect production areas to markets and lack of storage; (iii) unemployment and migration to urban areas; (iv) lack of basic service (education, health, water supply, power etc.) , ignoring technical and vocational education, and spread of diseases; (v) conflicts including tribal clashes and conflict over natural resources and unequal distribution of resource; (vi) corruption; (vii) lack of monitoring for the government programs; (viii) environment including desertification, drought, mesquite trees creeping into agriculture land; (ix) low salaries and high prices

Several priority interventions to reduce poverty were identified by the participants in the consultations. These priorities were similar to the ones identified in the first round of consultations; they included achieving peace, support to agriculture, provision of basic service, land reform, good governance, quality education and health services, infrastructure development quality education and health services, provision of support and capital to the poor. The groups in need of special attention in poverty reduction mentioned by the participants

included persons with disabilities, children, pensioners, women widow and divorced) elders, youth, IDPs, and seasonal labor.

National Workshop

A national consultation workshop was held on the 10th of March 2021, attended by 47 participants representing undersecretaries and senior staff of the civil service, NGOs, private sector, media, and selected experts. The workshop allowed the participants to endorse and validate the content of the PRSP draft ahead of its finalization and presentation to the Council of Ministers.

The feedback from the workshop emphasized the need for synergies between the PRSP and the Three Years Program for Economic Stabilization and Sustainable Peace (2021-2023), and SDGs; as well as the importance of the implementation arrangements and monitoring and evaluation of the PRSP. The participants also indicated the importance of undertaking an updated poverty survey.

The participants reaffirmed the important role of agriculture in poverty reduction, however they underscored processing and value added of agriculture commodities. They also reaffirmed the importance attached by the PRSP to the human resource development like education, health, water supply in poverty reduction, and alluded to the vital role of technical and vocational education in employment and poverty reduction.

There was a consensus among participants that it will be difficult to reduce poverty in Sudan without achieving a sustainable peace; addressing return of IDPs, resolving the land tenure issues, ending the conflict between farmers and pastoralist over natural resources, addressing marginalization and achieving equitable access to natural resources.

Inputs received form the workshop was incorporated in the draft version before presentation to the Council of Ministers.

Development Partners Consultation Workshop

The Ministry of Finance and Economic planning organized a workshop that was held in Khartoum on March 11, 20220 and convened about 40 participants including representatives from a number of Embassies, UNICEF, UNDP, EU, AfDB, World Bank, and UN Environment as well as representatives from national and international Non-Governmental Organization (NGOs) and the Prime Mister Office. The workshop helped to create consensus on the priority areas for the PRSP. partners

Development partners identified several challenges facing PRSP implementation. Challenges include internal capacity constraints, weak multi-level coordination at federal and state level, as well as aid coordination. Development partners highlighted the need to strengthen the M&E system to monitor progress toward strategy implementation and to put in place and execute a communication strategy to raise public awareness of the PRSP. Capacity building is key for implementing the PRSP and sustained support from development partners is essential for progress in the PRSP.

Table 2.4: Summary of the second round of consultations at state level

	North Kordofan state	Red Sea state	River Nile state	Blue Nile state	North Darfur state
Defining who is poor as the one who	• Cannot afford his daily food • Does not have access to education and health • Does not have income or capital	• Does not have minimum needs of food clothing education health	• Cannot affords basic needs of food education clothing medicines accommodation • Is not employed • Has income which is less than his/her needs	• Does not have basic needs • Does not have access to health insurance • Is malnourished • Unable to reach markets • Is with no capacity or knowledge	• Has no access to basic needs of food, clothing, treatment, or education
What causes poverty	• National and sectoral government policies • Migration to urban areas • Lack of laws that protect the poor • Unequal distribution of resources among sub national levels Lack of basic services and support to production	• Ignorance • Tribal conflicts • Migration to towns and unemployment • Environmental degradation • Marginalization of women • Bad government policies	• Economic policies and unequal distribution of resources • Environment • Low production • Lack of technical education • Corruption • Conflicts • Little investments on services and infrastructure	• Long conflicts • Poor social services and infrastructure • Unequal distribution of resources among the people • Poor agriculture services • Bad government policies	• War • Natural disasters • Polices that are not supporting the poor • Unfair distribution of resource's • Lack of security • Low production • Bad governance
Priority Interventions needed to reduce poverty	• Provide basic services • Support agriculture production • Support people with disabilities • Capacity building for women • Revitalize cooperatives • Subsidize poor families • Good governance	• Provide quality education and health services • Land reform • Enhance good governance and patriotic • Responsibility • Infrastructure especially roads • provision of water	• Increase production • Provide quality basic services especially maternity and children health • Provide good environment for investments • Provide the poor with production means	• Achieving peace • Projects for returnees • Reform land tenure • Social support to poor families • Build roads • Fight corruption at local levels • Increase spending on health • Fiancé women and youth	• Provision of production inputs • Good governance • Human resource development • Peace building • Environment protection • Provision of microfinancing and training • Direct support to poor families

3. POVERTY AND LIVING STANDARDS IN SUDAN

This chapter presents a description of poverty in Sudan, an analysis of the underlying causes and drivers of poverty, based on available sources of data, and drawing on the range of experience of the government and its development partners, along with stakeholder consultations (nationals and the international community). This description and analysis, combined with the output of comprehensive stakeholders' consultations, forms the foundation of the PRSP document upon which future poverty reduction policies and related interventions conducted by government and its development partners are formulated to alleviate poverty in its multiple dimensions.

3.1 Measuring Poverty

3.1.1 Introduction

Poverty is analyzed on a multi-dimensional basis. The begins with measures of monetary poverty and goes on to examine multi-dimensional poverty, including non-monetary measures of poverty. A framework of underlying causes, intermediate causes and impacts of poverty is presented. The multi-dimensional nature of poverty in Sudan is such that very few households or individuals are not deprived in one or more of the defined dimensions. The dimensions form the basis for the poverty reduction interventions required by PRSP, as outlined in subsequent Pillar chapters. The most evident demonstration of the impacts of multi-dimensional deprivation is in the internally displaced people (IDPs), one of the most vulnerable group within the nation.

3.1.2 Sources of data

There is currently no recent and credible poverty estimate for Sudan, calling for an urgent need to fill the data gap with a new household survey. Analysis of multidimensional poverty requires reliable data sources, ideally from multiple sources, and appropriate analytical capacity. Unfortunately, available data sources in Sudan are relatively few, and the existing ones are becoming outdated. The 2009 National Household Baseline Survey (NHBS) and the 2014/15 National Household Budget and Poverty Survey (NHBPS) are the sources of poverty data for Sudan. The surveys were nationally representative, covering all states of Sudan, and collected information on household consumption expenditure on food and non-food items to measure monetary poverty. Information was also collected on non-monetary dimensions of poverty (including education, health, consumer durables, housing conditions, access to services (electricity, water sanitation and hygiene) allowing to have a more comprehensive understanding of multidimensional poverty in Sudan. The 2009 NHBS was the main source of data for Sudan's Interim PRSP (I-PRSP) that was adopted in 2012.

Since the last survey in 2014/15, Sudan has gone through severe challenges including a protracted economic crisis with exchange rate distortions and the recent COVID-19 pandemic and flooding. The ongoing economic crisis, exacerbated by COVID-19, will likely have significantly negative effects on living conditions and poverty. However, any new poverty numbers can only be estimated. To obtain a more accurate estimate of poverty, a new household survey is urgently needed. The description of poverty presented below draws primarily on these two household surveys. Data from the 2014 MICS (Multiple Indicator Cluster Survey) and more up to date on food security are leveraged in this analysis.

3.1.3 Methodology for measuring poverty

The long practice of measuring poverty through monetary value (income per capita) does not adequately present the full picture of poverty. The Human Development Index (HDI) was created in 1990 to capture three additional dimensions of required development: achievements in health, education and living standards (as measured by the Gross National Income per capita). In 2012, Sudan ranked 167 out of 189 countries based on the Human

Development Index (HDI). Nevertheless, the methodology of measuring HDI does not allow latitude for Sudan's context, where there is a paucity of data to accurately measure the HDI. In this context, the poverty analysis examines deprivations within the four dimensions of poverty: monetary poverty, education, health and living standards. The approach taken is to enrich the existing data to extend the analysis beyond the traditional HDI definitions into a multi-dimensional examination of poverty in Sudan.

Drawing on the 2009 and 2014/15 surveys, the measurement of monetary poverty in this analysis uses the national poverty line. The underlying assumption is that people need to have a minimum level of income to afford basic living standards such as being nourished, having access to health and basic education and so forth, at a specific date and place. That minimum level of income, which is called the poverty line, can be viewed as cost of attaining a basic living standard.[8] Given the poverty line, the following measurements of poverty can be determined: (i) poverty incidence (or headcount index) estimates the proportion of the population (or households) living below the poverty line; (ii) poverty gap (how far below the poverty line a person or a household is – also known as depth of poverty) captures the average shortfall in income of the population living below the poverty line; (iii) squared poverty gap (the severity of poverty) gives an indication of inequality among the population living below the poverty line, in other words a measure of the severity of deprivation of those living in absolute poverty.

The NHBPS 2014/15 had the consumption module administered over three rounds—November 2014, March 2015, and August 2015—when the same sample of households were visited. This was intended to capture seasonal effects. The March and August follow-up rounds administered only the consumption module, but the March round did not administer module five that records non-food consumption with a 12-month recall. On the other hand, the 2009 survey entailed only one round of data collection conducted in May 2009. In terms of the consumption aggregate, the results are based on averaging of consumption aggregates from the three rounds.

Although the questionnaires used in 2009 and 2014/15 were similar, some differences make the poverty figures non-comparable. In particular, the list of consumable items, either food or non-food, was much longer in 2014/15 than in 2009. Other methodological issues emerge from how the survey data were analyzed when constructing both poverty profiles. For example, energy consumption and imputation values for durable goods and owned dwelling (rent) were excluded from the consumption aggregate, while these are important and recommended components to include in the consumption aggregate to capture the heterogeneity among different groups of the population. Another crucial issue concerned the computation of poverty lines. Although the 2009 poverty line was computed following the state-of-the-art methodology, the poverty line for 2014/15 was not comparable. The 2009 poverty line was calculated using 2,400 calories per person per day as the daily energy intake threshold, in addition to a minimal non-food component (the poverty line was estimated at 1,365.6 SDG per person per annum). For 2014/15 the daily energy intake threshold was 2,110 calories per person per day (and the poverty line was estimated at 5,110 SDG per person annually in urban areas and SDG 4,044 in rural areas). By design lowering the energy intake threshold (and hence, the poverty line) would result in a lower poverty rate.

Therefore, the survey methodology and design issues make the officially released 2009 and 2014/15 poverty numbers non-comparable. To allow for comparability, the analysis presented below are based on revising the consumption aggregates (to include energy, rent and durable goods) and updating the 2009 poverty line with CPI data to obtain the new 2014/15 poverty line (constant in real values). This explains why the poverty numbers presented in this analysis are different from previously reported official numbers (46.5percent in 2009 and 36.1 percent in 2014/15).

[8] Martin Ravallion (2016), The economics of poverty, Oxford University Press.

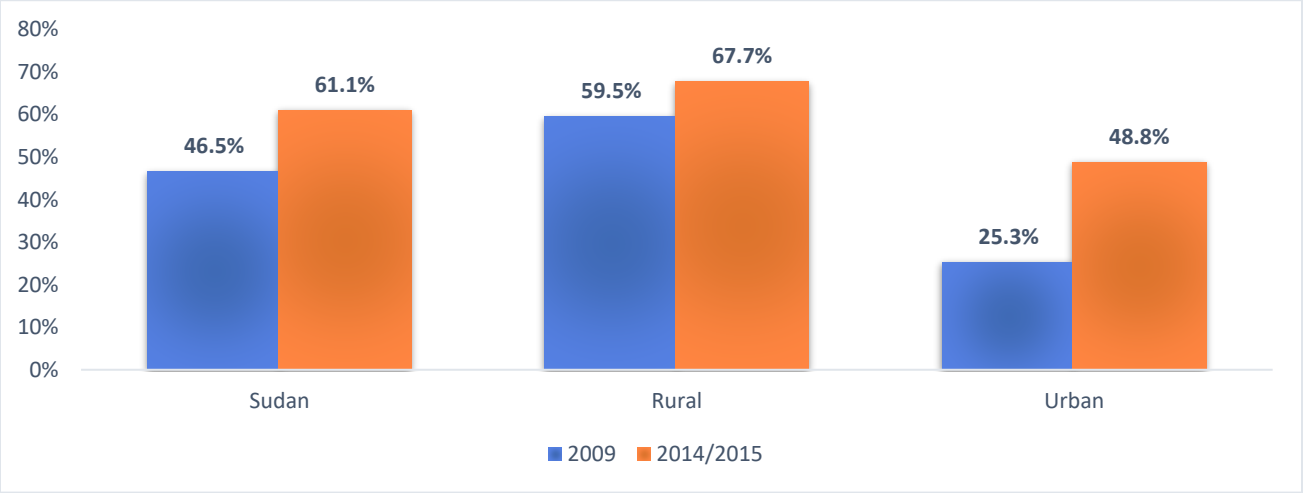
3.2 Monetary Poverty

Poverty levels and trends

The failure to generate higher sustainable and inclusive growth over the past decade led to increase in poverty between 2009 and 2014/15. Between 2009 and 2014/15, the share of the Sudanese population living in poverty, i.e. below the national poverty line, increased from 46.5 percent in 2009 to 61.1 percent in 2014 (see Figure 3.1). According to the international poverty line of $1.90 per capita per day (2011 PPP), a measure of extreme poverty, 13.7 percent Sudanese were poor in 2014/15. Average real per capita consumption decreased during this period. The mean consumption per capita decreased from 7,639 SDG in 2009 to 5,922 SDG in 2014, a drop by 22.5 percent or 4.5 percent on an annual basis. The decrease is more pronounced in urban areas.

Poverty is urbanizing while it remains higher in rural areas. While poverty remains a rural phenomenon, urban areas experienced a much higher increase in poverty than the rural population. During 2009-2014/15 poverty increased by 23.5 percentage points in urban areas compared to 8 percentage points in rural areas.

Figure 3.1: Poverty incidence (headcount ratio) by locality and year



Source: World Bank staff calculations based on 2009 NHBS and 2014/15 NHBPS.

Poverty rates vary significantly across states, with the highest rates observed in Kordofan and Darfur as well as Red Sea state. While poverty rates are high in Sudan's northern region and in Khartoum, much higher levels of poverty are observed in regions in the west, south, and east. Poverty levels are elevated in Darfur, Kordofan, and Red Sea and Blue Nile states. Poverty rates are above the national average in all the five states of Darfur, all three states that make up Kordofan, as well as Blue Nile, White Nile, and Red Sea states (see Figure 3.2). On the other hand, the lowest poverty rates are found in Northern state and Khartoum state. This is consistent with earlier studies suggesting that large spatial inequalities in investment and outcomes have been a main driver of conflict. It is also reflected in indicators of access to services such as electricity. The PRSP will look at strategies to address these spatial inequities given tightly constrained financing.

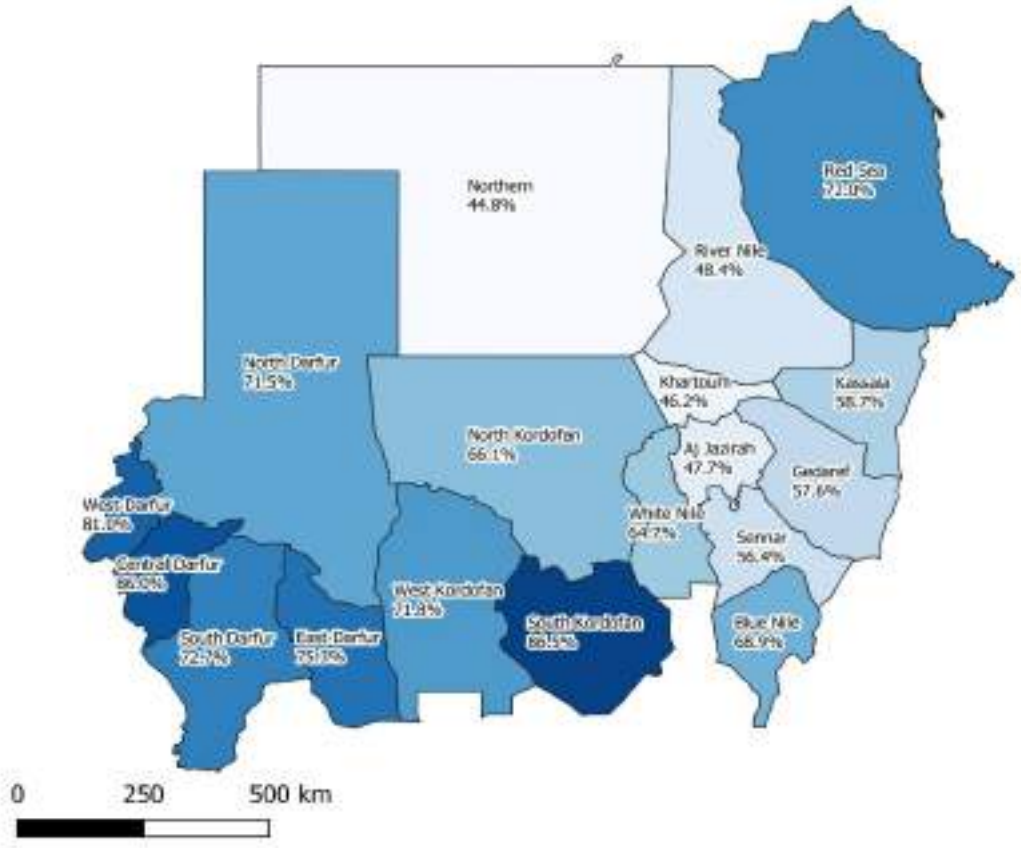
Inequality levels and trends

Notwithstanding the increase in moderate poverty, income inequality among Sudanese has remained relatively low. According to Gini index9, inequality declined from 35.4 percent in 2009 to 28.7 percent in 2014/15—a level relatively low compared to other countries in the region (see Figure 3.3). Only around 25 percent of all

[9] A Gini index of one would indicate maximum inequality, with all consumption accruing to one individual, while a Gini of zero would indicate complete equality of incomes (even among people with vast differences in skills and experience).

countries in the Middle East/North Africa and Sub-Saharan Africa regions combined have lower levels of inequality than Sudan. Neighboring Egypt and Ethiopia have higher Gini indexes at 31.8 percent (in 2015) and 33.2 percent (in 2010), respectively. Inequality seems slightly higher in urban areas than in rural areas and is decreasing at a much faster pace in rural areas.

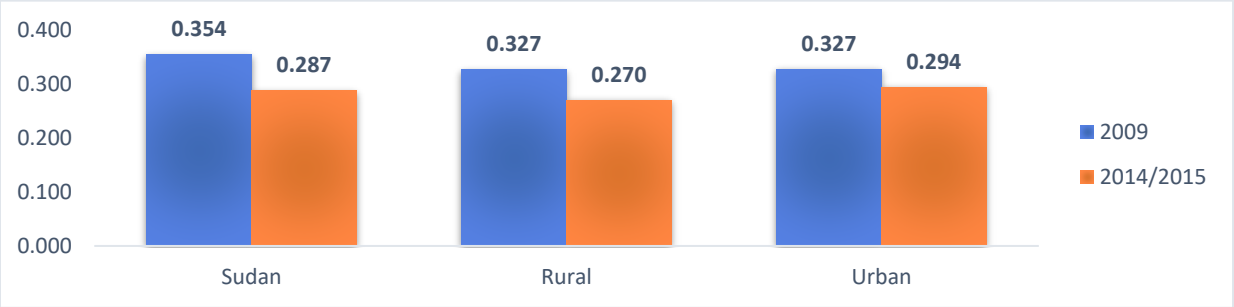
Figure 3.2: Poverty headcount ratio by state, 2014/15 (in percent)



Source: World Bank staff calculations based on 2009 NHBS and 2014/15 NHBPS.

Inequality is particularly high in Khartoum and West Darfur states. In 2014, only Khartoum (31.2 percent) and West Darfur (32.3 percent) had levels of inequality higher than the national average as measured by the Gini index. The lowest levels of inequality by this measure are found in Northern state (21.4 percent), Blue Nile state (23.5 percent) and South Kordofan state (23.9 percent). Gains in rural areas and falling living standards in urban areas are the driving forces behind the modest decline in inequality at the national level.

Figure 3.3: Gini index in 2009 and 2014/15

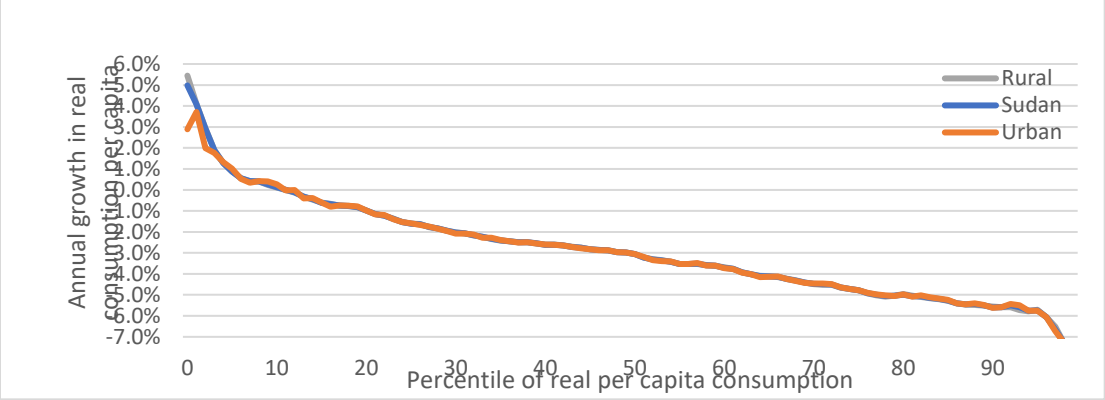


Source: World Bank staff calculations based on 2009 NHBS and 2014/15 NHBPS.

Growth in real per capita consumption was positive only among the bottom-10 percent. Average real per capita consumption fell by 4.5 percent per year. However, there were differences across the distribution. For instance, per capita consumption fell much slowly among the bottom-40 percent compared to the top-60 percent (see Figure 3.4). Growth was negative over much of the distribution of per capita consumption and 'pro-poor' only to the extent that the average growth rate by percentile was positive initially but decreasing with each percentile. The pattern is the same for both rural and urban areas.

Wages and salaries have been the main driver of growth in real income, with positive contributions among the bottom-20 percent and negative contributions among all other groups, especially the richest 20 percent. Real wages either stagnated or fell in all sectors with the sole exception of crop farming. Labor force participation increased moderately, and unemployment decreased. But unemployment in urban areas, especially among youth, increased sharply between 2009 and 2014/15.

Figure 3.4: Growth incidence by percentile and area of residence, 2009 to 2014/15



Source: World Bank staff calculations based on 2009 NHBS and 2014/15 NHBPS.

Poverty profile

Here, demographic attributes of households (household size, age dependency ratio, education, water and sanitation, access to electricity, and sector of employment) are analyzed for households in the bottom-40 percent compared to the top-60 percent. The purpose is to assess the extent these are driving or hindering poverty reduction.

Households in the bottom 40 percent tend to have more members and a larger share of children. Households in the bottom 40 percent have on average around seven household members, compared to around five in households in the top 60 percent of the distribution. As about half of all household members are below age 15, the bottom 40 percent households also have significantly higher age-dependency ratios. However, households differ only marginally in terms of the average age of the household head, the average share of men or boys among household members, or the probability that the head is a man (Table 3.1).

Households in the bottom 40 percent are also more likely to have illiterate and uneducated household heads, to lack access to basic services, and to depend on agriculture. Households in the bottom 40 percent of the distribution exhibit lower levels of education and basic literacy. Bottom 40 percent households are also significantly less likely to use public electricity for lighting, improved sources of drinking water, or improved means of sanitation. Finally, they are more likely to depend primarily on crop farming or animal husbandry (as opposed to wages and salaries, business enterprises, transfers, and so on).

Conflict and economic welfare

Civil conflict and civil wars can damage the economy in several ways. Conflict intensity in Sudan increased after mid-2012 and continued in subsequent years. As a result of stalling of peace talks, the number of conflict events in Darfur recorded in the ACLED data as well as the number of fatalities increased sharply during the second half of 2012. In 2014 and 2015, two counterinsurgency campaigns were carried out by the RSF, a Sudanese government force under the command of the NISS, in South, Central, and North Darfur (HRW 2015). Between surveys, the intensity of conflict also increased in South Darfur. Conflict between May 2005 and October 2014 was concentrated in Darfur, in Kordofan, and in Blue Nile state. Blue Nile state and South Kordofan experienced the largest increase in conflict incidence and intensity. Overall, the average annual number of conflict events and the average annual number of fatalities increased by 207 and 80 percent, respectively.

Conflict intensity predicts levels of per capita consumption. Across states, a 1 percent increase in conflict intensity, the average annual of conflict events per 100,000 population, is associated with a 0.07 percent decrease in log per capita consumption. Conflict intensity in the 60 months before the 2014/15 survey accounts for more than two-fifths of the variation in levels in that year. However, these results should not be taken to imply a causal relationship between conflict and economic welfare, and one concern is reverse causality between the two (Starr 2010). For instance, lower levels of economic welfare might imply lower opportunity costs for engaging in conflict. Hence, low average levels of economic welfare may be causing conflict and not vice versa. There may also be omitted variables that are correlated with both higher conflict intensity and lower levels of economic welfare, for instance, a lack of social capital.

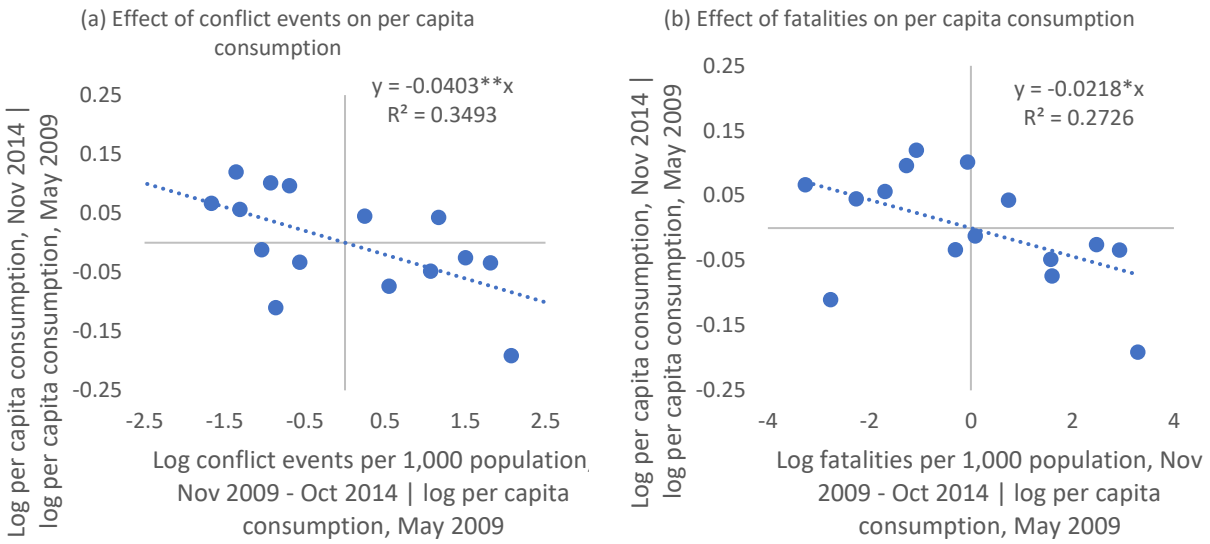
Table 3.1: Demographic attributes of households in the bottom 40 percent

Characteristic	Total	Bottom 40%	Top 60%	Difference	Significance
Average household size	5.76	7.38	5.03	2.36	***
Share of households headed by men	0.86	0.87	0.86	0.01	Not Sig.
Age-dependency ratio	1.40	2.02	1.11	0.91	***
Share of household members that are boys or men	0.49	0.50	0.49	0.01	***
Share of household members below 15	0.38	0.50	0.32	0.18	***
Share of household member 65 and above	0.06	0.03	0.07	-0.04	***
Average age of the household head	47.39	47.01	47.57	-0.56	**
Share of literate household members	0.58	0.51	0.61	-0.10	***
Share of literate household heads	0.65	0.54	0.70	-0.15	***
Share of household heads with some formal education	0.66	0.55	0.70	-0.15	***
Share of households that uses public electricity for lighting	0.46	0.23	0.56	-0.33	***
Share of households with improved source of drinking water	0.63	0.51	0.68	-0.17	***
Share of households that depend on mainly on agriculture	0.31	0.44	0.25	0.18	***

Source: World Bank staff calculations based on NBHS 2009 and NHBPS 2014/15.
Note: ** and *** denote statistical significance at the 5 percent, and 1 percent levels, respectively.

The long-term relationship between per capita consumption and conflict intensity suggests a substantial peace dividend. In the short run, a 1 percent increase in the number of conflict events is associated with a 0.04 percentage points lower growth rate of per capita consumption and a 1 percent increase in the fatality rate is associated with a decrease by 0.02 percentage points (Figure 3.5). These estimates are statistically significant at the 5 percent and 10 percent levels, respectively, implying a sizable effect of conflict on economic welfare.

Figure 3.5: Effect of conflict events and fatalities (per year and 1,000 population) over 60 months preceding the survey on average per capita consumption (partial regression plots, 15 states as defined in 2009)



Source: World Bank Poverty and inequality report (2019), based on NHBS 2009, NHBPS 2014/15, and ACLED data.
Note: *, and ** denote statistical significance at the 10 percent and 5 percent levels.

Internal displacement also has negative impact on poverty

Poverty among Internally Displaced Persons (IDPs) in two camps in the vicinity of Al Fasher, North Darfur, and host-community households is very high. Important subsections of the population were unlikely to be covered adequately in the 2014/15 household budget survey. These include IDPs, which are believed to account for about five percent of Sudan's population, but also refugees and nomads. A pilot sample survey fielded in IDP camps around Al Fasher in 2018 constitutes a proof-of-concept for data collection with a special focus on informing durable solutions to internal displacement. While the survey was designed to shed light on displacement and displacement-related needs, it also includes a consumption module modelled on the 2014/15 NHBPS.

Findings from this module indicate high poverty rates in mid-2018: four out of five IDPs and three out of five hosts were found to live on less than $1.90 per person per day. While IDPs in the two camps enjoy access to many services they value, food availability and access to electricity are often lacking. Three in five IDPs exhibit high levels of food insecurity and only 9 percent of IDP households have electricity in their homes.

Shocks and household welfare

The Sudanese economy has faced several shocks over the years—sometimes resulting in devastating impacts on the economy and the welfare of Sudanese households. Poor households are often particularly vulnerable to shocks. The extent of the impacts of shocks on household welfare depends on the nature and severity of the shocks as well as households' capacity to manage its risk of exposure to shocks ex ante and/or mitigate the impact of shocks ex post.

Analysis of the 2009 NBHS and the 2014/15 NHBPS show that the prevalence of shocks in Sudan is most common among poor, agricultural, and rural households. Floods/droughts have the largest negative effect on the welfare of Sudanese households. Consumption per capita of households affected by weather shocks such as flood/drought decreases by 5.3 percent on average. The large negative effects of shocks on the welfare of Sudanese households (particularly those with low capacity to cope with shocks) highlight significant limitations in households' ability to fully mitigate the impact of shocks. Strengthening the resilience of these households

requires a combination of social protection programs which target vulnerable households; and economic stability and growth which create economic opportunities such as jobs and social services like education for Sudanese households.

Poverty estimates/forecast post 2014/15 NHBPS

The current poverty level for Sudan is unknown because data from the latest household survey (2014/15) do not reflect the impact of the recent economic decline, high inflation, and the impact of COVID-19 in Sudan. The ongoing economic crisis in Sudan has exacerbated poverty and inequality and existing social safety nets have proven insufficient to alleviate the suffering from poverty. Recent food price hikes were estimated to have adverse welfare impacts, particularly on the urban poor. The removal of preferential exchange rates for wheat importers at the beginning of 2018 resulted in sharp increases in the price of basic staples, including sorghum and millet. Simulations suggest that the extreme poverty rate ($1.90 per person per day) increased as a result, by around 3.2 percentage points (equivalent to 1.3 million additional poor). The bottom-40 percent in urban areas are affected the most.

Assuming that the 2014/15 consumption aggregate increased at the same per capita rate as the GDP up to 2020, it is estimated that the poverty headcount rate will increase from 61.1 percent in 2014/15 to 64.2 percent in 2020 (using the national poverty line). The estimated incidence of poverty is 52.2 percent in urban areas and 70.6 percent in rural areas.

Poverty projection for 2020 is yet to be finalized as the situation remains fluid and the full impact of COVID-19 remains unknown. The rising level of inflation, shortage of fuel and other basic commodities and COVID-19 are expected to continue having negative effects on living conditions. For example, according to results from the first round of the Sudan High Frequency Monitoring Survey on COVID-19 (implemented jointly by the Central Bureau of Statistics and the World Bank in June/July 2020), about 40 percent of respondents reported either a reduction or total loss in income due to COVID-19; 67 percent respondents had to stop working because of lockdown measures imposed to contain the pandemic and only 29 percent received their full salary while 43 percent received only part of their salary and 28 percent received no payment altogether; more than 20 percent of the households were unable to buy bread and cereals as well as milk and milk products; about 45 percent of the respondents said they were worried about having enough food to eat, and many modified their eating habits; and only 10 percent of the households with children who attended school before the outbreak of COVID-19 were engaged in learning activities during school closures due to COVID-19. To obtain a more accurate estimate of poverty, a new household survey is urgently needed.

3.3 Non-monetary Poverty

Non-monetary poverty indicators are generally consistent with monetary-based measures of poverty. Understanding the levels and trends of ownership in education and health indicators as well as levels and trends of assets, land, and livestock over time as well as access to services (water, sanitation, cooking fuel, and electricity) and food security sheds light on the evolution of the poor's economic opportunities. The analysis of these indicators thus serves as a robustness check on the internal consistency of poverty trends and levels.

3.3.1 Human capital

Sudan's human capital stock is in a critical situation. Latest results suggest that Sudan ranks 139 out of 157 in the Human Capital Index (HCI)10 and with an HCI value of 0.38 is among the lowest 20 countries in the world. A

[10] The HCI measures the amount of human capital that a child born today can expect to attain by age 18. It conveys the productivity of the next generation of workers compared to a benchmark of complete education and full health. It is made up of five indicators: the probability of survival to age 5, a child's expected years of schooling, harmonized test scores as a measure of quality of learning, adult survival rate (fraction of 15-year-olds that will survive to age 60), and the proportion of children who are not stunted.

0.38 HCI index means that a child born in Sudan today will be 38 percent as productive growing up as he would have been if he had received complete education and full health. This HCI score is below both the global and regional averages for both education and health and outcomes (see Box 3.1). Compared to countries with similar income levels, Sudan's HCI is lower than what would be predicted but does not indicate significant disparities across gender.

Box 3.1. Sudan's poor human capital accumulation

The HCI is one of the three elements of the Human Capital Project, which seeks to raise awareness and increase demand for interventions to build human capital with the aim to accelerate better and more investments in people.[11] The HCI, which covers both health and education dimensions, shows that in Sudan:

(i) 94 percent of children born in Sudan will survive to the age of 5.
(ii) A child who starts school at age 4 can expect to complete 7.3 years of schooling by his/her 18th birthday.
(iii) The harmonized test scores show minimal attainment of learning levels, with an average of 380 on a scale of 300–625.
(iv) The learning-adjusted years of schooling, that is the average years of schooling measured above but adjusted for the quality of the education received, drops to 4.4 years, therefore suggesting a 'quality' gap of 2.9 years.
(v) 78 percent of 15-year-olds are expected to survive to 60 years of age under current conditions; and
(vi) 38 percent of children under the age of 5 are stunted.

(a) Education

Analysis of the determinants of school enrollment shows that poverty us a key barrier to primary and secondary school attendance. Regression analysis using the 2014/15 National Household Budget and Poverty Survey (NHBPS) and 2014 MICS12 suggest that poverty is a major determinant of school attendance for children in primary and secondary schools. Being a boy increases the probability of primary enrollment but decreases the probability of secondary enrollment, and the reason for this is because boys have lower transition rates from primary to secondary schools. Also, parental education (particularly mother's education) is another key factor affecting school enrollment. Children with more educated parents are more likely to enroll in school. It could be that more educated parents are likely to invest more money and time in their children´s education. With persistent inflation, and austerity measured envisaged, it is likely that economic factors and the cost of education could become even more important barriers to keeping children from vulnerable households in school, let alone increasing access.

[11] For more information on the Human Capital Project visit *www.worldbank.org/humancapitalproject,*
[12] Some of the barriers identified to explain the high out of school rates are inability to pay fees, early marriage, and child labor (MICS 2014).

(b) Health and early childhood development

Progress has been made in improving health indicators, but progress varies across state, gender, and poverty level. Disparities include: (i) urban/rural disparities, with under-five mortality 30 percent higher in rural areas than in urban areas and children living in poor households are doble times at risk of dying before their fifth birthdays; (ii) heath support disparities, with the poorest women being much less likely to have an institutional delivery (9 percent) than the richest (71 percent); and (ii) geographic disparities, with stunting lowest in Khartoum and Northern states (about 23 percent) compared with Kassala, East Darfur, Central Darfur, and Blue Nile (close to 50 percent), while health insurance coverage is highest in Khartoum state and lowest in East Darfur state. The full immunization coverage rate is 42.8 percent, only half of mothers receive at least four antenatal care visits, and contraceptive prevalence is low at 11.7 percent. The provision of health services is aggravated by the county's conflict, low levels of public expenditure, dilapidated infrastructure, and shortage of relevant personnel. The CVOID-19 pandemic and the recent floods have compounded the constraints faced by the sector.

3.3.2 Asset ownership

In line with the monetary profile of poverty, a simple asset index suggests marginal improvements in material living standards in rural areas yet a deterioration in urban areas. Results of an asset index, an alternative indicator of the standard of living, that simply counts the assets owned at least by one member once across a list of seven assets (motor vehicle, bicycle, television, radio, phone, computer, and refrigerator), show that on average, households in Sudan owned about two assets out of the seven assets in 2009 and 2014. The trends are similar to those for monetary poverty across localities: asset ownership decreased slightly in urban areas and increased slightly in rural areas, and this does not change with the use of alternative data sources.

Fewer people own land now than before. The share of households that report owning or renting land has decreased; yet two in five Sudanese still lived in a household in which at least one member owns or uses agricultural land. The share of individuals that live in a household in which at least one member owns or rents agricultural land dropped from 48.1 percent to 41.7 percent between 2009 and 2014. While half of those in the bottom-20 percent were members of farming households, that share decreases to one-third among the top-20 percent.

While the average smallholder farm in Sudan is large by regional standards, mean farm size in the bottom of the farm size distribution decreased between 2009 and 2014. In Sudan, the average smallholder farm is large by regional standards, more than three times larger than the average farm in Kenya in 2010 for instance. In contrast to other countries in Sub-Saharan Africa, mean farm size per capita remained unchanged at 4.55 hectares between 2009 and 2014.13 However, median farm size per capita decreased substantially and so did average farm sizes per capita in each quartile of the land distribution, suggesting an increase in inequality at the top of the distribution. As in other countries in the region, there is some evidence in Sudan for an increasing concentration of land between 2009 and 2014.

Livestock is becoming less of an asset for the poor. Between 2009 and 2014. The incidence of livestock ownership dropped by almost eleven percentage points, suggesting that fewer households view holding livestock attractive. Livestock is more important in rural areas where three in five own at least one animal. However, the share in urban areas, at almost 20 percent, is not negligible. The poor are more likely to own livestock.

3.3.3 Access to public services

Access to water and sanitation has improved since 2009 but varies significantly by state and poverty level, and Sudan lags peer countries on MDG/Sustainable Development Goal targets. The share of households with access

[13] Extreme outliers, defined as reported land areas that are larger than the mean plus 5.5 standard deviations in each year, are not considered in these calculations. Only two farms met this criterion in 2014, while no farm did in 2009.

to an improved source of drinking water in 2014 was 63 percent, an improvement from 59 percent in 2009. Similarly, the share of households with access to a sanitation facility increased from 63 percent in 2009 to 73 percent in 2014. However, the percentage of the population using both improved drinking water sources and improved sanitation facilities stands at only 28.2 percent. With 72 percent, the urban population has better access to improved water compared to about 57 percent for rural areas. The increases are mainly driven by improved access in urban areas, with Sudan being unable to reach the water and sanitation MDG target of 82 percent by 2015. There are substantial disparities in access across states of Sudan. Similarly, access disparities by consumption quintile are pronounced. Households in the top quintile are about twice as likely to have access to an improved source of water and sanitation as households in the bottom quintile. The disparity grows at higher levels of consumption, putting the poorest in the category of being water poor.

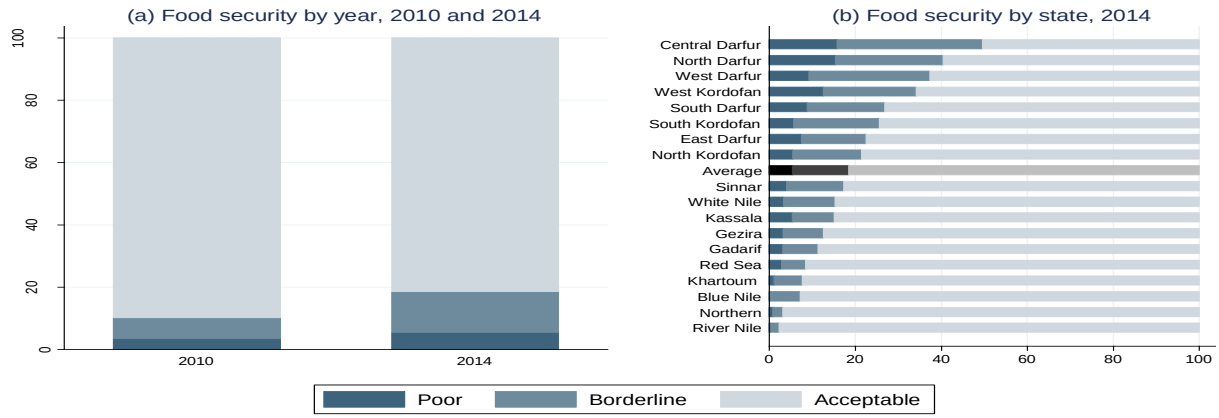
Access to electricity has improved substantially but, despite being subsidized, many poor Sudanese still lack access. Electricity as a major source of lighting has increased substantially in 2014, with 51 percent of the population receiving their lighting source from electricity compared to 39 percent in 2009 and 90 percent of it coming from the public source in 2014 compared to 74 percent in 2009 indicating the expansion of the public electricity grid. The Government has invested substantial amounts in the power sector raising the per capita electricity production from 163 kWh in 2009 to 318 kWh in 2014. The population with electricity from a public source increased substantially in both urban and rural areas. Despite these substantial efforts, large disparities exist between rural and urban populations and between states. Urban households are two and a half times more likely to have access to electricity compared to their rural counterparts. The gap between the poor and rich is narrowing. The share of bottom-40 percent households with access to a public source of electricity more than doubled from 15 percent to 33 percent between 2009 and 2014, while access increased only by 10 percent for the top-20 percent. About 84 percent of the households have electricity from a public source in Al Gazeira state, whereas only 5 percent of the households in Central Darfur state, 7 percent of households in each of North and South Darfur states, and 9 percent in East Darfur state have access to electricity from a public source. A huge task lies ahead of Sudan for it to achieve the Sustainable Energy for All (SE4ALL) target of universal access to electricity by 2031.

3.3.4 Food security

The food security situation in Sudan has deteriorated over the years. Based on the household Food Consumption Score (FCS),14 a measure of dietary diversity, food frequency, and the relative nutritional importance of foot items consumed, the incidence of poor and borderline food security increased substantially between 2010 and 2014, from 10.1 percent to 18.5 percent of the population (see Figure 3.6). Food insecurity is concentrated in Central and North Darfur, where 50 percent and 40 percent of the population are classified as having poor or borderline food security, respectively. It is anticipated that current high food prices will contribute to acute food insecurity in conflict and drought-affected areas of Sudan. The World Food Program estimates that about 5.5 million Sudanese (over 13 percent of the population) were food insecure in early 2018, a substantial increase from 3.8 million in 2017 (FEWS NET, the Famine Early Warning Systems Network, April 2018).

[14] The FCS is calculated as a weighted average over the number of days households consume food from different food groups. Food groups are weighted by nutritional content. Households classified as having poor food security consume only cereals and vegetables every day and never or seldom protein-rich foods such as meat and dairy. Borderline households consume cereals and vegetables every day, accompanied by oil and pulses a few times a week. Finally, households with acceptable food consumption levels frequently consume oil and pulses and occasionally meat and dairy in addition to cereals and vegetables.

Figure 3.6: Food security levels by year and state, 2010 and 2014



Source: Based on 2010 MICS and 2014 MICS survey reports.

3.4 Multidimensional deprivations

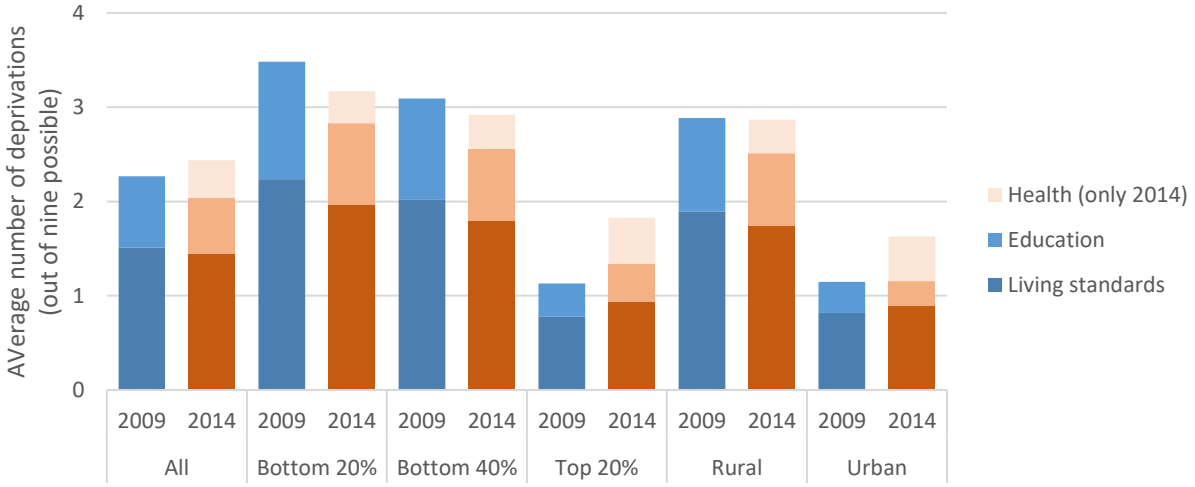
Human well-being should be assessed along several dimensions, not only economic welfare. Profiles of monetary poverty can play a key role in informing public policy. However, many dimensions in which people can potentially be deprived are not easily addressed through monetary terms. These include education, health, access to infrastructure, and others for which prices are often ill-defined or not applicable in dollar terms. In addition, broadening the scope of the analysis to include alternative dimensions of human well-being serves as a robustness check for the monetary poverty profile presented earlier.

The broad dimensions included here capture living standards, education, and health; each will comprise three subcomponents, for a total of nine binary indicators. The 'living standards' dimension considers access to public electricity, an improved source of drinking water, improved sanitation, and overcrowding. Households are considered deprived in each of these indicators of living standards if (a) they lack access to public electricity, (b) they have neither access to an improved source of drinking water nor improved sanitation, and (c) rooms are shared among more than three household members. The education of children and adults constitutes the second dimension. Households will be considered deprived in this dimension if (a) at least one child between ages 6 and 16 is not attending school, (b) there is nobody in the household able to read and write a simple sentence in any language, and (c) all the adults in the household have not attended any formal education. The final dimension considers health. In this case, indicators are constructed only for 2014 because of comparability issues. A household will be considered deprived if (a) any household member has a chronic disease and (b) any household member has had an accident during the 12 months preceding the interview.

Changes in the total number of deprivations in the dimensions of education and health suggest modest improvements, particularly among the poor and in rural areas. On average, Sudanese households in 2014 experienced 1.4 (out of 3.0 possible) deprivations in the dimension of living standards and 0.6 deprivations in the dimension of education, down from 1.5 and 0.8 in 2009 (Figure 3.7). Households on average experienced 0.4 deprivations in the health dimension, for which no comparison is available. Improvements in the first two dimensions are evident in rural areas, where the average number of deprivations in the living standards and health dimensions dropped from 1.9 to 1.7 and from 1.0 to 0.8, respectively. Intriguingly, deprivations in the health dimension seem to be more common in urban areas and among the better-off.15

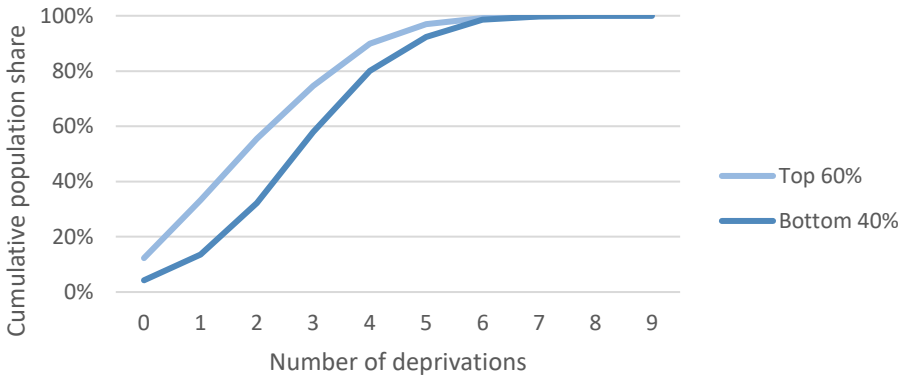
[15] Self-reported assessments of health status (which may include disabilities and chronic illnesses) should be interpreted only cautiously. A common concern is that socially disadvantaged individuals will often fail to perceive and report the presence of illness or health deficits because their own assessment is directly contingent on their social experience (Sen 2002).

Figure 3.7: Multiple deprivations by year, quintile, and rural/urban, 2009 and 2014



Source: World Bank Poverty and inequality report (2019), based on NHBS 2009, NHBPS 2014/15

Figure 3.8: Number of deprivations (out of nine) by quintile, 2014



Source: World Bank Poverty and inequality report (2019), based on NHBS 2009, NHBPS 2014/15

The total number of deprivations in multiple dimensions is consistent with monetary poverty. The average number of deprivations among the bottom 40 percent is 2.9, compared to 2.1 for those in the top 60 percent ($p<0.01$). Only 6.6 percent of the bottom 40 percent were experiencing no deprivation in 2014, compared to 15.5 percent of those among the top 60 percent. And almost 80 percent among the bottom 40 percent experienced multiple deprivations at the same time (that is, more than two) compared to only 59 percent among the top 60 percent (Figure 3.8)

Within dimensions, deprivations tend to be correlated. Table 3.2 displays a matrix of correlation coefficients between different deprivations. Cells are color-coded with red indicating high positive correlations (higher overlap across households or a higher chance of experiencing both deprivations at the same time) and green indicating lower levels of correlation. One would expect deprivations within one dimension such as health or education to be highly correlated, in which case the matrix should exhibit block-diagonal form, that is, blocks of nine cells along the main diagonal that exhibit higher correlations. This is indeed what is observed: households that lack access to electricity also have a higher likelihood of lacking access to an improved source of drinking water and improved sanitation, suggesting complementarities in public infrastructure. Even more obvious, households in which no member can read and write are also more likely to lack an adult with any formal education.

And, finally and less clear, it is found that households in which at least one member has experienced an accident are also more likely to have a member who reports suffering from a chronic disease.

High levels of correlation between dimensions are apparent for living standards and education but not between these two and health deprivations. Household that experience deprivations in the dimension of education tend to experience deprivations in the dimension of living standards as well (of course, these correlations do not necessarily reflect causality). Deprivations in the health dimension, on the other hand, tend to be uncorrelated with deprivations in other dimensions

Table 3.2: Correlation between deprivations, 2014.

		Living standards			Education			Health		
		Electricity	Water and sanitation	Crowded living	Non-attending child	No literate member	No formal education	Chronic disease	Disability	Accident
Living standards	No electricity	1.00	0.61	0.07	0.31	0.22	0.37	0.04	−0.14	0.02
	Water and sanitation	0.61	1.00	0.07	0.25	0.18	0.31	0.03	−0.14	0.03
	Crowded living	0.07	0.07	1.00	0.15	0.04	0.09	0.01	−0.04	0.02
Education	Non-attending child	0.31	0.25	0.15	1.00	0.16	0.25	0.04	−0.06	0.05
	No literate member	0.22	0.18	0.04	0.16	1.00	0.43	0.00	−0.05	0.00
	No formal education	0.37	0.31	0.09	0.25	0.43	1.00	−0.01	−0.12	−0.01
Health	Chronic disease	0.04	0.03	0.01	0.04	0.00	-0.01	1.00	0.13	0.50
	Disability	−0.14	−0.14	−0.04	−0.06	−0.05	−0.12	0.13	1.00	0.14
	Accident	0.02	0.03	0.02	0.05	0.00	−0.01	0.50	0.14	1.00

Source: World Bank Poverty and inequality report (2019), based on NHBS 2009, NHBPS 2014/15
Note: The table reports Pearson correlation coefficients calculated at the household level.

4. THE POVERTY REDUCTION STRATEGY AND PILLARS

4.1 Introduction

The guiding principles for preparing the poverty reduction strategy are: (i) building a national consensus on a poverty reduction strategy based on an agreed understanding on the nature, magnitude and causes of poverty in Sudan; (ii) harnessing the capacities, experiences and resources of all key stakeholders, regional and local levels to contribute to the effective design of, implementation and monitoring of the PRSP; (iii)creating an awareness among the poor and vulnerable groups and communities for self-reliance, co-existence and collective action towards poverty reduction; and (iv) building broad national commitment towards PRSP ownership.

The framework for reducing poverty has also been informed by analysis of the causes/drivers of poverty that persisted over the past decade. The drivers of poverty based on previous analysis include: (i) Macroeconomic instability, characterized by maintaining increasingly unaffordable commodity subsidies and an overvalued exchange rate that created massive imbalances and generated high inflation. (ii) prolonged conflicts and political instability, which undermine opportunities for economic and social development, which in turn feeds back into grievance driving fresh conflict; (iii) a lack of economic diversification as reflected in the over-dependence on the extractive sector, which has resulted in a neglect of agriculture, with poverty being most prevalent in rural areas; compounded by adverse environmental and climate change factors (iv) unequal distribution of fiscal resources and provision of basic services like education, health and water supply, especially between the center and the periphery, which exacerbate inequality across regions; and (iv) weak governance which spawns competition and conflict over resources, which in turn impacts on security level and economic activities, with the repercussions amplifying across these themes.

4.2 Poverty Reduction Strategy Pillars

The transitional government has articulated a program to address these deep-rooted political, economic, and social challenges to poverty reduction. The government's Three-Year Program for Stability and Economic Development (2021-2023) focuses on: (i) macroeconomic framework/stabilization through correcting the causes of large macroeconomic imbalances; (ii) strengthening governance, including reforming the legal system, institutional reform of the structures of government levels, institutions and units; (iii) achieving inclusive economic growth and poverty reduction, emphasizing productive sectors—agriculture, livestock, forestry, industry, mining, and trade— and rehabilitating infrastructure (iv) undertaking effective role in social and human capital development, including education, health, water and sanitation, and labor and social protection programs; (v) protecting the environment including strengthening the Supreme Council for the Environment and Natural Resources; and (vi) promoting peace and state development.

The government has put the goal of achieving a comprehensive and sustainable peace in Sudan in the top of its agenda. The Constitutional Document that governs the traditional period has accorded the first priority to achieving sustainable and comprehensive peace by addressing the root causes of the conflict. A full chapter (chapter 15) in the Constitutional Document, was devoted to peace. Putting an end to war and building fair comprehensive and sustainable peace was the first priority reflected in the government 10 priority areas adopted by the Transitional Council of Ministers in September 2019. Forces of Freedom and Change; the political incubator of the government, gave the first priority to the peace as expressed by the consultations they have carried

out.16. This was reaffirmed by the First National Economic Conference (26-28 September 2020) in its final recommendations indicating that the government's priority is to achieve a lasting peace in Sudan. These efforts were supported by the international community. The high-level Sudan Partnership Conference held in Berlin in support of the Transitional Government in Berlin –Germany on June 2020, expressed their strong support for a peace that is inclusive and addresses the root causes of conflict. The transitional government succeeded in signing a peace agreement in Juba in July 2020 with the major armed groups.

Economic stabilization to address large macroeconomic imbalances is a key government program objective. In particular: (i) the program of the government allows for the consolidation of the 2021 national budget, which will allow for slower monetary expansion and the sharp reduction in inflation; (ii) a significant increase in social spending, including the Sudan Family Support Program transfer program/cash transfers, will alleviate the immediate burden on the population of the economic crisis and needed reforms; and (iii) the fiscal space that allows for both public sector deficit reduction and significantly higher social spending is being created by the sharp reduction and elimination of most fuel subsidies is creating enormous additional fiscal space of 6-7 percent of GDP and tax reform and customs exchange rate adjustment are expected to increase tax and customs revenues by 6 percent of GDP in 2021, and by almost 10 percent of GDP by 2025. A particularly high increase in tax revenues is expected from the on-going process of eliminating current widespread exemptions. A higher customs exchange rate will naturally generate much higher revenues, even with lower tariff rates. Lower inflation and higher social spending are expected to contribute to poverty reduction.

Promoting inclusive growth supported by macroeconomic stability. Reduction of poverty through rapid, sustainable, and shared economic growth is a key objective of the government's strategy. It focuses on actions to build the foundation for broad-based economic growth, structural transformation, and diversification of the economy over the medium and long-term, emphasizing agriculture. Other focus areas include addressing low productivity and vulnerability, improving investment climate, strengthening infrastructure, and protecting natural resources.

Building human resources as the foundation for development is a key government objective. This objective also recognizes the critical need to engender development initiatives to ensure an inclusive approach that addresses barriers to women's social and economic empowerment as a key facet to Sudan's sustainable recovery and growth. Other objectives/ pillars include establishing a capable state with good governance and capacity for effective public actions; promoting peace and reversing the marginalization of ethnically different peripheral communities, stabilizing the populations and communities destabilized by conflicts.

Based on the poverty diagnostic analysis and broad stakeholder consultations, and aligned with the government programs, five pillars have been identified to address poverty reduction in Sudan in the coming years. The PRSP is clustered across five pillars that represent the core strategic areas for the foundation and aspirations for development in Sudan: (i) promoting macroeconomic stability; (ii) fostering inclusive and sustainable economic growth; (iii) boosting human and social development; (iii) promoting peace; and (iv) strengthening governance and institutional capacity of the public sector. The core elements of these pillars are summarized in Box 4.1. These are ambitious pillars, especially in the context of the fiscal shock and several challenges will have to be boldly tackled.

As gender disparities are evident in all the measures of poverty, gender equality is a cross-cutting policy imperative. Achieving gender equality is not merely a matter of having a few stand -alone interventions in each

[16] The report of Freedom and Change Forces on: The Urgent Needs and Priorities for -Sudan Transitional Period –, August-November 2019, to support Sudan transitional government to identify priorities. The report followed wide consultations

pillar, or even having a dedicated pillar, but as an implementation question to be asked of each pillar and policy intervention.

The Government Medium Term Program is supported by an IMF Staff Monitored Program. Sudan successfully negotiated an SMP with the IMF that was approved in September 2020. This program embodies bold reforms that Sudan is pursuing with exchange rate policy, subsidy removal, social mitigation measures, greater fiscal transparency, tax reform and anti-corruption, while setting a series of benchmarks to guide macroeconomic policy toward economic stabilization that is conditional on external financial commitments from the international community. Exchange rate liberalization will occur in stages over the course of one year, while most fuel subsidies were removed already in the third quarter of 2020. The SMP is expected to be of upper credit tranche (UCT) quality, which is important to propel Sudan toward a decision point. A minimum track record of six months of successful implementation of an SMP of UCT quality is one of the requirements to reaching a HIPC decision point. The economic reforms, particularly the removal of subsidies, will have a significant negative impact on the poor and vulnerable and the Sudan Family Support Program is designed to mitigate the impact of these reforms.

The government's program provides the international community an opening to engage in development across Sudan in a way that addresses the short-term economic transition and the long-term drivers of conflict and fragility, particularly inequality. The relative peace following the signing of Juba Peace Agreement allows the international development community to engage with reformers to support economic management for equitable development and support peace through institution-building. With regards to the internal political economy, this context and the initial reforms empower constituencies for reform that are keen to establish credibility domestically through an improved service delivery and accountability agenda and internationally through a peace and inclusion agenda in order to access development finance, including IDA, and reduce Sudan's isolation.

Box 4.1: The PRSP pillars

Pillar 1: Promoting Macroeconomic Stability: The emphasis is on correcting the causes of current large macroeconomic imbalances, improving domestic revenue mobilization, reallocating public resources towards social spending and key infrastructure and providing the foundation for inclusive growth.

Pillar II: Fostering Inclusive and Sustainable Economic Growth: The focus is on growth in agriculture and livestock, and the role of the private sector. Building on the key pillars of governance, peace restoration and human resources, this pillar is clustered across four sub-pillars: enhancing productivity and growth in agriculture; enabling environment for private sector growth; strengthening infrastructure services for recovery and growth; and protecting natural resources and environment.

Pillar III: Boosting Human and Social Development: The focus is on the role of investment in human development to build and enhance the population capabilities through education and better health, emphasis on closing the disparities in access to opportunities for self-improvement for women and the very poor, and reducing the inequality in human development outcomes between states and regions.

Pillar IV: Promoting Peace and providing Equal Opportunities for all Sudanese: Address issues that are expected to achieve a lasting peace in Sudan, including IDPs and refugees return, managing diversity, geographical disparities, competition over natural resources and land, and transitional justice.

Pillar V: Strengthening Governance and Institutional Capacity: Priority on building a strong, inclusive, transparent and effective state and the institutional capacity to govern and deliver public services to the population. Core elements of this pillar include effective public financial management and decentralization, peace and security, fighting corruption,

While it is critical for Sudan to restore peace, stabilize its economy, promote inclusive growth, and reduce poverty, achieving these objectives requires access to external financing. Negative growth and rising inflation necessitate a rapid overhaul of fiscal and economic policies – tough medicine to which the transition government has demonstrated commitment. At the same time, Sudan needs external financing to sustain its reforms. Substantial resources are needed to address political and socioeconomic challenges, given their deep-rooted nature. Years of international isolation and various embargoes have prevented Sudan from accessing much needed external financing and support at a time when it is most needed.[17] There is a need for the development partners to remain engaged in Sudan as it will be difficult for the transition government to effectively implement comprehensive and far-reaching reforms without normalization of relations with the international community, providing debt relief and availing concessional financing.

The transitional government managed to secure the removal from the US State Sponsors of Terrorism List with the view to integrate the country into the international community and access external financing. Sudanese presence on this list hampered debt relief efforts and limited international banking transactions. Debt relief would help reduce Sudan's foreign debt, estimated to be approximately USD 57.5 billion (exceeding GDP). However, the process of debt relief is lengthy, and the government has taken several steps: (i) negotiating a staff monitored program (SMP) with the International Monetary Fund (IMF); (ii) preparing the PRSP; and (iii) re-engaging with the international community and the Paris Club of creditors.

Substantial international support for Sudan has been received, but this goodwill has not yet translated into levels of external financing commensurate with the scale of the country's development challenges. Following the Friends of Sudan meeting in Berlin, less than US$400 million has been received from development partners to-date for the first phase of the Sudan Family Support Program (SFSP). It is anticipated that additional donor contributions will be received to cover the balance needed to come closer to funding the first phase cost of US$1.9 billion. Gaining access to the international financial institutions as well as resources from development partners is therefore critical. Clearing of arrears to the World Bank and other IFIs will need to take place within the context of an overall resolution of Sudan's debt issues, because this is integral to having a sustainable macroeconomic outlook for the country. The Highly Indebted Poor Countries (HIPC) Initiative provides a framework for addressing the country's debt situation in a comprehensive manner. Sudan has been grandfathered for eligibility for debt relief under the HIPC Initiative. The country would qualify for debt relief upon reaching the HIPC Initiative decision point, which itself requires -inter alia – establishing a satisfactory track record of policy performance.

[17] Despite Sudan's acute development needs, the country has received relatively little concessional development financing. Official Development Assistance (ODA) to Sudan fell dramatically from over US$2.0 billion in 2010 to US$840 million in 2017. More importantly, the majority of ODA to Sudan goes to humanitarian aid (OECD Aid Statistics: OECD Data, Net ODA Disbursement to Sub-Saharan Africa. Also see World Data Bank: *http://databank.worldbank.org/data/home.aspx*

The PRSP Pillars	The Three-Year Program for Stability & Economic Development Pillars
I. Promoting macroeconomic stability	*I. Macroeconomic Framework*
II. Inclusive and Sustainable Economic Growth including the following sub-sub-pillars	
a. Growth in agriculture and livestock	*II. Agriculture, Livestock & Forestry*
b. Private sector development	*III. Industry, Mining and Trade*
c. Strengthening infrastructure services (energy, road transport)	*IV. Infrastructure*
d. Protecting the environment & natural resources	*V. Environment*
III. Promoting Human and Social Development	*VI. Labor and social development*
IV. Promoting Peace and Providing Equal Opportunities for all Sudanese	*VII. Peace and states' development*
V. Strengthening Governance & Institutional Capacity	*VIII. Governance*

Box 4.2: The PRSP pillars in Relation to the Three-Year Program for Stability and Economic Development

5. PROMOTING MACROECONOMIC STABILITY: PILLAR 1

The Government's strategy aims at restoring macroeconomic balance, reallocating public resources toward social spending and key infrastructure, generating higher tax revenues, and providing a foundation for inclusive growth. The combination of these measures, along with progress in the peace process, will have first order implications for poverty reduction. From the point of view of macroeconomic stabilization, the combination of lower inflation and higher social spending will reverse the primary causes of poverty in Sudan over the last decade and improve human development outcomes.

The PRSP is built on a medium-term framework that emphasizes the importance of appropriate measures in favor of macroeconomic stability, sustained economic growth and poverty reduction. The macroeconomic objectives for the 2021-2023 period aim at: (i) reducing the overall budget deficit to 2 percent; bringing down inflation to 20 percent; containing the current account deficit to less than 10 percent of GDP; and sustaining an average economic growth rate of 3 percent.

5.1 Fiscal Policy

Fiscal policy is key to achieving economic stabilization and meeting the investment needs of the pro poor sectors. The overall objective of the fiscal policy is to reduce the fiscal deficit and contribute to reduction in the inflation and create the fiscal space to finance social spending, peace requirements and essential development needs. Revenue is projected to increase from about 7.4 percent in 2019, one of the lowest in the region (Sub Saharan Africa collects revenue amounting to 20 percent of GDP), to 13.3 percent of GDP by 2023. Tax revenue, which ranks among the lowest in the region, is expected to rise from 5.4 percent of GDP in 2019 to10.6 percent by 2023.

By eliminating fuel subsidies, current expenditure will decline from 18.6 percent of GDP in 2019 and will be maintained at about 16 percent of GDP during 2022-2023. Development expenditure will gradually increase from its low level of 0.1 percent of GDP in 2019 to 2.0 percent of GDP by 2023. The budget deficit will therefore be significantly reduced during the 20121-2023 period from its estimated level of 10.8 in 2020. Sustaining fiscal discipline and maintaining a prudential monetary policy in subsequent years will result in lowering the budget deficit further to an average of 2.0 percent of GDP during 2021-2023. These targets will be achieved by implementing the following fiscal policies.

5.2 Revenue Mobilization

The widespread tax exemptions that contribute to eroding the revenue base will be rationalized. The exemption regime is embedded in legislation like the investment law, personal income, and corporate income law, and in special laws and decrees. Measures to be implemented will include removal of exemptions from income tax, security sector's commercial companies, sports equipment, certain commodities like benzene and sugar, private higher education institutions, and insurance companies. The government will rationalize the tax exemptions and tax holidays under the Investment Law. The government will however continue to exempt capital goods and agriculture and industrial inputs to encourage production as opposed to consumption. The government will also improve the administrative mechanism responsible for supervising the tax exemptions granted to investment projects and NGOs to ensure their use in the intended purpose and guard against misuse. The adoption of these measures is expected to contribute to a significant increase in revenue.

Agriculture, which constitutes about one third of the GDP, is exempted from taxation. The government abolished the agriculture tax, representing a main source of revenue for the states, in 1999 to encourage agriculture production. In return, states are compensated from federal resources with annual allocations equivalent to the abolished tax. The government will consider reinstating this tax, which will generate substantial revenue and save the resources paid as compensation by the federal government to the states. This measure will be implemented with careful evaluation of the impacts of the tax on agriculture production.

Artisanal gold production, the most important export earner, amounting to about US$ 1.2 billion does not contribute to the federal taxes. Artisanal gold miners only pay a small amount of taxes to the localities. The government will streamline the taxation for artisanal gold mining, noting the difficulty of collection; miners being widely scattered in remote areas.

The government will reform the income tax. It will implement a progressive income tax and increase the tax base. Moreover, certain tax rates will be increased to mobilize more resources. The VAT rate on telecommunication services will be increased. The corporate income tax rate and the property lease tax rate will also be increased, and attempts will be made to broaden the tax base for corporate income taxes.

The custom valuation exchange rate will be reviewed. The custom valuation exchange rate remained at SDG 18/US$, while the official exchange rate unified with the parallel exchange rate on February 21, 2021 at SDG 375/US, resulting in considerable revenue loss for the Government. The Government must adjust the customs exchange rate to the market rate, and this measure is expected to significantly increase revenue from the customs and the VAT of imported commodities. However, to avoid the shock resulting from the sharp increase in the price of imports and the general price level, the customs exchange rate will be adjusted gradually. The import tariff structure, with IMF TA, will also be reformed by reducing the average import tariff rate from the current 20 percent to offset the general price impact of the custom exchange rate adjustment measure.

Upgrading the capacities of the Taxation Chamber to enable it to broaden the tax base and improve tax compliance will be implemented. These efforts will include completion of the Tax Chamber electronic system that will link

the central chamber offices with the states and the introduction of e-invoicing. In terms of administrative reform, many countries started to harmonize tax procedures and minimize the need for citizens to respond to multiple agencies, by integrating their revenue administrations. For improving tax collection efficiency, the government will study the possibility of establishing a Revenue Authority by consolidating all tax collection agencies, making use of the international experience in this area. Although some benefits in terms of more efficiency in tax collection will accrue in the medium term, however the major gains will be realized in the longer term. The government will also undertake an in-depth study to review the current institutional set up of the Customs Administration, which is operating under a divided responsibility of two ministries, the Ministry of Finance and Ministry of Interior.

Measures to increase non-tax revenues will be considered. Fees and charges for the services delivered by government entities will be increased to reflect the actual cost of the service rendered. More revenue from the SOEs and government companies will be generated as a result of a reform program that seeks to improve the transparency of the SOE's and their contribution to the government budget. Specific work plans will be required from those entities with clear improvement in their performance indicators which will be closely monitored through strengthened oversight of the ministry of finance. The government will seek to ensure that SOEs and government companies are audited by the Auditor General and that they pay due taxes and returns, and comply with other fiduciary regulations, as part of the envisaged reforms.

The government will establish the National Revenue Fund in accordance with Juba Peace agreement, as the sole institution in which all government national revenues are deposited. The fund will be established by law to ensure transparency for revenues collected.

5.3 Expenditure

Subsidies (and weak revenue mobilization) represent a major factor in the recent monetary expansion in Sudan and the deteriorating fiscal position, as such it is inevitable to address this issue to achieve macroeconomic stabilization. The government will gradually eliminate the subsidies on fuel that form the largest share of total subsidies. The process has already started. Fuel subsidies were reduced by 66 percent in October and by 94 percent in December 2020; significant part of diesel and gasoline subsidy has been removed. Now gasoline and diesel prices sold at retail stations are unsubsidized. In January 2021, electricity subsidy was substantially removed by increasing tariff 5-6 times, paving steps for the sector's financial sustainability, efficient use of electricity and enabling private investment. The government allowed private companies to import fuel and currently 13 oil companies are selling fuel at commercial price. The commercial prices will be reviewed periodically and adjusted in line with international prices for fuel and the market exchange rate. The government will however continue to subsidize the fuel for agriculture production. The government will continue to maintain subsidizing bread, which constitutes about 8 percent of the total subsidies. Largescale bakeries can sell non-subsidized bread. The government will shift from subsidizing wheat to subsidizing bread to avoid using of subsidized wheat in cakes and biscuits and smuggling.

The government will maintain wage constant as a share of GDP. In light of the high inflation rates and the erosion in the incomes of the fixed wage earners, the minimum wage increased in April 2020 seven times, from 425 pounds to 3,000 pounds per month, an unprecedented increase in the history of the civil service. The government also raised civil service wages by 569 percent on average in May 2020.

The government will increase transfers to the states. The increase in transfers will meet the government policy of increasing expenditure on basic services of education, health, and water supply to meet the SDGs commitment and reduce poverty, noting that expenditure in basic services is the responsibility of the regions/states. The Juba Peace Agreement committed the government to additional financing required for war affected and marginalized

areas as affirmative action to bridge the gap in development and services, meet the needs of IDPs return and the reconstruction funds. A conference for the system of governance which will take place around April 2021 will determine the horizontal and vertical equalization formula for resource allocation which will influence the resource flows between the different levels.

Allocations for social spending will increase to address the pain of the economic reform and the impacts of COVID-19. The government will continue to spend on its ongoing social programs including free lifesaving medicines, free treatment in emergency hospitals, meeting health insurance contribution on behalf of poor families, and contributing to Students Support Fund. The government in collaboration with the development partners will finance the Family Support Program (SFSP), a broad government-run cash transfer program which aims to provide the equivalent of US$5 per person per month for approximately 80 percent of Sudan's population, to mitigate adjustment pain and to facilitate reform implementation. The World Bank supported the design and leading coordination for fund raising of the program. About 14 donors have pledged an approximately US$ 500 million to finance the program with further expected financing. WFP started implementing the program based on the memorandum of understanding it has signed with the government in June 2020 to support the program by developing a cash transfer delivery and payments system and a complaints mechanism. Following the exchange rate unification, the Government of Sudan launched the first phase of the Sudan Family Support Program (SFSP) on February 24, 2021. Approximately 11.3 million people in Khartoum, Red Sea, South Darfur, and Kassala states are expected to benefit from the first phase of SFSP. The launch took place in Khartoum's Jebel Awlia neighborhood and it was attended by the Prime Minister, Minister of Finance, Minister of Social Development, and Minister of telecommunication along with donor partners. Additional expenditure will also be directed to meet the COVID-19 crisis necessitating larger health and social expenditures.

Public financial management will be strengthened. The Government in collaboration with the World Bank is finalizing a Public Expenditure and Financial Accountability (PEFA) assessment that will form the basis for reforming public financial management. Implementation of technical assistance based on the PEFA assessment is envisaged to yield considerable gains to the budget efficiency and savings. Reforms will include budget planning, fiscal reporting, fiscal risk management, internal and external audit, and preparation of the budget within a medium-term fiscal framework. Public procurement rules will also be strengthened. The rules that prohibit government units to retain all or part of their revenues, will be strictly enforced and measures will be taken to ensure that all revenues are transferred to the National Revenue Fund. The control of the Ministry of Finance over public corporations and companies is weak, and it is expected that this situation will be reversed by undertaking reforms for the public corporations and companies as part of the public financial management reforms. In addition, there are many companies owned by the security sector which operate on commercial basis, outside the supervision of the Ministry of Finance. Information about their exact numbers, fields of operation and financial status is unclear. The government in collaboration with the security organs will review these companies with a view to improve their transparency and contributions to the state budget. Several steps were taken toward full implementation of the treasury single account which allows the Ministry of Finance to have oversight for better liquidity management. The governance and oversight over the pension and social security funds will also be strengthened around the treasury single account. The unfinished work of the treasury single account will be completed including legislation changes and procedures.

5.4 Monetary Policy, Exchange Rate and Financial Sector Policies

The primary objective of the monetary policy in Sudan is to achieve price stability (low and stable inflation) and promote growth. Sudan has struggled to contain prices since the South succeeded in 2011. This has led to periods of high inflation as spending hasn't been contained and there was a reliance on printing money to cover budgetary shortfalls. Over the coming period the Central Bank of Sudan will shift from monetary aggregates to reserve-

money targets for its monetary policy to control inflation. To achieve this objective, the central bank will have a clear mandate and operational independence to pursue the goal of price stability.

The independence of the Central Bank of Sudan to perform its mandate of price stability will be restored. Pressures from different government organs were exerted on the central bank in the past that undermined its independence. These interventions included the fiscal dominance resulting from monetization of the fiscal deficit, the engagement of the central bank in a variety of operations to assist government in the importation of strategic goods like fuel, medicine, and wheat, and the shareholding of the central bank in several state owned and commercial banks. For implementing an effective monetary policy, the government will undertake several measures to restore the central bank independence including: (i) a new Central Bank Law will be ratified to strengthen the central bank governance; (ii) The central bank will exit its position in state-owned banks and commercial banks; (iii) central bank officials will be prohibited to act as board members in commercial banks; (iv) support will be given to the central bank mandate by amending the legislation of Foreign Exchange Dealing Act, The Banking Business Act, as well as reviewing other legislations which affect the mandate of the central bank including Pension and Social Insurance Law for 2016, Insurance Control Act (2016), Sudan Currency Printing Press Law (1994) , and Khartoum Stock Exchange Market Law (2016),

The government will use available monetary tools to mop up excess liquidity to reduce inflation. The government will increase the sale of the Government Musharaka Certificates (Shahama), and other government investment certificates. The purpose of the increased sales will be to reduce inflationary pressures and increase the stock of securities to strengthen the monetary policy tools. The central bank will also cautiously use the commercial banks reserves requirements to reduce liquidity and will use its securities (Shihab certificates) to improve the liquidity management. The real rate of return of government securities will be adjusted to reflect the actual market rate and be attractive to the private companies and to the public

Coordination between the Central Bank of Sudan and the Ministry of Finance and Economic Planning will be enhanced to improve liquidity management and strengthen monetary control. This coordination is essential for the success of the macroeconomic stabilization because a major role will be assigned to the Ministry of Finance to curb its fiscal deficit as a key instrument for reducing reserve money growth and inflation.

The Electronic Banking Service Company of the Central Bank of Sudan and other relevant bodies will accelerate the transition from cash economy to electronic payment system. This digitalization process will be supported with necessary legal changes, administrative and institutional reforms as well as awareness campaigns

The monetary policy is expected to reduce the annual change in reserve money from about 78 percent in 2019 (estimated to increase to 95 percent in 2020) to 33 percent by 2023. The average annual inflation will be reduced from 128 percent to 58 percent in 2022 and further to 28 percent by 2023.

The government will seek to unify all exchange rates. Prior to the exchange rate unification on February 21st, 2021, the system of the exchange rate was characterized with a multiple currency practices; the central bank official rate stood at SDG 55/US$, the customs duty exchange rate at SDG 18/US$, wheat and fuel import exchange rate at SDG 6-7/US$, and there is a parallel market rate which continues to depreciate reaching SDG 350/US$ in January 2021. The exchange rate was unified after pre-requisites for the successful exchange rate reform were put in place. Following the exchange rate unification, more reforms including anchoring of the monetary policy framework to reserve money targets to reduce inflation, addressing banks stability and resilience to exchange rate movements, and measures to curb liquidity expansion will be implemented.

The government will monitor the demand for foreign exchange. Government companies, particularly security companies and some of the telecommunication companies purchase large amounts of forging currency from the

parallel market putting more pressure on foreign exchange market. Those companies will be prohibited from buying foreign exchange from the parallel market and they will be closely monitored to ensure their compliance.

Apparent weaknesses in the banking sector will be addressed. Twelve banks (accounting for 25 percent of banking system capital) have capital adequacy ratios below the regulatory 12 percent minimum. There are concerns related to the bank's efforts in anti-money laundry and ant-terrorism financing measures. The banks with low capital adequacy ratios will inject more capital. The central bank will also encourage merger of banks. Asset quality reviews of systemically important banks based on international standards will be completed and policy actions will be taken accordingly. The central bank will ensure the commercial banks work according to international prudential regulations and it will work with the banks to address all constraints that hinder their compliance.

The operations of the Central Bank of Sudan to supervise the commercial banks will be strengthened. And coordination between banking regulation and supervision departments in the central bank of Sudan will be enhanced, and the bank will undertake extensive training for its staff in these departments. As advised by the IMF, the Bank of Sudan supervision will move towards a risk-based supervisory regime.

The Ministry of Finance will extend cooperation to the Central Bank regarding information from the non-banks' financial institutions under the supervision of the Ministry of Finance. These institutions include the insurance companies and social contributory funds (pension, social insurance and health insurance funds).

Deficiencies in the implementation of Anti Money Laundering and Combating Financing of Terrorism-AML/CFT will be addressed. A legislative framework for AML/CFT was implemented and several laws were enacted including Sudan's Counter Terrorism Act (2001), AML/CFT Act (2014), and Human Trafficking Act (2014). Institutionally, an Administrative Committee for AML/CFT with legal personality was formed; a Financial Intelligence Unit was established by the Central Bank of Sudan. Since 2013 IMF provides substantial technical assistance to Sudan on strengthening their legal, regulatory, institutional and financial supervisory frameworks for AML/CFT, and the government will continue requesting such assistance. Despite these efforts, there are certain deficiencies that needs to be addressed. A national AML/CFT risk assessment will have to be completed. The capacity of the Financial Intelligence Unit will be enhanced. The government will fully implement risk-based AML/CFT supervision and improve the process of freezing terrorist assets. Thematic AML/CFT on-site inspections of the highest-risk banks will be determined, and actions taken will be reported to the IMF.

5.5 Economic Growth

With economic reforms and peace, the negative economic growth trend that prevailed over the last three years will be reversed. However, given the deep-seated structural economic problems, weak institutional capacity, limited external assistance, and the impact of the COVID-19 pandemic; economic growth is likely to be moderate in the medium term until 2023. It is estimated that real GDP will increase from an estimated growth rate of -3.6 percent in 2020 to a growth rate of 0.4 percent in 2021, and a further increase to 1.1 percent and 2.6 percent in 2022 and 2023 respectively (Table 5.1).

Agriculture is planned to be a major driver of the planned economic growth. With the provision of inputs, agriculture has high potential for growth in productivity. Rehabilitation of productive infrastructure will enhance connectivity and improve access to markets. Agriculture will benefit from the government strategy to promote public private partnerships (PPP's) in infrastructure development (rehabilitation of irrigation infrastructure, roads, off-grid power including renewable solutions such as solar power). Growth in agriculture will also drive growth in related sectors including transport, trade and commerce.

The peace gains from the implementation of Juba Peace Agreement will bring more agriculture areas affected by the conflict into production. Darfur Fund for Peace and Sustainable Development and the Two Areas Reconstruction Funds will help farmers and livestock owners in conflict regions to resume production in areas that were out of production due to insecurity thereby contributing to inclusive growth. The new Commission for Financial Allocation and Monitoring of Revenues will allocate resources from the federal government to the regions/states based on affirmative actions to remove disparities and raise the low level of development and services in the war affected regions. These measures are expected to generate more production and contribute to the inclusiveness of growth

Table 5.1 Medium Term Macroeconomic Outlook 2021-2023

	2018	2019	2020	2021	2022	2023
	estimates	estimates		Program		
Output and prices	In percent					
Real GDP growth	-2.3	-2.5	-3.6	0.4	1.1	2.6
Average inflation rate in percent	63	51	163	208	37	21
Central government operations	In percent of GDP					
Revenue and grants	8.9	7.8	4.8	12.7	10.3	10.2
Expenditure	16.8	18.7	10.7	15.0	12.5	12.2
Wages	2.4	2.9	2.9	2.9	2.9	2.9
Goods and services	1.2	1.0	1.0	1.0	1.0	1.0
Subsidies	9.6	11.8	4.8	2.0	2.2	2.2
Transfers	2.1	1.7	1.4	3.9	3.0	3.0
Other current	1.0	1.2	0.5	3.6	1.7	1.5
Total current expenditure	16.3	18.6	10.6	13.4	10.8	10.7
Development expenditure	0.5	0.1	0.1	1.6	1.7	1.7
Overall balance	-7.9	-10.8	-5.9	-2.3	-2.3	-2.2
Monetary sector	Annual percent change					
Broad money	111.8	60.1	88	68.2	39.1	23.8
Reserve money	170.5	77.5	94.5	68.6	43.4	32.9
External sector	US$ million					
Exports	3,485	3,973	4,634	5,419	6,062	6,323
Imports	7,065	8,393	8.152	8,384	8,451	8,671
Current account	3,118	3,637	2,742	1,781	2,157	1,770
Capital account	163	180	200	200	200	200
Gross international reserves	178	190	223	282	445	630
Gross international reserves (in months of imports)		0.2	0.3	0.3	0.5	0.6
External debt	55,084	56,309	57,544	58,772	58,473	59,047

Source: CBoS and MoFEP; and IMF staff estimates and projections.

Macroeconomic stability will create conditions for stronger private sector-led growth during 2021-2023. Reduction in inflation and exchange rate stability, will reduce uncertainties and improve the business planning for the private sector. Improving the private investment regulatory environment, combating corruption, reforming the government SOEs and companies including those of the security forces will enhance competitiveness leading to higher economic growth. Technical assistance from international organizations like the World Bank Group and African Development Bank will support the government in building a sustainable private sector able to attract investments and support the creation of jobs. Technical assistance will also cover the regulatory regime and trade environment including SMEs development strategy, promoting PPPs and sector-specific diagnostics such as agribusiness. The AfDB support to value chains and youth employment will also enhance the role of the private sector to contribute to the economic growth.

6. FOSTERING INCLUSIVE AND SUSTASINABLE ECONOMIC GROWTH: PILLAR 2

6.1 Productivity and Growth in Agriculture

Situation analysis

Agriculture is the most important sector in the economy of the Sudan. It accounts for about 30 percent of GDP, employs an estimated 43 percent of labor force, constitutes the foundation of for many SMEs, it is also an engine of growth for other economic sectors such as trade, industry and transport, and a key source of foreign exchange generating about 55 percent of total exports proceeds.

The majority of Sudan's population is rural; two-thirds (66 percent) of the population lives in rural areas, where the main livelihood source is agriculture. Rural population who depend on agriculture, crop and animal husbandry, accounts for 47 percent. Agriculture is also common among the poor, poverty rates among agricultural household is significantly higher than poverty rates of non-agricultural households; at least 39 percent of the total income of the rural poor accruing from agriculture compared to 31 percent for the rural non-poor18. States with highest dependence on agriculture as a major source of livelihood, either crop farming or raising livestock, have the highest rates of poverty in the country. About 69 percent of the population in Central Darfur state (the poorest state in Sudan), 63 percent of the population in each of South and East Darfur states (among the poorest six states), and South Kordofan (the second poorest state in the country) depend on agriculture as a major source of livelihood19 . As such agriculture holds great potential for poverty reduction in Sudan.

Sudan's agricultural sector includes crop, livestock, fisheries, and forest production. The crop sector is characterized by three systems of production, irrigated, mechanized and traditional agriculture. Most production systems are related to poverty.

Irrigated agriculture is practiced along the Nile and its tributaries. It lies mainly within the Nile Basin, in the Central region, and Northern region. There are large scale irrigation schemes, with an average tenancy of about 15-40 feddans, mainly using gravity as the main form of irrigation, and small-scale irrigation practiced by individual households along the banks of the Nile and its tributaries using pumps. Irrigation constitutes about 6 percent of the total crop area in Sudan, and produces about 17 percent of the total production, mainly cotton, wheat, sorghum and groundnuts. The level of poverty in the regions where irrigated agriculture is practiced (mainly Central and Northern regions), is moderate to low. However, with the deterioration of the agriculture schemes in Central and Eastern Sudan, the yields, though much higher than in other types of agriculture, are showing a declining trend signaling a deteriorating situation where both poverty and food security may increase.

Mechanized rain fed farming are large schemes distributed mainly to large holders, using tractors and seasonal labor to cultivate rain fed sorghum, sunflower and sesame in the cracking-clay zone in central and eastern Sudan. The sector constitutes 34 percent of total cultivated areas, with average holding of 1,000 feddans, and produces about 27 percent of the total crops in the country. It contributes about 30 percent of the cereals (mainly sorghum) produced in Sudan. Despite its contribution to food security, the land tenure and the investments arrangements under which this sector operates are loose in terms of environmental governance system causing serious environmental damage, and it is a major cause of grievance of the local population.

[18] World bank Sudan: Agriculture productivity and poverty in rural Sudan-June 2019
[19] 2014/15 National Household Budget and Poverty Survey (NHBPS)

Traditional rain fed system is composed of small family units farming from 2 to 50 hectares for both income and subsistence, using little or no inputs, and all the operations are carried out manually. it employs the greatest share of the population. The sector constitutes close to 62 percent of the total area under crops in the country, it produces close to 60 percent of the total cereals, mainly sorghum along with millet, and groundnuts. This type of farming is found throughout the country, but it predominates in the western parts of the country, in the regions of Darfur, and Kordofan with the highest poverty rates in the country. Farmers engaging in traditional rain fed agriculture usually have small numbers of livestock and acacia trees in their fields to produce gum Arabic.

The gum Arabic belt extends in an area of 520,000 km^2 that accounts for 28 percent of the country's total area covering 13 states, including mainly Darfur, Kordofan, and some areas in the Eastern region and Blue Nile. The belt accommodates one fifth of the human and two thirds of the livestock population. It covers the states with the highest poverty rates (and to a lesser degree states with moderate poverty rates) in terms of area. Gum Arabic produced in the belt contributes about 7-12 percent of agriculture crops exports, (Sudan is the world's largest exporter of raw gum Arabic), but with much higher potential, after it was considered by CODEX as food additive and approved for being prebiotic (classification E414), and believed to have considerable health benefits. Gum Arabic is a main source of livelihood and food security of the population in the belt. It contributes 15–25 percent to the household income. It supports the farming families during the dry season prior to rains. In addition, the belt provides the population with 80 percent of energy requirements, around 1.2 million tons of charcoal and 186,000 m^3 firewood wood fuels of commercial use. It produces 7,000 m^3 of wood for building, railway sleepers, bridge timbers, furniture, works of antiques and, artistic forms. It also produces 80,000 kantar of non-wood products for food, fruit medicinal plants, fibers, dyestuffs and beeswax[20]. It is a grazing and browsing ground for livestock. Gum Arabic trees have valuable environmental benefits. They are the defense against desert creep. Forests of gum Arabic also play a significant role in soil conservation, soil fertility and protecting soil from erosion as well as serving to protect the environment in general.

About 90 per cent of Sudan's livestock is owned and managed by pastoralists, and agro pastoralists farmers. Patterns of movement is seasonal migration along migratory corridors. The quality of grasses, accessibility of water, and security conditions are the factors that determine pastoral seasonal mobility. Most of the livestock production is in the poorest and most war affected areas, constituting close to 60 percent of livestock numbers. Almost half the population (46.0 percent) live in households that owns livestock[21]. The poor are more likely to own livestock, as livestock is often utilized as a buffer for the poor against low crop yields and crop failure.

Table 6.1: Systems of agricultural production, main crops and poverty by region

Region	System of agricultural production	Food crops	Cash crops	Main crops	Level of regional poverty
		Season 2017/2018	Season 2017/2018		
Central and Northern (Gazira, White Nile, Sennar, River Nile, White Nile, Northern	Mainly Irrigated	24%	29%	Wheat, cotton, sugarcane, Sorghum	Low
Blue Nile and South Kordofan	Mainly mechanized	24%	1%	Sorghum and sesame	High
Darfur and Kordofan (except mechanized South Kordofan)	Mainly traditional	34%	57%	Sorghum, Groundnut, Millet, Gum Arabic	High
Eastern Sudan (Red Sea, Kassala, Al Gadareief)	Irrigated and mechanized	18%	13%	Sorghum, Sesame, Sunflower	Moderate

Source: Compiled by author from the data of the Ministry of Agriculture and Forestry; Agriculture Statistics Directorate (in Arabic) and the NBHPS 2014/15uuu

[20] Figures based on Annual 20th Conference of Forests, March 2014.,

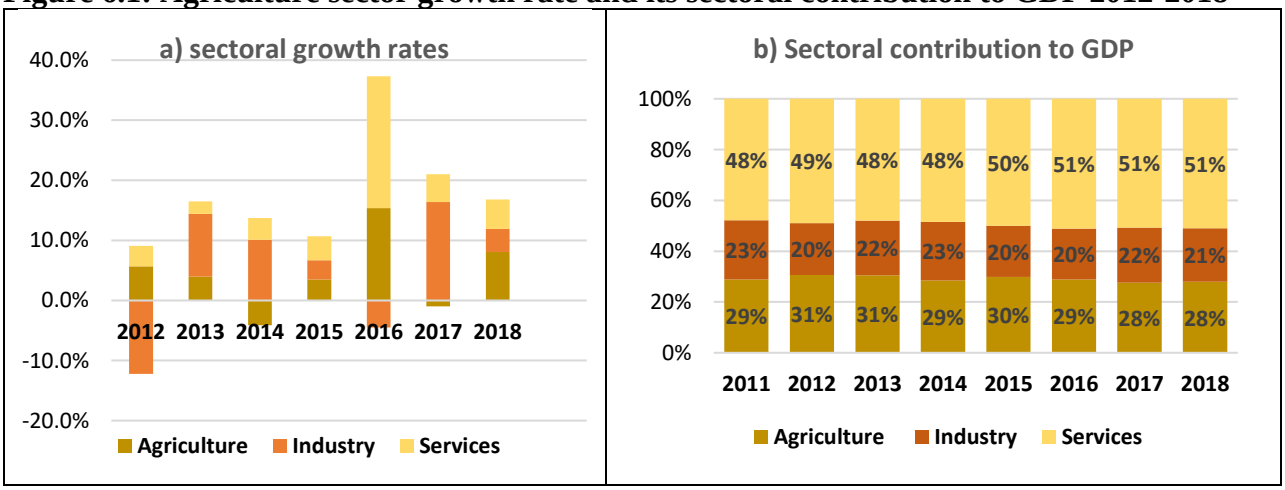
[21] 2014/15 National Household Budget and Poverty Survey (NHBPS)

Sudan's fishery sub sector is composed of inland and marine fisheries. Inland fishery activities centers around the River Nile and its tributaries, and man-made lakes on the River Nile. The inland fisheries sector in Sudan represents an important source of livelihoods for individuals and communities, as well as a potential means to enhance food security in the country. Annual per capita fish consumption in Sudan is exceedingly low, at approximately 0.95 kg per year compared with the African average of about 10.7 kg per year and the Near East and North Africa average of 12 kg per year[22]. Fishing communities are some of the poorest and most neglected communities in Sudan, even in states with the low poverty rates. Marine fisheries in Sudan are mainly from the Red Sea, one of the poorest states in the country. It is largely coastal in nature and artisanal, with the use of traditional gear, and fishing crafts.

Forests create considerable livelihood opportunities for Sudanese communities. A bulk of the resource base falls within the semi-arid zone classified as one of the most vulnerable areas. and a Gum Arabic is a major source of livelihood, and Sudan is the world's largest exporter of raw gum Arabic but has room to greatly improve productivity. Other production items from forests include wood for building, railway sleepers, furniture, fruit medicinal plants, fibers, dyestuffs and beeswax.

Despite the tangible role of agriculture in Sudan, and its vast resources that offers opportunity for agriculture to take lead in the country's economic growth and livelihood improvement, agriculture is performing far below its potential. Sudan, during the oil boom (2000-2011) was heavily reliant on the oil sector and missed the opportunity to build the foundations of a vibrant non-oil economy, by investing the oil money in agriculture. Even after the loss of oil due to South Sudan secession, agriculture performance was far below its potential. This is reflected by sluggish growth and the declining share of agriculture to GDP. Agriculture experienced volatile growth rate, ranging from 15.4 percent to negative -15.2 percent during 2011 and 2018. The Share of agriculture in Sudan's GDP has been declining to nearly 30 percent of GDP, compared to as high as 42 percent on average in 1992-1995.

Figure 6.1: Agriculture sector growth rate and its sectoral contribution to GDP 2012-2018



Source: Central Bank of Sudan Annual Reports

The trend of dismal agriculture spending continued even in the post oil period as reflected in the table below. Sudan expenditure on agriculture development; both at national and states levels, averaged only 8 percent of total development spending during the last six years (2012-2018). If current spending is added, the ratio of expenditure on agriculture as percent of total public spending will be much less than the figures below. This rate of agriculture

[22] FAO; Sudan; Livelihood of small-scale fishers along the Nile River in Sudan; 2017

spending in Sudan is below the African Union Comprehensive Development Program for African Agriculture (CAADP) whereby African governments have agreed to spend a minimum of 10 percent of their national budgets on the sector. The public spending on agriculture development as percent of total development spending is also declining over the last years as shown in the table below.

Table 6.2: Actual public spending on agriculture development (federal and states) 2013-2018)

	2013	2014	2015	2016	2017	2018
Public spending on agriculture development in million SDGs						
Irrigated sub sector	173.3	447.7	666.1	411.4	381.0	830.6
Rain fed sub sector	237.3	240.7	54.9	186.7	281.7	111.3
Livestock sub sector	16.3	40.7	78.3	75.4	209.9	97.4
Agriculture services sub sector	29.5	50.0	91.6	368.7	103.6	211.4
Total agriculture development expenditure	456.4	779.1	890.9	1,042.2	976.2	1,250.7
Total development expenditure	6,669.9	9,364.2	9,908.1	11,327.4	10,684.5	16,859.0
share of sub sector in total agriculture spending						
Irrigated sub sector	38.0%	57.5%	74.8%	39.5%	39.0%	66.4%
Rain fed sub sector	52.0%	30.9%	6.2%	17.9%	28.9%	8.9%
Livestock sub sector	3.6%	5.2%	8.8%	7.2%	21.5%	7.8%
Agriculture services sub sector	6.5%	6.4%	10.3%	35.4%	10.6%	16.9%
Public spending on agriculture development as share of total public spending on development						
Total agriculture	6.8%	8.3%	9.0%	9.2%	9.1%	7.4%

Source: Compiled from the actual sectoral development expenditure –Ministry of Finance and Economic Planning

Within agriculture, meagre resources are spent on traditional and livestock subsector. Despite inclusion of important expenditures items for livestock and traditional agriculture, like improved inputs to farmers in rain fed areas, technology transfers, and controlling animal diseases, but these items receive zero or little expenditure allocation.

Key challenges

a) Low productivity

The major problem that Sudan is facing in agriculture is the low productivity. Agricultural productivity is lying below peers in the African continent. The low agricultural productivity has been of highest concern; due to its direct consequence on the performance of the economy in general and specifically on livelihoods of the poor. The table below indicates that productivity of two main crops -sorghum and sesame in Sudan, is far below the level achieved in Ethiopia, Nigeria, and Tanzania: major producers in the continent of the two crops.

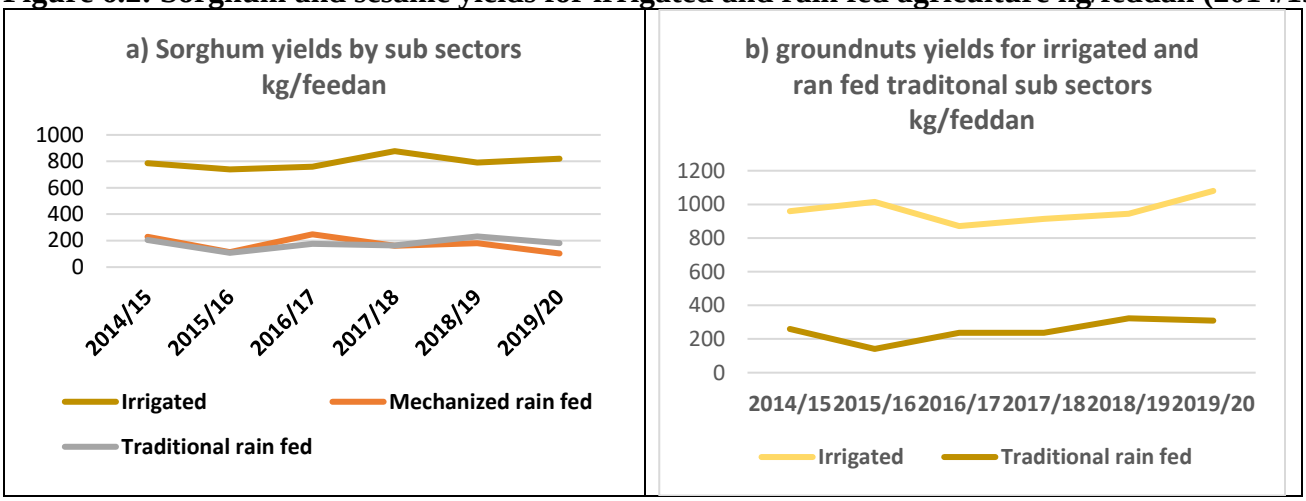
Table 6.3: Yield comparison with main producers in Africa for sorghum and sesame kg/hectare (2018)

	Sorghum	Sesame
Ethiopia	2698	726
Nigeria	1120	1062
Tanzania	1023	701
Sudan	697	282

Source: FAOSTAT

Within agriculture, there is a clear disparity between yield in irrigated agriculture and traditional rain fed agriculture. Though yields are low in general for the country, however comparison of the irrigated sub sector with the traditional agriculture sub sector, reveals the superiority of irrigated agriculture. Sorghum and groundnut yield in irrigated agriculture are not only higher than traditional rain fed agriculture but more stable or have slightly increased over the past five years.

Figure 6.2: Sorghum and sesame yields for irrigated and rain fed agriculture kg/feddan (2014/15-2019/20



Source: Ministry of Agriculture and Forests

The low use of inputs particularly fertilizers, pesticides improved seed varieties is a major factor explaining low agricultural productivity. For example, in 2016 the average fertilizer use per hectare of cropland in Sudan was 7.2 kg, which is far behind the average for Sub-Saharan counties of 16.2 kg, for the same periods[23]. The majority of the farmers use the seeds retained from the previous year or purchased locally from the market, which is characterized by low and decreasing productivity from year to year. Only between 20 percent (for sesame) and 36 percent (for sorghum) of households spend any money on pesticide or fertilizer for the four major crops (sorghum, millet, sesame, groundnuts). The situation is even worse for the poor; fertilizer/pesticide use is significant lower for the poor compared to the non-poor as the poor are one-third less likely to use fertilizer/pesticides compared to the non-poor.[24]

Research and extension are vital to improved inputs, which is necessary for developing the input market, but can also improve farming practices. However, research is underfunded. The government only spends about 0.2 percent of its total development public spending on research, or 2.7 percent of total agriculture development spending during the last 6 years (2012-2018). This trend has been declining over the last two years. Most of these resources are spent on irrigated farming.

Table 6.4: Actual development spending in research (federal and states) in SDG million

	2013	2014	2015	2016	2017	2018
Research development spending (crops and livestock)	7.6	15.0	27.5	50.6	29.2	21.7
Research development spending in percent of						
Total agriculture development spending	1.7%	1.9%	3.1%	4.9%	3.0%	1.7%
Total development public spending	0.1%	0.2%	0.3%	0.4%	0.3%	0.1%

Source: Compiled from the actual sectoral development expenditure –Ministry of Finance and Economic Planning

As a result, the equipment and infrastructure of the 35 research stations of the Agriculture Research Corporation, Livestock Research Corporation and Fisheries Research Stations, deteriorated, and operating expenses to conduct research activities are almost non existing. The research stations lost most of their qualified cadre, and training opportunities abroad for researchers are limited creating a knowledge gaps especially in the areas of

[23] World Bank Data

[24] 2014/15 National Household Budget and Poverty Survey (NHBPS)

biotechnology, genetic engineering, and climate change. The Central Veterinary Research Laboratory in Soba is the only vaccine manufacturer present in the country and, due to limited capacity, can provide only 20 percent of the needed vaccine doses. Moreover, the research-extension-farmer links have been weak and usually technologies developed by research do not find their way to farmers' fields. Agriculture inputs, mainly fertilizers and pesticides are imported. Supply shortages, poor timing of delivery, poor quality, high prices, poor distribution channels in rural areas are all challenges facing the market of the inputs. Small farmers in rain fed areas have limited opportunities to access these inputs, which are expensive for smallholder farmers to buy. Improved seeds are used mostly in irrigation schemes and by some farmers in the semi-mechanized rain fed sector, while their availability in the traditional rain fed sector remains negligible25.

b) Access to markets

Challenges facing access to markets include limited roads connectivity especially feeder roads, poor markets infrastructure and storage. Sudan, despite secession of its Southern part, is still the third largest country in Africa. Despite large investments on roads during the last years, but Sudan's road network is generally limited, given the vastness of the country. Paved roads extend only between major centers. Feeder roads linking rural areas to the main paved roads are lacking noting the need to use them during the rainy season, particularly in areas characterized by clay soils.

The dispersed smallholder basis of agriculture in Sudan is characterized by poor information about prices and market opportunities. Poor information, especially for the country's numerous smallholder producers, leads to higher transaction cost, and information asymmetries that increase risks and shift bargaining power that often disadvantage producers. Most of the markets for crops and livestock are managed by local governments. Most of them are simply open space; they lack a favorable market infrastructure (holding grounds, and auction yards), reliable market information (communication systems and standard grades and weights) and a favorable institutional environment (government policies, and regulations). The market's authorities focus mainly on revenue generation rather than market development. These poor marketing arrangements created a long chain of middlemen that did not help in transferring higher prices for the producers creating a disincentive for production. Crops and livestock change hands several times between the initial point of purchase and the final point of sale.

Good quality storage facilities to stabilize incomes between seasons, and to act as mechanisms to minimize post-harvest losses are limited. This is particularly true because crops are produced on a seasonal basis with only one harvest a year. Storage takes place at the trader, farm, and household levels throughout the country, but Sudan has limited capacity and poor quality of warehouses. Aside from the government two large concrete silos, built by the Agricultural Bank of Sudan in Gadaref (100,000 MT) and Port Sudan (50,000 MT), built in the mid-1960s, and the modern warehouses of more than 500 MT; the other structures are of less than 500 MT storage facilities that includes mainly underground pits, earthen pot, and small warehouses. Major constraints facing storage facilities are distance from the markets, fixed working areas with no platforms that would assist in receiving and dispatching cargoes, inadequate record keeping, and warehousing systems, inaccurate weighing, stacking, poor storing hygiene, inadequate pest control, and inadequate fire safety. The limited on-farm storage facilities in traditional farming areas, are inefficient. Smallholder farmers loose up to a third of the food they produce because of inadequate storage systems, resulting in reduction incomes for farmers26. Cold storage, besides being inadequate, they also face the problems of lack or interruption of power supply.

[25] FAO; Sudan; Special Report2019 crop and food supply assessment mission 2019-February 2020

[26] UNOCHA and WFP: Second Forum to curb post-harvest Losses-January 2020).

c) Credit

The agriculture credit is generally affected by the problems facing the banking sector in the country. Sudan has the lowest financial inclusion in Sub-Saharan Africa, with only 15.3 percent of adults (aged 15+) having a financial account[27]. The banking sector is fragile and undercapitalized. Twelve banks (accounting for 25 percent of banking system capital) have capital adequacy ratios below the regulatory 12 percent minimum[28]. The banks geographical coverage is weak especially in areas where there is high dependence on agriculture as a source of livelihood. The five states of Darfur have 8 percent of the total branches of banks in the country; the three states of Kordofan have only 9 percent of the total branches, while about 43 percent of the branches are in Khartoum state alone.

Despite the relatively high contribution of the agriculture sector to total GDP in Sudan, access to credit in the sector is limited. The percent of credit to agriculture amounts to about 17 percent of the total credit (on average during 2015-2018). This share of formal credit for agriculture is extended almost exclusively to irrigated agriculture, the large-scale mechanized farmers, and large–scale livestock producers, leaving very little for traditional farmers. Most of this credit is for current operations. Commercial banks do not lend to traditional farmers because: (i) traditional farmers are risky clients for credit because of their uncertain environment, low yields (even in good years), remote location, and inadequate infrastructure for marketing and support services, (ii) the land policy fails to provide smallest farmers with long-term leases and hence a formal security of tenure to be used as collateral for borrowing.

Therefore, smallholder farmers—for most part, are without access to formal credit and rely on local money lenders and village traders with high interest rates. The village traders monopolize the produce at a low predetermined price before the harvest. About 90 percent of the borrowed money is reported to be from friend and other individuals like money lenders, while only 3 percent was reported to be borrowed from institutions. About 62 percent of the households who borrowed money indicated that the purpose was to meet consumption needs use for the borrowed money, while little is used for production activities like buying agriculture inputs (6 percent), working capital (6 percent).29

d) Livestock

Livestock that accounts for half of total agricultural GDP contributes significantly to exports but livestock exports are dominated by live animals. Developing livestock and increasing export of meat instead of live animals is a strategic government objective. During the period 2014-2018 livestock export ranks second after gold reaching USD 833 million or 23 percent of total exports, which are mainly live animals (US$ 782 million) while meat export was only US$ 51 million. Saudi Arabia accounts for over 90 percent of Sudan's export of live sheep and goats, whereas live cattle and camels are exported mostly to Egypt. Neglecting inspection and meeting international health standards result in many consignments of live animals being rejected and returned to Sudan after arrival in Saudi Port of Jeddah for health reasons, raising serious concerns about the infrastructure and process of livestock quality standards. The bulk of livestock production comes from small pastoralists and agro-pastoralists and these producers could benefit from investments in health program of vaccination and inspection for livestock exports of sheep and investments in quarantines. Processing of meat and meat products for exports would be desirable as a higher value-added activity. Despite the nearby market of meat in the Gulf countries,

[27] World Bank Global Findex (2014)
[28] IMF-Sudan: 219 Article IV Consultation-March 2020
[29] 2014/15 National Household Budget and Poverty Survey (NHBPS)

which is trading in total imports of meat and meat preparations of about US$ 5.3 billion per year, Sudan exports live animals. Livestock receives meager resources and investments are needed to build the capacities of processing meat and meat products.

e) Land Tenure

The current land tenure system represents a major bottleneck to Sudan's agricultural and rural sectors for sustainable development, especially in rain fed areas. The 1929 Land Ordinance gave freehold registered ownership of agricultural land to only 1 percent of total land along the Nile, whereas the 1970 land act stipulates that the rest of the land in Sudan is owned by the government, which only gives lease and usufruct rights to individuals for use of land resources. The majority of subsistence farmers in rain fed areas, operate under the system of customary land tenure, which assures usufruct rights without a land title. The lack of land title limits access to credit for the vast majority of farmers, who cannot use land as collateral; does not encourage private sector to invest in areas with unresolved land tenancy problem; and prevents farmers from sustainable use and long-term investment in developing the land.

Strategic direction

The overall strategy of the government is to achieve an inclusive and sustainable socioeconomic development led by a robust agricultural sector that supports small producers, increase production and exports, and employment particularly for youth and women, and reduce poverty. The major direction of the agriculture strategy is to: (i) transform agriculture from subsistence to dynamic commercial sector by strengthening systems, policies and institutions to improve access to productive inputs, technologies, financial services markets, and reforming land holdings in favor of small producers, (ii) agriculture development will nurture sustainable natural resource use, by being sensitive to issues of combating desertification, preserving biodiversity, and addressing the climate change challenges, (iii) increase the value added of the agriculture production by encouraging small scale industries, (iv) support agriculture in rural areas with social services to discourage migration, (v) empower a special role to be given for livelihood of women in rural areas especially in food security and enable youth to engage in agriculture investment, and(vi) implement an agriculture policy that is inclusive, and participatory.

a) Improved Inputs supply

There is high potential to increase production by increasing yields, substantially. Irrigated crops can be improved by margins ranging from about 50 percent to over 140 percent and higher yield potentials have been identified for rain fed crops with potential margins ranging from two-fold to over five-fold FAO. 30 Cotton yields tripled nationwide in one year (2010/11), and in three years increased by five and a half times, with no improvements in irrigation but was the product of new varieties. When the government made some investments in feeding programs, animal treatments, vaccinations and disease surveillance, exports of livestock more than doubled.

Therefore, investment will be made in research, technology transfer, and improved inputs supply. Support will be given to the rehabilitation of the infrastructure and equipment of the Agriculture Research Corporation to enable it to cover wider agro-climatic zones in the country, cope with the increasing demand for improved technology as well as with the new technologies globally developed such as biotechnology, genetic engineering, natural resource management and climate change. Support to research will be given to increase varieties like developing drought resistant varieties and genetic improvement and to extend research activities into pests, plant diseases, and efficient management of the soil. Support will also be given to the Livestock Research Corporation by rehabilitating its outdated equipment and providing it with facilities and resources to increase production of

[30] FAO-Sudan: National Investment Profile –Water, agriculture and energy-2015

vaccines and reagents and improve research in animal production and processing and aquaculture. Research activities will be supported, in collaboration with international partners, to promote climate-smart agricultural production and address climate change issues and biodiversity.

Support for technology transfer is crucial to farmers and livestock owners. This will be achieved by rehabilitating and developing demonstration farms to train farmers on technological packages, expanding and improving farmer's schools, knowledge platforms and raising of awareness of the farmers in best farming practices. Emphasis will be given to the establishment of fruits and vegetables demonstration farms and post–harvest management. Different means will be used to disseminate price and market information including radio and mobiles

Linkages between research and extension will be improved to successfully transfer the technologies developed by the research to the farmer's fields including post-harvest management. An intensive training will be given to the staff of research and extension institutions to improve their capacities.

The government will strengthen the Plant Protection Department to combat national pests and will support regions and states plant protection departments to fight field pests. Surveillance and fighting of locust will be strengthened using drone technology and cooperation with the relevant regional institutions and neighboring counties will be promoted. Environmental consideration will be given to the dumping of pesticides.

b) Access to Markets

Linking production areas with roads is a major policy direction of the government. Rural communities will be connected with a transport network including feeder roads that links farmers to major markets and reduce the transaction cost and ensure access all the year. The Juba Peace Agreements stipulated that the Reconstruction Funds for the war affected areas, with strong financial support from the federal government, will give priority to connecting these areas with roads to enable access to markets.

Inputs availability, which is vital for the transformation of agriculture especially for small producers will receive a top priority. The availability of certified seeds and other agricultural inputs will be increased, with timely delivery to farmers. Linkages between the council of seeds, research stations, and seed supply companies will be strengthened and the project of "Seed Supply for Rain fed Farmers' will receive more resources. The government will support localization of the input industry (fertilizers, pesticides, improved seeds, jute, and plastic sacks) to increase their supply which is constrained by shortage of foreign exchange, considering the economic viability. Laboratory Veterinary Research Center in Soba will be improved to bring the production of vaccines to the full national requirement, and the states will be supported to make sure that vaccination campaigns are carried out in the most effective and efficient way.

Assistance will be provided to farmers to reduce crop losses due to inappropriate storage. The program of providing hermetic bags, an effort initiated by WFP to reduce harvest losses for the benefit of smallholder farmers will expanded. Support in terms of policies and regulations will developed to encourage cold stores and cold storage transport means. Capacity strengthening to farmers and agricultural institutions in post-harvest management will be provided to reduce post-harvest losses and enhance productivity and resilience.

c) Credit

The government will raise the capital of the Agriculture Bank of Sudan and the bulk of its financial resources will be directed to small producers. More funding from the Bank will be directed to medium- and long-term capital

investments, with emphasis of directing funding to new technologies. Small farmers could be grouped and trained on accounts keeping increasing their chances of access to credit

The government will strengthen the system for insurance in general and also against natural disasters to protect the livelihood of small producers. The government will cooperate with the African Risk Capacity Agency, specialized in addressing disaster risk management when disaster strikes to protect the food security and livelihoods of the vulnerable populations. Resource allocation will be increased for the Microfinance Guarantee Agency of the Bank of Sudan that provides the required wholesale guarantee to small and medium size institutions operating in the field of microfinance in the Sudan. The government will also support the Fund for Risk Prevention for Agriculture Insurance to encourage insurance companies to extend their services for small producers. The government and the other concerned authorities will initiate campaigns of insurance awareness in rural areas. The government will also map possible risks in the different geographical areas.

The Microfinance institutions will be encouraged to deliver microfinance to small producers. The use of mobile technology to reach remote areas will be used in the microfinance, benefiting from the current experience of Darfur Umbrella Microfinance Institution, funded by UNDP.

d) Production Infrastructure

Rehabilitation of the irrigated schemes infrastructure including removal of accumulated siltation from the irrigation canals will be carried out. Modern technology will be used for land leveling, and a comprehensive study to introduce fodder production and livestock in irrigated agriculture will be undertaken. Other infrastructure of the irrigated schemes particularly Gezira, like internal ginneries, stores, workshops, which were destroyed over the last years, will be rehabilitated.

Rain fed farmers will be supported with water harvesting infrastructure. Opportunities exist for rain fed farmers in Sudan to increase and stabilize their yields though water harvesting. This will require infrastructure for water harvesting, for full utilization of rainfall and seasonal streams outside the Nile Basin, and using groundwater (along with developing drought resistant varieties in areas with volatile rainfall)

Investments will be made in infrastructure related to livestock. Infrastructure for livestock disease surveillance and control and laboratory diagnostic capabilities will be supported, Water points will be established for livestock to improve production and reduce conflict with farmers over water resources. Construction or rehabilitation of sub national government animal hospitals and pharmacies, veterinary laboratories and slaughter slabs and provision of mobile veterinary clinics will receive priority.

e) Rehabilitation of the gum Arabic belt

The government attached a very high importance to the role of the gum Arabic belt in inclusive growth and poverty reduction. The gum Arabic belt suffered massive devastation due an amalgam of factors including, long droughts, climate variability large-scale mechanized farming that clears forests for cultivation, livestock pressure, tree cutting for fuel wood and charcoal, and poor reforestation. To address the situation, the government will undertake a large rehabilitation program of the gum Arabic belt. The gum Arabic rehabilitation is one of the largest projects proposed by the Agriculture Committee in the medium-term plan (2021-2023). In the First National Conference, four recommendations were devoted for rehabilitation belt and promotion of gum Arabic. The government will undertake a comprehensive survey and mapping of the belt to gain better knowledge of the land use. Access to land and land rights will be reformed. The research in gum Arabic will be enhanced to establish its benefits particularly health, and to improve tapping technology and increase quality of gum by better post-harvest methods. Activities will be carried out for rehabilitation of the degraded areas, restocking and

reforestation, community-based forest and range management, crop intensification, and balanced livestock production through integrated adaptive research approach. There will be strong communities' participation in the rehabilitation and management efforts particularly women. The government will gradually move toward gum Arabic industrialization to add value.

f) Institutional reforms

The government will reform the federal ministry of agriculture and livestock and its affiliated corporations and the ministries of agriculture and livestock at the sub national level, being the closet to producers. Capacity building and training of the staff in the agriculture institutions at federal and sub national levels will receive a priority. A comprehensive strategy for the rain fed sector will be conducted to achieve suitable growth and food security from this sector that includes most of the traditional smallholder farmers and livestock owners.

The government will encourage the establishment of agriculture cooperatives, and special consideration will be given to youth cooperatives. This, would help increase bargaining powers of the farmers, increase access to credit, and inputs. The government plans to review all laws and regulations of the agriculture sector to ensure that they will serve the objective of the agriculture plan. These will, include agriculture land use law, water resources law, seeds law, veterinary law, pesticides law, preservation of plants genetic source law, agriculture engineering law, and all environmental laws pertaining to agriculture like range and pasture law, forests law etc.

g) Agriculture transformation and agro-industry

Developing ago-industry is a key part of the inclusive and sustainable economic growth pillar. Following the sharp reduction in oil revenue after South Sudan seceded in 2011, it is inevitable that agriculture and agro-processing have a key role to play in diversifying Sudan's economy. Most value chains in Sudan are in the agriculture sector. [31] Improvements in value chains in agriculture and agro-processing have a potentially important relationship with poverty alleviation. The 2014/15 NHBPS showed that poverty is a rural phenomenon, indicating the importance of agriculture and agro-processing in reducing rural poverty. Despite the evidence of strong potential in certain sectors, investment in value chains faces several constraints related to macroeconomic conditions, institutional and regulatory framework, as well as structural and sector specific constraints as noted above. Addressing these constraints would help unlock the value chain potential for job creation and economic growth.

h) Boosting women and youth employment

As indicated earlier, gender is a cross-cutting imperative for the PRSP. The provision and access to quality employment opportunities, especially for women and youth, is instrumental in achieving inclusive growth and more effective development outcomes. Research shows that increasing female labor force participation to the levels of men could boost annual global gross domestic product. It has also been shown that in societies where women and men are relatively equal, the economies tend to grow faster, the poor move more quickly out of poverty, and the well-being of all—men, women and children—is enhanced. However, in Sudan, women face a range of constraints to join and stay in the labor market and to benefit fully from economic opportunities. At the same time, youth are an asset and instrumental in achieving a large share of the Sustainable Development Goals

[31] Agriculture has quite diversified crop and animal subsectors. These include cereals (such as sorghum, millet, wheat, and maize), oilseeds (mainly sesame, groundnuts and sunflowers), industrial crops (cotton and sugarcane), fodder crops (alfalfa, fodder sorghum and Rhodes grass), pulses (broad beans and pigeon peas) and horticultural crops (okra, onions, tomatoes, banana, citrus, mango, etc.). Sudan is the world's largest producer of gum Arabic. However, Sudan continues to export raw agricultural commodities.

(SDGs), but they need to be equipped with the skills and opportunities required to reach their potential, support development, and contribute to peace and security. The World Bank recently conducted a study (2020) to understand gender- and youth-specific issues can help identify entry points for greater employment opportunities for women and youth in Sudan and shape actions for enhanced growth and sustainability. Based on findings from that study and the government's knowledge of the situation, the government will work closely with all stakeholders on areas that will help promote women and youth employment. These include, boosting access to finance for women, improving the access to and quality of agricultural jobs, combining efforts to build human capital with activities aimed at strengthening agency, identifying and developing marketable skills that increase opportunities for service sector employment and for entrepreneurial activities, and creating an enabling environment that lifts gender-specific constraints. Taking these actions would not only help improve the access of women and youth to employment opportunities, but it would also allow these groups to contribute toward economic growth and poverty reduction in Sudan.

i) Data and information

Data and statistics are essential for evidence-based decision-making they are the most important building blocks for the formulation of agriculture development plans and policies. The government will conduct the comprehensive agriculture census including livestock to provide up to date accurate, comprehensive, and internationally comparable data for agriculture. The increasing challenges of population and livestock growth, demands on limited resources, require the rational use of resources to sustain and enhance productivity and maintain resilient ecosystems. The government will conduct natural resource survey including forestry and pasture to assess the land resources situation to help in preparing the agriculture development plans. A comprehensive soil survey with community participation (for the socio-economic impacts) will be conducted in conformity with the Global Soil Partnership to ensure sustainable soil management in the country. The government will also complete the inventory of lands that are suitable for investments. An agriculture knowledge and information platform will be established linking all actors working in agriculture including the private sector and the civil societies to exchange knowledge and experiences.

6.2 Reducing Poverty through Private Sector Development and Financial Access and Inclusion

Situation Analysis

Years of conflict and economic isolation have disrupted economic activity, market institutions and livelihoods throughout Sudan. A large proportion of the private sector in Sudan is informal due to the breakdown of trust in market institutions and social networks. In the regions that suffered conflict, state government structures are often weak with limited capacity and unable to deliver essential services. An unfavorable regulatory and policy environment combined with weak infrastructure is common throughout the country and more particularly in conflict areas. The absence of a properly functioning and accountable state, and corruption have permeated transactional norms facing the domestic private sector and foreign investors.

Cementing peace through broad-based growth, was an essential part of the 2018 peaceful revolution and the peace dividend expected by citizens following the recently signed Juba peace accord. Following the Juba peace accord, it is essential to provide vital services, employment opportunities, skills and training for many who have lost their livelihoods. This is particularly crucial for the reintegration of ex-combatants. It is also vital for vulnerable groups such as women, Internally Displaced People (IDPs) and the disenfranchised - that have been marginalized during conflict. To ensure that the benefits of growth are widely shared, it is important to address the constraints facing the private sector and adopt measures to stimulate economic activity across sectors. The peace accord is guided

by provisions emphasizing wealth sharing and equitable development and management and distribution of state resources. To ensure that the broader economic growth objectives are met, the private sector is key partner in stimulating economic activity in key sectors and within a wider geographical scope.

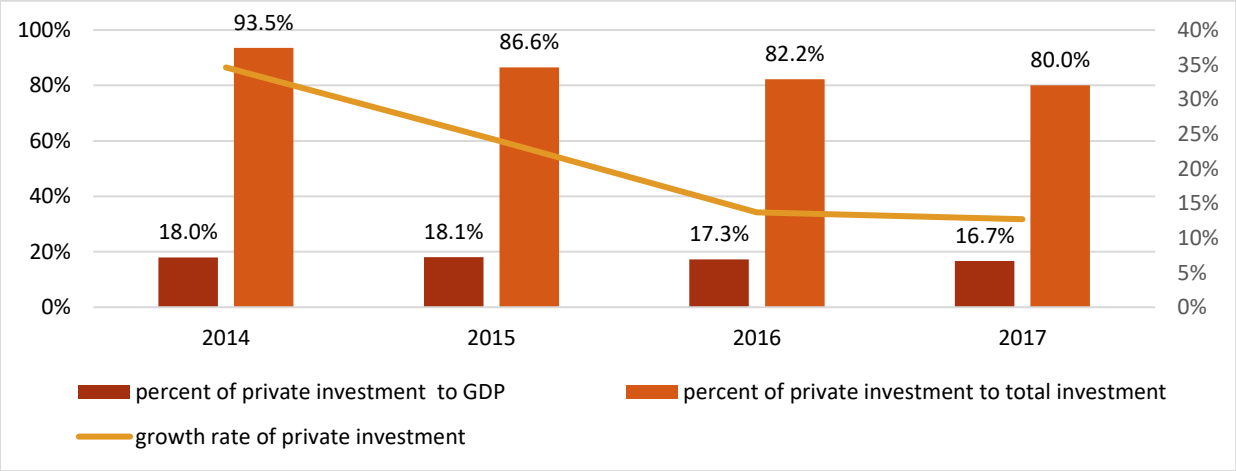
The formal private sector in Sudan is characterized by small and medium enterprises (SMEs) and a few large companies, many of which are state-owned. SMEs account for most private business activity in Sudan and the few large companies that exist are clustered in trade and industrial processing areas, mostly located in Khartoum state, as few other places in the country offer the necessary infrastructure for large-scale commercial activities. According to the 2014 World Bank Enterprise Survey, Sudan has low levels of foreign-owned firms. The average proportion of a Sudanese firms' ownership coming from private foreign investors is 0.8%, compared to the sub-Saharan Africa average of 13%. The resource sectors (oil and gold) have been the primary source of economic growth in recent years, however by nature these are enclave industries. Sustained poverty reduction requires growth that is broad-based —across regions, sectors, and socio-economic classes.

According to the ILO, the estimated number of registered MSMEs in Sudan in 2014 was around 600,000 (ILO-2015). The microenterprises represent 75 percent, small enterprises represent 23 percent and medium enterprises represent only 2 percent (ILO-2015). The ILO report also estimates that formal MSMEs employ less than 1.5 million workers or about 20 percent of the total number of jobs existing in Sudan, compared to 60 percent of jobs created in the informal sector. Further, it implies that many Sudanese workers, and probably MSMEs, operate outside the formal economy.

The informal sector hosts a wide a range of economically marginalized rural and urban communities. Its concentration is uneven but appears in key productive sectors, namely, the agriculture, livestock, mining, trade, service and manufacturing sectors. Despite their presence in key sectors, the informal activities have been obstructive by virtue of their informality, as their prospects to access formal financial sources and other inputs are severely constrained. Moreover, they are non-tax paying entities with no access to public services, and formal skills training opportunities, which narrows their chances to benefit from market linkages, formal contracts or investments.

Private investment performance deteriorated since 2014. Private investments to GDP declined from 18.0 percent in 2014 to 16.7 percent in 2017. The growth rate in private investments sharply declined from 34.6 percent in 2014 to only 12.7 percent in 2017 (Figure 6.3). The share of private investment in total investments declined from 94 percent in 2014 to 80 percent in 2017 indicating crowding out of private investments.

Figure 6.3: Private Investment Performance, 2014–2017



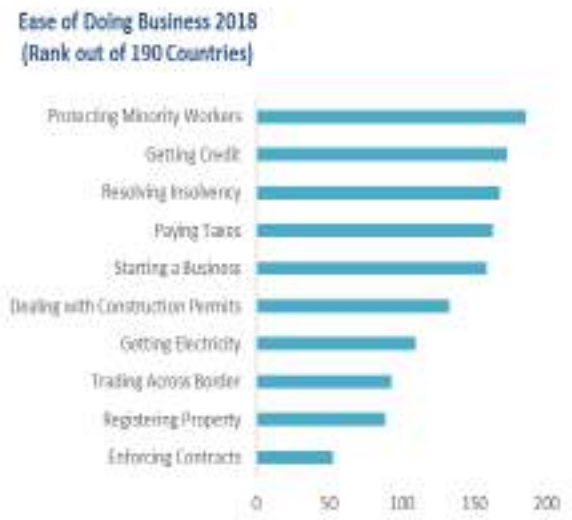
Source: Central Bank od Sudan Annual Reports.

Sudan's nascent private sector faces major constraints to grow and diversify. Constraints holding back growth and investments of private sector firms in Sudan vary from the limiting business regulatory environment, absence of private sector development focused policy and vision, weak public institutional capacity and poor coordination across state agencies and coordination between the states and center. In addition, the private sector is often facing corruption and general economic uncertainty, particularly in relation to the exchange rate and inflation rate and the government's direct and indirect market involvement. These constraints influence the productivity and competitiveness of the private sector in Sudan which remains low compared to Sudan's peers.

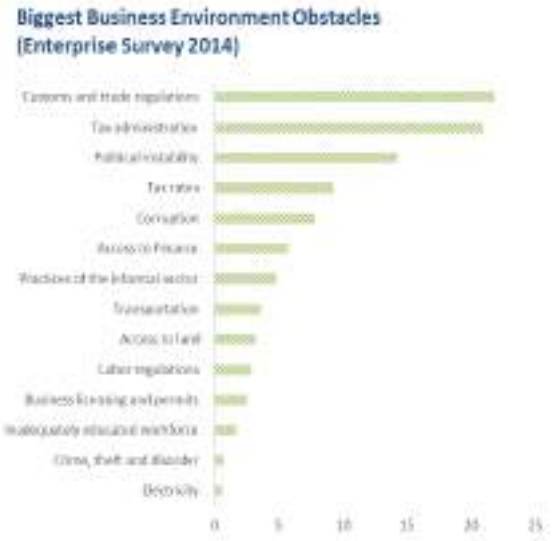
The World Bank's ease of doing business indicators further demonstrate that the institutional and regulatory conditions are limiting for the development of the private sector and attracting foreign investment into Sudan. Sudan ranks 171 among the 190 countries covered in the 2020 World Bank Doing Business Survey, slipping by 9 places compared to its 2019 ranking. (Figure 6.4). Trading across borders, access to credit, paying taxes and protecting minority investors are identified as major weaknesses. As per the most recent Enterprise survey (2014), the most pervasive problems for doing business in Sudan are trade regulations, followed by tax administration, political instability, tax rates, and corruption. Registering business and obtaining licenses require lengthy processes compared to regional averages.

Figure 6.4: Business Climate Indicators in Sudan

Protecting minority workers and accessing credit are the most significant challenges for the private sector.



Customs and trade regulations and tax administration are identified as the biggest obstacles to conducting business.



Source:

6.2.2 Financial Access and Inclusion

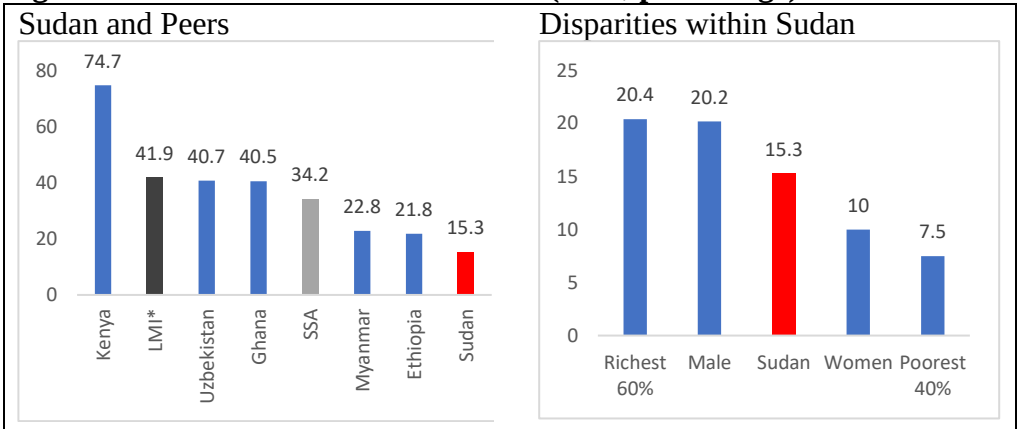
The financial sector in Sudan is relatively small, fragmented and has limited capacity to support the accumulation of productive capital in the public and private sectors. It is dominated by banks and composed of 37 banks, including 8 foreign and 4 state owned banks. Equity injections to recapitalize weak banks have led to the Government fully or partially owning 41 percent of the banks and this has created a conflict of interest. Intermediation—measured as credit to enterprises (both private and public sector) and households—is stagnant and low, compared to peers (10.5 percent of GDP at end-2017, down from 11.9 percent in 2012). Most of the lending goes to the corporate sector, with lending for agriculture receiving the largest share (about 22 percent of lending). Financing for foreign trade represents less than 10 percent of the total lending portfolio. Intermediation—measured as financing to enterprises (both private and public sector) and households—is stagnant and low (8.7 percent of GDP at end-June 2018, down from 9.7 percent in 2016). In general, the cost of financing is perceived as a major constraint for the development of the private sector in Sudan with both the World Bank's Doing Business and the Enterprise Survey (2014) indicating that access to finance is a major constraint facing the private sector in Sudan.

Sudan has one of the lowest levels of financial inclusion in Sub-Saharan Africa. According to the most recent available Global Findex data for Sudan (2014), only 15.3 percent of Sudanese adults had a financial account at a formal financial institution (Figure 6.5). SME access to finance is even more constrained, with only 4.6 percent of firms (2.7 percent of small firms) having access to a loan or line of credit from a domestic bank,[32] well below comparator countries (see Figure 6.6). Access to finance appears to be one constraint to women's entrepreneurship. Findex data (2014) shows that 3 percent of women compared to 5 percent of men borrowed from a financial institution. However, the gender gap is even larger when one looks specifically at access to

[32] Enterprise survey (2014).

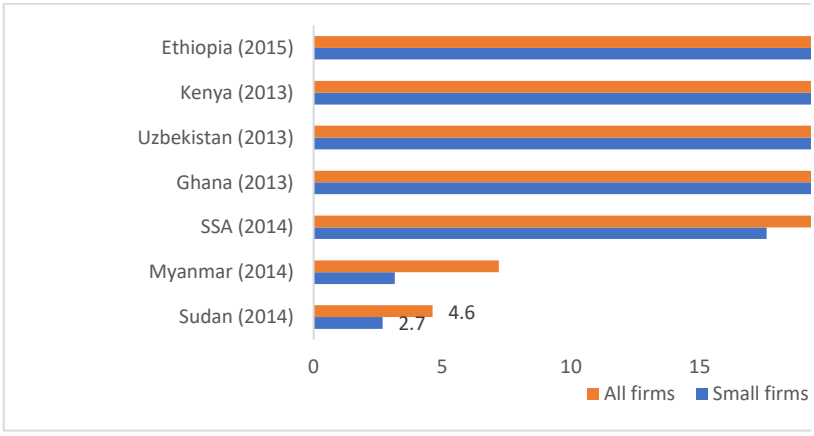
finance for doing business: just 3 percent of women compared to 11 percent of men borrowed to start, operate, or expand a farm or business.

Figure 6.5: Access to financial accounts (2014, percentage)



Source: Findex 2014. World Bank.

Figure 6.6: Firms with a loan or line of credit (percentage)



Source: World Bank Enterprise surveys.

Except for microfinance institutions and the recent expansion of mobile banking,33 the credit infrastructure in Sudan is underdeveloped. This negatively affects the ability to channel finance to the real economy. The constraints for financial intermediation in Sudan are reflected in weaknesses in the lending environment and supporting institutions such as collateral legislation and the judicial system, creditor rights and lack of reliable financial information and credit information infrastructure. These affect small and medium enterprises more than large enterprises since micro, small and medium enterprises (MSMEs) often rely on unsecured and cash flow lending and rely on a lending environment that supports these modes of financing.

6.2.3 Market Institutions

Market transactions in Sudan remain embedded in long-term personalized relationships. Because formal institutions for contract enforcement are weak and largely undeveloped, informal institutions based on

[33] The number of microfinance institutions (MFIs) increased from 24 to 389 between 2013 and 2017, and the number of bank accounts have increased by 49 percent between 2014 and 2017. Mobile money was launched in 2016 and by end-2017, there were already 2.8 million registered users. The authorities will also need to address the significant incentives to informality and a heavy reliance on cash that will otherwise diminish the potential of digitalization and reduce the benefits of financial inclusion.

relationships and personal contacts have emerged that partially circumvent contract enforcement problems. But these institutions are not sufficiently strong to fully eliminate commitment failure. Formal laws and courts are required to strengthen commercial transactions. Other market institutions such as credit bureaus, product quality standards, training certification institutes, food sanitary and standards, export facilitation agencies and a free press that can expose commercial fraud are necessary to create and support viable markets in Sudan.

In the west of Sudan, years of conflict have had a profound impact on what had been one of the most established areas of private activity outside of the country's economic center. Historically Darfur was a trading economy and played a key role in supporting the needs of the agricultural and transport industries both in Sudan and in neighboring Chad, Libya, Central African Republic, as well as central and South Sudan. Darfur has also long been a source of Sudan's key agricultural exports including livestock, groundnuts (raw and processed) Gum Arabic and tobacco. These trade patterns have been severely disrupted by conflict. The market network in Darfur was based on a three-tier system, village and rural assembly markets (primary markets), intermediate town markets (secondary markets) and urban markets in the three largest cities in Darfur, Nyala, El Fasher and El Geneina. Rural markets have been abandoned and traders displaced, disrupting the market and trading networks and infrastructure that were established for generations.

Darfur's production and trading potential has never been fully realized due to poor interstate and intrastate transport infrastructure. This has been further exacerbated by violence and insecurity along established trade routes within the Darfur states and between states. This raised transportation costs and is believed to have contributed to fuel shortages as well as increased isolation of rural markets. Herders also move livestock in smaller numbers to reduce the risks of looting en-route. Together, this pattern has raised the costs of moving livestock to assembly markets for export.

Improving market linkages and institutions is essential to establish trust and contribute towards economic development. This entails the re-establishment of traditional market linkages that have been undermined by conflict and investing in new urban markets that have developed because of conflict. Following the cessation of conflict in Darfur, Blue Nile and South Kordofan, some IDP's will likely return to their traditional villages, however a considerable portion of the IDP population will likely remain urban, given the duration of the conflict and the fact that new livelihoods will have been established in these urban centers. This will undoubtedly alter the urban demographics in the larger cities and provide opportunities for new markets.

6.2.4 Strategic direction

The Government of Sudan recognizes the potential role the private sector can play as a partner, in poverty reduction and translating peace and economic sustainability through broad-based growth across regions, sectors, and socio-economic classes. Improving the investment climate to allow broad-based private sector participation is a first step towards generating a peace dividend. This will require reestablishing or strengthening transparency, trust, effectiveness, and legitimacy in government institutions, both in the states and in the center, backed by consistency in policies and implementation mechanisms that are well coordinated between the center and the state, as well as across state agencies.

Addressing the key constraints faced by the private sector will focus on increasing economic certainty and predictability. This will be followed by lowering transaction costs and building basic infrastructure, and market institutions that will help integrate its disparate markets. In this context, reducing the reliance on executive decrees and strengthening the laws guiding the private sector will provide certainty and protect property rights; reducing the cost structure for manufacturing and agri-business through continuing progress on infrastructure development; particularly electricity and transport, such as rural roads and connectivity with areas that were historically developed but have lagged behind because of conflicts and improving the performance of the banking sector will

allow Sudan to harness the potential of the financial sector to support economic activity, including through greater financial inclusion and access and enhanced digitalization.

Ensuring access to minimal levels of infrastructure services and connectivity is essential to support basic livelihoods of the population. Accessibility to services is reasonable in the economic centers of Khartoum and Gezira areas, however most areas in Sudan, particularly the conflict-affected and rural areas, lack access to affordable basic services and connectivity between regions. This implies the need for some level of investment on life-sustaining infrastructure, particularly in the lagging regions. Beyond access to basic infrastructure, there is a need to address areas where infrastructure deficiencies present constraints to growth in areas with strong economic potential, particularly in agriculture. Weak efficiency of existing infrastructure services and connectivity, even when they are available, hinders overall productivity in the country. An essential trade corridor is the road between Khartoum and Port Sudan that needs to be upgraded to raise the competitiveness of Sudan's exports and better link Sudan with international markets. However, the costs of infrastructure investments are prohibitive for many potential activities and beyond the ability of the government. More strategic prioritization of investments is important. For effective planning to improve access and efficiency of transport services, there is a need for clear division of labor and policy coordination among different levels of governments. More direct participation of the private sector in infrastructure services through public private partnership (PPP) in construction and operation will be encouraged through stronger institutional and legal frameworks. The government conducted a recent revision to the PPP law which is expected to lead to some improvements in the capacity and the efficiency of service delivery. The establishment of PPP units at the national and state levels to manage competitive public-private partnerships to maximize value for money will facilitate the projects. The PPP units will report to the Ministry of Finance, rather than infrastructure line ministries. The development of PPP projects should go hand in hand with reforms of key infrastructure institutions such as the National Electric Corporation (NEC) to allow greater flexibility and competition that can lead to better value for money.

The large presence of government and state enterprises and its adverse impact on private investment will be curtailed. In the financial sector, the loan portfolios of several banks are heavily tilted towards the SOE sector. With a few exceptions, this has led to inefficiencies of investments, highly leveraged SOEs, doubtful portfolio quality in the banking sector, and rising risks of financial sector instability. Moreover, domestic borrowing to finance public investment projects has led to a credit crunch in the private credit market. Similarly, the presence of state enterprises in selected sectors like agro-processing and automobile assembly, sometimes with preferential treatment from the government, have become entry barriers for private investment. Reducing the crowding out of the SOE sector is essential to provide opportunities and resources for the private sector.

The state to move away from being an economic actor to an enabler of the private sector. The policy, institutional and catalytic role of the state will remain important to creating a more competitive environment that will raise competitiveness and productivity. The state will actively work to remove conflicts of interest, including the presence of state-linked but not formally state-owned institutions and state-owned firms. These institutions divert the attention of the state and contribute to concern for governance and policy uncertainty. The state will embrace efforts to improve transparency and accountability of the SOE sector and quasi-SOE sector.

Strengthening the institutional framework to support private sector development will be key to streamlining and accelerating the reform process. Establishing the Investment and Private Sector Development Authority (IPSDA) is a first step towards leading the promotion of investment and support for investors, whereas the Ministry of investment should focus on policy, regulatory reforms and institutional coordination. This would ensure transparency, consistency, and efficiency in the interactions across government, nationally and locally. The vision for IPSDA is to serve as a one-stop-government institution to cater for the private sector and investment facilitation, its needs and addressing the challenges facing the private sector. Previously, this role was distributed among multiple agencies including the Ministries of Industry, Ministry of Investment and Trade, and Ministry of

Social Development and Labor. The dedicated authority will house specialized units, focused on Investment Climate, Public-Private Partnerships, the Micro, Small and Medium Enterprise (MSMEs) and Entrepreneurship Development, and Free Economic Zones. The Ministry of Investment will lead the national private sector development agenda, investment vision and policy framework to achieve key poverty reduction and state level development and investment targets. Public-private dialogue (PPD) forum will be deployed to ensure full stakeholder alignment and coordination. A target was set to enhance its Doing Business Index ranking by 20 points in the coming 4 years from its current rank of 171. The streamlining of the investment climate agenda under IPSDA will help coordinate and monitor reforms in the arears of business registration, dealing with licenses and permits, registering property and others. Attention will be paid on the implementation of the vision for the IPSDA to strengthen the institutional framework to support the private sector in Sudan.

Addressing the high cost of doing business is necessary to raise competitiveness and contribute towards reducing corruption. Associated with this, a move away from a regulatory culture of administrative discretion to one based on the rule of law. This entails strengthening legislative oversight by the Legislative Assembly (once formed), legislative development based on hearings and stakeholder input with expert guidance from the government. As laws become more important, this will help limit administrative discretion and provide clarity and predictability to the private sector. The PPD forum is an important venue for developing legislative proposals that are consulted with the key stakeholders.

Developing a unified SME and Entrepreneurship policy and strategy to support and promote small and medium businesses and start-ups is necessary. A special focus to create enabling conditions for women and youth entrepreneurship and fostering the capacity of women entrepreneurs and business owners has a significant potential to reduce poverty and inequality and will be highlighted in MSME development policies in Sudan. Local MSMEs and entrepreneurs in Sudan require support in many areas to become competitive in domestic and export markets. These include facilitating their access to markets, technology, finance, knowledge, skills, management, strategic partnerships, shared infrastructure, and linkages to export value chains. A coordinated and unified approach will also be needed to address the challenges of informality, with informal sector accounting for most jobs in Sudan.

Increase financial inclusion and improve access to finance for SME's. Developing a National Financial Inclusion Strategy that articulates the government's vision to improve formal access to financial services by the populace will build confidence and trust in the banking system this will also foster political commitment and coordinate public and private sector actions in the banking sector to enhance broader access to financial services and opportunities. The government will leverage digital payments to extend cost-effective access and drive access through government payments, such as social payments under the family support program and other similar programs. Policy reforms can help facilitate increased competition and improved quality of services for users of financial services such as the SME's, microfinance and the agriculture bank of Sudan. Enhancing consumer protection as well as raising awareness through financial literacy will empower consumers and strengthen positive financial behaviors.

Improving access to financial services requires improved infrastructure and better managed banks. Traditional farmers are risky clients for banks due to high transactions costs, high information costs, lack of collateral, low yields, remote locations, and inadequate infrastructure. Providing financial services to rural households and agribusiness in poor and marginal rural areas remains a challenge throughout the country. The lack of transport and telecommunication infrastructure lowers the returns to rural farmers and restricts their ability to service and repay loans. Infrastructure constraints increase the costs of providing financial services and banks compensate by imposing higher service rates. Effective management of non-performing loans (NPLs) and the development of the credit information infrastructure will be highest priority at the Central Bank. The Government should also minimize crowding out of the private sector especially SMEs.

Supporting diversification on areas of comparative advantage. Diversification in Sudan will be central to economic growth. Moving up the value chain into manufacturing for key commodities is important because of the learning and skills upgrading potential it provides and value addition in exports. There are limited possibilities for Sudan to be competitive unless non-labor costs are relatively lower and/or product output prices are also higher. Agro-industries and food processing, including oilseeds, milling, juice processing - is relatively competitive within Sudan and may be competitive outside of Sudan. Its productivity will be enhanced by improving the efficiency – quality, cost and delivery- of supply chains to the food sector and linkages to farmers. The same can be said for key export products such as Gum Arabic, Livestock, Dairy products, and other key commodities such as oil seeds (groundnuts, sesame).

Sudan's growth has traditionally been concentrated in a few larger cities, particularly in Khartoum state. Successive waves of drought, desertification and conflict drove a large portion of the country's population to the Khartoum metropolitan area, which now contains over 20% of the population. While this agglomeration likely improved the prospects for firms in the capital, it did not serve to stimulate growth in lagging regions due to Sudan's vast geography, compounded by poor infrastructure, taxes levied en route, and poor market institutions which amplify economic distance. The benefit of further concentration in Khartoum may be limited, given overstretched infrastructure and regional inequality.

To create more dynamism in lagging regions, Khartoum will be leveraged as a source of market demand, ideas, and investment capital. Three policies will help develop the lagging regions and include: (a) efficient infrastructure and logistics, and an end to interregional taxation and administrative barriers, will help create linkages between sources of demand and supply (particularly agribusiness and mining); (b) a better investment climate in lagging regions will help ensure that a productive response is not hindered by local regulatory or administrative burdens or a lack of finance; (c) the risk of transactions at great distance can be lowered through institutions such as market information systems, quality and food safety systems.

6.3 Infrastructure Services for Recovery and Growth

Energy Sector

Situation analysis

Access to modern forms of energy has been widely recognized as an essential prerequisite for promoting economic growth, expanding employment opportunities, broadening social services, and reducing poverty. Sustainable Development Goal 7 (SDG7) calls for "affordable, reliable, sustainable and modern energy for all" by 2030. Sudan considers energy as a key element in poverty reduction.

The major sources of energy in Sudan are biomass, oil, and hydropower. Biomass—mostly fuelwood and charcoal, with relatively small amounts of animal wastes, agricultural residues like groundnut shells, sugar cane bagasse, and molasses—provides most of the energy needs of the population in Sudan, amounting to about 63 percent of the total energy. Traditional biomass, mainly fuelwood and charcoal, provides energy for those who live in the rural areas with no access to electricity, and provides an important fuel source for the urban poor and small- and medium-scale industries. Despite the importance of traditional biomass in meeting the growing demand for energy, its unsustainable extraction leads to severe environmental impacts manifested in the deforestation and degradation of forests. The rest of the energy in Sudan is provided by petroleum products amounting to about 32 percent of total energy and hydropower amounting to 5 percent of total energy[34].

[34] International Energy Agency: Sudan-Key energy statistics 2018

Electricity remains as the most important modern energy source. About 52 percent of electricity installed capacity in Sudan comes from hydropower, and 48 percent from thermal power. However, currently less power is coming from the thermal stations compared to the designed capacity due to maintenance problems and the inability of the government to pay for imported fuels, where thermal powers amounts to 33 percent of total power, and hydro supply is about 67 percent). Between 2005 and 2017, the government used oil revenues and loans from the Arab funds to invest heavily in thermal and hydro power generation and distribution. Installed electricity generation capacity increased five-fold from 801 MW in 2005 to 3,680 MW in 2019, making Sudan's hydropower capacity among the largest in Sub-Saharan Africa[35]. However, these investments declined sharply in recent years with the loss of oil revenues and shrinking aid from the Gulf countries. The development expenditure on energy, which used to constitute about 12 percent of the total development expenditure in 2012, declined to about 4 percent in recent years. There are hardly any activities for hydropower project now and hence the development expenditure on dams declined from around 20 percent in 2013 to 7.5 percent in 2018.

Table 6.5: Public development expenditure (federal and states) on energy and dams for electricity and irrigation in SDG million

	2012	2013	2014	2015	2016	2017	2018
Energy development expenditure	407	182	508	406	501	731	699
Total development expenditure	3,491	6,670	9,364	9,908	11,327	10,685	16,859
Energy development expenditure as percent of total development expenditure	11.7%	2.7%	5.4%	4.1%	4.4%	6.8%	4.1%
Note							
Expenditure on dams	703	1,687	1,738	1,313	1,088	527	1,272
Expenditure on dams as % of total development expenditure	20.1%	25.3%	18.6%	13.3%	9.6%	4.9%	7.5%

Source: Ministry of Finance and Economic Planning, National Development and Directorate and States Affairs Directorate

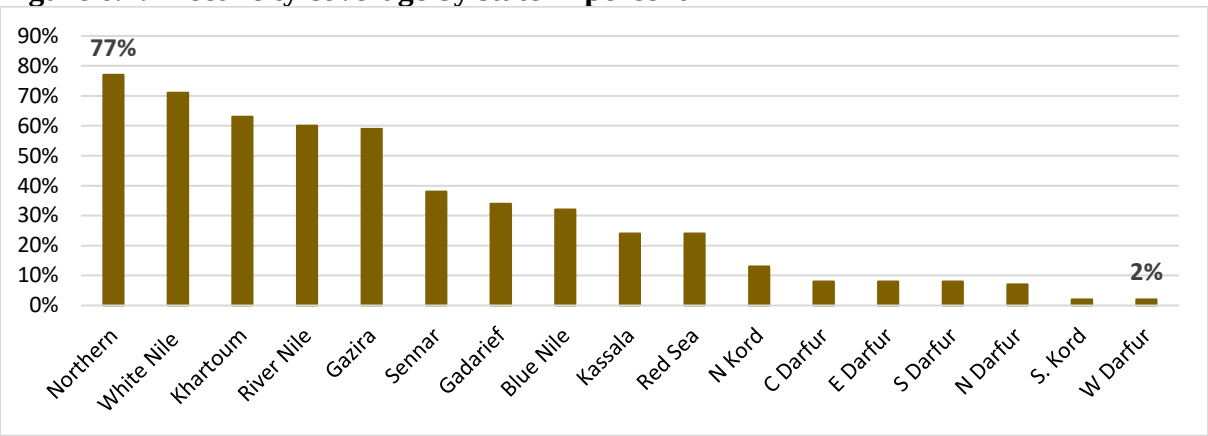
Sudan's electricity demand has been growing fast at about 6 percent per year between 2012 and 2017, but demand started to decline by 4.2 percent and 3.4 percent in 2018 and 2019, respectively. Most electricity is consumed by households, amounting to 63.4 percent, followed by productive sectors amounting to about 22 percent (fig. x: a).

To meet the growing demand for power Sudan started to import electricity from neighboring countries, and private companies are also emerging as a source of electricity supply. Sudan is currently importing electricity from Ethiopia. Private Turkish companies supply some of the towns with electricity, including Port Sudan town, Nyala and Al Fasher towns in Darfur Region with off-grid stations.

Despite large investments in the power sector, but still Sudan has low rates of electrification with only 37 percent of the population has access to electricity. About 4 million households remain without access to electricity. Electricity supply coverage is unevenly distributed across the country from as high as 77 percent in the Northern state to as low as 2 percent in West Darfur. The national grid extends in central, eastern and northern Sudan, while it has not yet reached the poorest states, Kordofan and Darfur, which are supplied by off-grid connections.

[35] Ministry of Energy and Minerals, Sudan Electricity Holding Company; current and planned projects; paper presented to the First National economic conference 26-28 September 2020

Figure 6.7: Electricity coverage by state in percent



Source: Sudan Electricity Transmission and Distribution Company: current situation and prospects of electricity in Sudan: A paper presented to First National economic conference 26-28 September 2020

Generally, the electricity infrastructure is well maintained but there is room for improvement. Transmission and distribution losses are about 5 percent and 19 percent, respectively[36]. Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI), which measure the duration and frequency of unplanned power interruptions, are 9.18 hours and 10.14 times per year, respectively. This puts the country in the first quartile in Africa for both indexes but places it below the international average of 5.5 hours and 6.4 times per year, respectively. Sudan's performance compares well with other African countries, but there is room for improvement.[37]. Use of prepaid meters by customers increased the collection rate to about 95 percent.

The electricity system did not benefit from the renewable energy source despite its large potential. Solar energy is very high throughout the year and across the entire country with average sunshine duration ranges from 8.5 to 11 hours a day (average daily solar irradiation is 5.8-7.2 kwh/m2). Sudan is one of the countries located close to the equator where the metrics used to quantify solar energy potential are very high for electricity generation via by photovoltaic (PV) or concentrating solar power (CSP) systems. Sudan, with a mean wind speed of 4.5 meters per second (m/s) across 50 percent of the country, is also rich with wind for energy purposes[38]. Sudan published a wind atlas in March 2012. The atlas identified three areas that hold potential for wind power projects: (1) Jabel Marra mountains, north of Nyala in Western Sudan, (2) Northern Sudan (Dongola), and (3) the Red Sea area. UNDP, Global Environment Fund (GEF) and Ministry of Water Resources in Sudan are conducting initial steps to use wind energy in Sudan based on the Atlas and started a wind project in 2015.

Key challenges

Supply of electricity, despite substantial resources invested, could not catch up with the demand pace. The electricity sector has not received adequate investment recently, resulting in serious energy shortfalls and load shedding and a low rate of access. The shortage of foreign exchange affects electricity inputs mainly imported fuel for thermal stations and maintenance because of the imported spare parts. Inadequate supply of electricity discourages private investment in Sudan, dampening economic growth. Electricity coverage is not equitable. The poorest states of Darfur and Kordofan are not covered by the national grid. Despite the abundance of sources of renewable energy that could improve off-grid access to the poorest states, but it remains largely untapped.

[36] Sudan Electricity Transmission and Distribution Company: current situation and future prospects of electricity in Sudan: A paper presented to First National economic conference 26-28 September 2020.
[37] World Bank; Sudan: from Subsidy to Sustainability Diagnostic Review of Sudan Electricity Sector, June 30th 2019
[38] UNDP; Empowering Sudan: Renewable Energy: Addressing Poverty and Development; September 2020

Strategic Direction

The major strategic objective in the medium term will be to increase access to energy for the productive sectors to generate additional employment and incomes thereby reducing poverty, and to provide off-grid renewable and nonrenewable energy to the areas without electricity in rural areas and urban areas. However, considering the financial resources limitation, and the need for fast interventions to increase access to electricity in the medium term, the government will mainly depend on (i) generating additional power by increasing efficiency of the existing system, (ii) completing the ongoing projects and increasing electricity imports, (iii) expanding renewable energy sources, (iv) engaging the private sector in energy supply and distribution and (v) deploying demand management and adjusting the tariff for electricity.

Increased allocations for preventive and periodic maintenance to clear the backlog of the required maintenance will increase the supply of electricity from the existing infrastructure. With clearing backlog maintenance, a major increase will come from thermal power which is expected to increase by 702 MW from 907 MW to 1,320 MW (an increase of 46 percent). The off-grid stations will increase by 56 MW from 26.2 MW to 82.2 MW by 2023. The losses in the transmission will be reduced from 5.1 percent to 3 percent and the distribution losses from 17.5 percent to 11 percent by implementing the project of "Reducing Electricity Losses". The total increase from all these sources amount to 891 MW by 2023.

Two on-going projects are expected to be completed within the next three years generating about 850 MW. These projects include Garri 3, which is under testing (510 MW); and Port Sudan power station expected to be completed by end year 2021 (340 MW). Sudan will also increase its imports from neighboring countries mainly Egypt and Ethiopia

The government will diversify energy sources by giving priority to the solar and wind energy. The government will increase the supply of solar energy to 400 MW by 2023 covering mainly small off-grid stations in the states of Central, West, and South Darfur, South and North Kordofan, and electrification of pump irrigation for small farmers and solar energy for SMEs. Wind energy will increase from zero in 2020 to 200 MW by 2023 covering mainly areas in the states of the Red Sea, South Darfur and Northern. The government will also encourage roofs PV systems. Renewable Energy Act, policies, and master plan will be formulated to strengthen enabling policy environment for renewable energy investments. Domestic manufacturing projects supporting renewable energy for rural communities (small wind turbines, solar cookers, biogas units, advanced cook stoves, etc.) will be encouraged.

The government will create a more conducive environment to engage the private sector in the supply, maintenance and distribution of electricity and in particular to implement renewable energy plan as a fast track to reach those without access electricity. The current off-grid electricity supply by the private sector stands at only 215 MW, is expected to increase substantially. The legal framework has been generally open to private participation in the areas of generation, transmission, distribution, and third-party access to the transmission system, however the regulatory reforms need strengthening. The Electricity Law (2001) will be reformed to ensure transparent regulations and procedures for independent power producers (IPPs) and Power Purchase Agreements (PPAs) and obtaining licenses and other permits specific to the sector. The private sector will be encouraged to manufacture import-substitute of certain electricity sector equipment to avoid interruption in the supply of the imported equipment due to shortages of foreign exchange. A study conducted by the Electricity Company shows that 75 percent of the electricity generation inputs could be manufactured locally including transmission towers, transformers, insulators and connectors.

The demand-side energy-efficiency measures will be undertaken. These measures will be accompanied by tariff adjustment, to creates better incentives for customers to conserve energy while helping mitigate the impact of tariff adjustments on customers. Awareness campaigns will be launched to educate the public about reducing

electricity consumption through energy-efficient behaviors that could lower their monthly bill and benefit the whole economy.

Road Transport

Situation analysis

Although the transport system in Sudan consists of four modes – road, rail, river and air transport, road transport provides over 90 percent of inland transport services in Sudan. Road transport is important for economic growth and for linking small producers in rural areas to the markets. Sudan has started a substantial expansion of the paved road network since the advent of oil revenues. During 2000 -2018 the paved road network tripled from 3,616 km in 2000 to 10,633 km in 2018. Despite these efforts, Sudan's paved road density is only 0.56 km which is much lower than the average African countries of about 5 km per 100 square km. There are relatively well-developed internal important corridors, but rural connectivity is almost nonexistent making sizable parts of economically productive areas in rural Sudan isolated from the markets.

The recent road construction plans gave due consideration to the regional balance where several roads were completed or near completion in Darfur, the most disadvantaged region in terms of transport linkages to the rest of the country. About 32 percent of the roads completed in the country during 2011-2018 (or 1,125 km) were constructed in the western corridor, being the least served with roads. This development is key to Darfur, a region devastated by war, resulting in its commodity markets becoming better integrated into the national market. and has obviously reduced transportation costs. For example, the road connecting El Fashir in Darfur region to Khartoum, reduced the time of the journey by trucks from five to six days to only 20 hours.

Key challenges

With the third largest area in Africa, sizable parts of Sudan's economically productive areas are still isolated from the markets. Many rural areas remain isolated during the rainy season, and transport cost increases as transporters have to depend on longer routes to reach the inaccessible destinations.

A major challenge facing Sudan is the poor quality of roads which significantly lowers the efficiency of transport services and limits access to markets. About 24 percent of the roads are in poor condition, 33 percent are in fair condition, and only 43 percent are in good condition[39]. This result clearly indicates that there is an urgent need for maintenance of the road network in Sudan. There is a backlog of preventive maintenance, to the extent that between 400 and 500 km of rehabilitation and overlay per year would now be required. The main reasons behind the deterioration of the road conditions are: a) inadequate funding for road maintenance. The toll rate does not cover the cost of maintenance. The road tolls are also characterized by several exemptions. b). Almost 40 percent of the trucks and trailers in Sudan exceed the weight limits specified for the roads. This accelerates the pavement deterioration process. Overloading of traffic and lack of enforcement of the weight regulations, despite several weighbridges which are positioned in several highways to ensure the safety and enforce the load limits.

Federal and local authorities have numerous checking stations along the roads for a variety of reasons. These checking points lead to excessive stoppages and time losses.

Strategic direction

Engagement of the private sector in roads construction and maintenance. Funding requirements for needed road investment and maintenance cannot be met entirely through public financing, given the public resources

[39] Magdi Zemrawi and Kamal Marga -Improving maintenance practice of road network in Sudan –in Mid Crave journals

constraints and the competing demands for public limited resources, during the medium term. The Government has thus given urgency to rebuilding the road infrastructure through PPPs, partnering with the private sector.

The road network will be expanded with priority will be given the agriculture feeder roads linking production areas to markets. The government plans to reconstruct 7,007 km of paved roads, 2,705 km of agriculture feeder roads, during the next three years and conducting studies and engineering design for 33 roads

Rehabilitating and maintaining the existing road network will receive top priority. The government plans to rehabilitate ad maintain 1,530 km of paved roads during the medium-term period.

Road tolls rates will be increased to cover the cost of maintenance. All exemptions in the payment of road tolls will be eliminated. Electronic gates for road toll collection will be installed to increase efficiency of collection. A Fund for Roads Maintenance managed by the Roads and Bridges corporation will be established.

To reduce travel time and transport cost, the numerous federal and local governments checking points along the roads will be abolished. Tax or fees collection along the roads, except road tolls ill also be abolished

6.4 Protection of the Natural Resources and Environment

Situation analysis and key challenges

Environment is closely linked to the natural resource and rural development in Sudan. Sudan is facing numerous challenges related to environmental degradation, desertification, deforestation, and climate change[40.] These challenges have serious negative impacts on food security and incomes, particularly for much of the population living in rural area; mainly depending on agriculture and where poverty remains relatively high. Women are made disproportionately worse off, as agriculture is the predominant source of livelihood for women in rural areas, accounting for 80 percent of employment compared to other economic activates.

Environment shocks like flood/drought-related shocks appear to have the largest effect on household welfare compared to other shocks facing the Sudanese households. These types of shocks have the largest effect on household, with adverse impacts on: a) household consumption: The incidence of flood/drought-related shocks decreases consumption per capita by 5.3 percent for affected households relative to those not affected; b) depletion of assets: Floods/droughts also deplete household assets and increase their likelihood of being poor. The most common coping strategy for households affected by floods/droughts is selling assets or using savings or renting out farms. According to the 2014/15 NHBPS selling assets or using savings or renting out farms constitute more than 30 percent of the affected households. The asset index for households affected by floods/droughts decreases by 4.91 points relative to those not affected by shocks; c) deepening poverty: The poor households are more exposed to agriculture-related shocks including weather related shocks; households in the bottom 40 percent of the consumption per capita distribution have the highest incidence of shocks due to livestock loss, crop diseases, and flood/droughts. The prevalence of negative shocks related to the environment like floods and drought, therefore, often leaves vulnerable households particularly poor farmers who may lack the capacity to cope with the shocks, falling into or sliding deeper into poverty.

There is clear environment deterioration in Sudan. Land from which people derive their livelihood is under increasing pressure resulting in severe land degradation. An estimated 50 to 200 km southward shift of the

[40] Sudan has recently issued the "First State of Environment and Outlook Report 2020 "in collaboration with UNEP, detailing these challenges.

boundary between semi-desert and desert has occurred since rainfall and vegetation records were first held in the 1930s. About half of Sudan's population lives in areas affected by desertification. Land degradation not only affects food security and incomes, but reduces productive land, increases competition for natural resources and often leads to conflict. The land degradation in Sudan is caused by several factors, mainly; (i) growing population; (ii) intensive mechanized farming. This type of agriculture is characterized by leasehold of large areas by the government to the private sector who use tractors and other machinery to clear large tracts of land for cultivation. Cultivation in this mode of agriculture production is a monoculture farming practice that does not use organized crop rotation or fallow systems; undertakes a wholesale clearance of vegetation and lacks investment in soil quality and shelter belts planting. The farms after few years are abandoned and left desert; when their soil is depleted, and yields drop below economic margin; (iii) increasing numbers of livestock: Sudan is home to one of the largest concentrations of traditional pastoralists in sub-Saharan Africa. The explosive growth in livestock numbers – from 28.6 million in 1961 to 108.6 million– has resulted in widespread degradation of the rangelands which shrink by approximately 20 to 50 percent on a national scale, with total losses in some areas.41 In addition, although, the livestock population fell by 28 percent due to the secession of South Sudan, but the natural rangeland resources on which they depend fell by 40 percent [42]; (iv) There is substantial evidence of a strong link between the recent occurrence of local conflict and environmental degradation of rangeland and rain-fed agricultural land in the drier parts of Sudan.43 Competition over natural resources is a primary causes of conflict while also conflict on the other hand conflict has severe impact on the environment due to population displacement, lack of governance in conflict affected areas, and poor investment in sustainable development due to insecurity.

Forests which provide rural population with gum Arabic cash crop, timber, honey, building materials, fuelwood, charcoal, fodder, dyes, tannins, and game food, are also threatened by environment degradation. Sudan's forests declined from more than 40 per cent of the country's land area in the 1950s to 27 percent at the beginning of the millennium, and then to 10.3 per cent by 2015.44 Deforestation, estimated at 2.4 percent a year, is one of the highest rates in the world[45]. This degradation is mainly due to (i) dependence of rural population on firewood and charcoal for domestic energy. About three in five Sudanese or 57 percent, live in a household that depends on biomass – primarily firewood and charcoal– for cooking needs, especially in the poorest states where the percentage of population depending on biomass for cooking ranges from 99 percent (Central Darfur) to 74 percent (Red Sea)[46]. (ii) The presence of 2 million Sudanese in the internally displaced camps, and 1 million hosted refugees puts additional pressure on the forests around camps and refugee's settlement areas to meet energy consumption needs and building materials from tree cutting. (iii) Lack of control over the large-scale clearance of forests by mechanized agriculture. (iv) Wildfires in the absence of a comprehensive integrated fire management plan. (v) Overgrazing by livestock

An emerging environmental problem in Sudan, with impact on agriculture is the artisanal gold mining. Mining is becoming a major economic activity since 2012, spreading in about 12 states in Sudan out of 18 states and employing over one million persons. An emerging issue related to artisanal miners is the use mercury to extract the metal from soil and sediment. Mercury remains in the soil. Mercury vapor is also released into the atmosphere and recycled into lakes and rivers posing a severe threat to the environment and to people's health.

Sudan is also facing serious climate change problems. Several vulnerability indices rank Sudan among the most vulnerable countries to climate variability and change including: (i) Over the past 30 years, Sudan has been among

[41] UNEP Sudan -post conflict environmental assessment 2007.
[42] FAO Sudan: The state of Sudan's biodiversity for food and agriculture -2015.
[43] UNEP: Sudan Post-conflict environmental assessment 2007
[44] FAO Global Forest Resources Inventory (1990–2015).
[45] UNEP First State of Environment and Outlook Report 2020
46 National Household Budget and Poverty Survey (NHBPS),2014/15

the most rapidly warming locations on the globe[47], with air temperatures increasing by 1.0° Celsius since the 1970s, and rising temperatures, by 0.5°C to as much as 3°C by 2050. (ii) There has been a steady decline in annual precipitation throughout Sudan. This is most pronounced in the Darfur states, where the data record from the meteorological station over the 40-year period from 1952-1992 indicates that rainfall has been declining by about 5.12 mm per year on average. (iii) Rise in Red Sea levels over the past century, between 10–20 cm. and forecasted increase to 30–50 cm by 2050.[48] The biggest impact of climate change is the decrease in food production

The above adverse changes in rainfall and temperature have been accompanied by recurrent drought episodes across Sudan since the 1970s. There have been widespread recurring droughts across Sudan during the period 1967-1973 and again during the period 1980-1984, the latter period being the more severe. In addition, there have been a series of spatially localized droughts during the years 1987, 1989, 1990, 1991, and 1993. These drought episodes have occurred mainly in Kordofan and Darfur states in western Sudan the poorest in the country and in parts of central Sudan near Khartoum. These factors have serious consequences on poverty in Sudan manifested in reduced local incomes, food insecurity and decline in yields and conflicts.

The environmental deterioration is aggravated by the weak environmental governance. The environment jurisdiction is divided between the federal and states levels, and cross cuts many line agencies and small units, without strong coordination. There is overlapping jurisdiction between the federal and the sub national level of government, and enforcement of the regulation is weak. Government institutions responsible for environmental management, coordination and enforcing of environmental regulations suffer from instability, underfunding, lack of staffing and training, among other problems.

Strategic direction

The government environment strategy aims at promoting sustainable use and management of natural resources to achieve sustained growth and reduce poverty, while laying a strong foundation to achieve long term environment objectives in line with the SDGs. The most significant environmental management reforms that government will focus on in the medium term include:

1. Creating an enabling regulatory, institutional and policy framework for environment protection
2. Stopping the degradation of natural resources; land and forests, which is progressing at an alarming rate
3. Strengthening the resilience of communities in the face of climate change
4. Strengthen international cooperation

Creating an enabling regulatory, institutional and policy framework for environment protection

The multiple institutions responsible for the coordination of environment, which are characterized by overlapping responsibilities and inefficiencies, will reformed. The law creating the Council for Combating Desertification (2009) and the National Council for Biosafety (2010) were abolished and the two councils were merged in the High Council Environment and Natural Resources (HCENR) which is supported by the Miscellaneous Amendment Law (2020), as the sole institution responsible for the overall coordination of environment and natural resources. The capacity of the HCENR will be strengthened to enable it to perform its role effectively and create strong councils at the sub national level of the government as well as the other environment related institutions.

[47] UNOCHA Humanitarian Needs Overview 2020
[48] Sudan- Climate Change risk profile fact sheet 2016.

The government will review environment regulatory framework. Sudan was one of the first African countries to promulgate legislation concerning the management and protection of the environment dating back to the early years of the 20th Century. However, due to rapid changing circumstances the government will review the laws and regulations aiming to reduce vulnerability to climate change, and address issues pertaining to land laws and property rights. Relevant laws will be reviewed in conformity with the changes in power sharing between the level of government as stipulated in Juba Peace Agreement, to ensure more powers and monitoring of natural resource management at the sub national and community levels. A pressing priority for the government will be to take necessary measures to strengthen the enforcement of the environmental laws and regulations.

The existing land policy that creates competition over natural resources will be addressed. The government will create the Farmers and Pastoralists Development Commissions in Darfur and the Two Areas of South and Blue Nile, tasked with the responsibility of taking necessary actions, in collaboration with relevant authorities, to ensure sustainable use of resources. The investments in land particularly large mechanized farms, which is a main source of land degradation, will be reviewed to remedy any social and environmental consequences. Strong emphasis will be given to the participation of sub national governments and local communities in the policy decisions that relate to natural resource, particularly land investments. A similar review will be conducted for the existing activities in gold mining sector to ensuring compliance with sound environmental practices.

Stopping the degradation of natural resources; land and forests

The government will give due priority to halt forests degradation through different interventions. The forest reserving procedures will be facilitated to ensure that at least 20 per cent of Sudan's forest area is reserved forest. Area planted with natural and artificial regeneration in reserved forests will be expanded. Communities will be encouraged to use alternative energy sources to reduce tree cutting for energy purposes, such as LPG, solar and wind improved firewood and charcoal stoves, ethanol, biogas digesters and biogas cookers. The legal requirement for planting 5% of irrigated agricultural land and 10 percent of mechanized rained agricultural land with trees will be enforced. Forests will be protected from fires by opening fire lines; and community monitoring will be ensured. And reforestation program, in collaboration with communities significantly expanded.

An important activity that will be undertaken to preserve forests and rangelands is the rehabilitation of the gum Arabic belt. Rehabilitating the gum Arabic belt will promote synergies with natural resource management and climate change mitigation since the bulk of the resource base falls within the semi-arid zone classified as one of the most vulnerable areas.

A program for conservation of the degraded land using green belts, wind breaks to combat sand dunes with drought resistance trees and shrubs will be implemented. The program will be guided by the project of "mapping for optimal use of land" being implemented by The Arab Center for the Studies of Arid Zones and Drylands (ACSAD); which mapped the current situation of the land and water resources in several states and indicated future investments in livestock, cultivated crops, fruit trees, rangelands and forests. The government will continue to implement the third phase of the project which will map the remaining states

Soil information that constitutes an important aspect of the environmental program of the government will be strengthened. A soil surveys will be conducted; the Central Soil Laboratory will be upgraded to meet international standards, a soil data base will be established, and aerial photographs and maps will be provided. The capacities of the federal and state soil departments will be enhanced including training of the staff.

Strengthening the resilience of communities in the face of climate change

Efforts will continue with the project of building resilience for local communities in the face of climate change. These efforts include the project of building resilience within traditional rain fed agricultural and pastoral systems in the dryland zones across half of the states in Sudan and covering more than 32 percent of the total population across targeted areas. Donors are also funding projects to strengthen resilience of local communities. Sudan boosted its forest conservation efforts in 2012 by initiating the United Nations Collaborative Program on Reducing Emissions from Deforestation and Forest Degradation, known as REDD+. as well as reducing carbon emissions from forests. Global Environmental Facility (GEF). Solar irrigation pumps in Northern State aiming at reducing climate impact and reliance of Sudanese farmers on fossil fuels, which will be replicated in other areas.

The government through its agriculture development strategy will ensure that a large share of Sudanese farmers susceptible to crop and livestock losses and reduced yields because of adverse environmental factors will be provided with drought-resistant seeds and supplementary irrigation. This will help mitigate the impact of such risks and smooth year-to-year production and household welfare.

Strengthening international cooperation

The immense challenges facing the environment require substantial technical and financial resources. Sudan being party to many multilateral and regional environmental agreements will strengthen further its cooperation with the international community in this regard. The government will seek support from the international partners to strengthens natural resource information and data. Sudan has acute knowledge gap in natural resources situation. Despite numerous studies and surveys which were undertaken by different projects, but available information is widely fragmented, scantly organized, and difficult to access. Adapt for Environmental and Climate Resilience in Sudan project (ADAPT) by UNEP together with the UNEP's Crisis Management Branch experts, started to develop a data platform, which will be customized to the needs of the Ministry of Finance and Economic Planning for monitoring and tracking the implementation of the environment component of the PRSP and SDGs.

7. BOOSTING HUMAN AND SOCIAL DEVELOPMENT: PILLAR 3

7.1 Overview: The Implications of Historical Structural Bias for Social Development and Equity

Sudan did not achieve most of the Millennium Development Goals (MDGs) in 2015 and moving towards achieving the Sustainable Development Goals poses a daunting challenge. Education, heath, and water indicators are low and progress toward SDGs is slow. The basic school enrolment rate is only 74 percent (below the target of universal coverage). The under-five mortality rate of 68 per 1,000 live births, is still higher than the MDG target of 41 per 1, 000 births and access to water is 63 percent, while access to sanitation is much lower. Water and sanitation are critical to health and can reduce the regret costs associated with poor health outcomes and human capital formation. However, these indicators mask wide disparities across states, regions, and poverty levels. Sudan's Human Capital Index is 0.38 and ranks at 139 out of 157 countries according to the World Bank Human Capital Index[49]. Low level of education and health outcomes are key contributors to low HCI. Sudan's low ranking in the HCI may also be driven by a high prevalence of stunting, an indicator of long-term malnutrition, and widespread poverty. Sudan ranks at 167 out of 189 countries in the 2018 Human Development Index. [50]

Table 7.1: Social development indicators by region and state

Region	State	Poverty incidence % (2014/15)	Access to Improved water (%)	Basic education GER	Children Under five mortality rates	Stunting prevalence	Health insurance coverage (2014)	Per capita share in fiscal federal transfers % (2014)
Northern	River Nile	48.4	84	89	35	30	35	8.1
	Northern	44.8	95	87	30	23	38	11.2
Central	Khartoum	46.2	91	94	50	22	67	5.0
	Al Gazeira	47.7	92	88	54	42	48	6.9
	Sennar	56.4	69	62	52	38	32	5.6
	White Nile	64.7	33	72	66	37	26	5.4
Eastern	Al Gadarief	57.6	52	74	77	46	40	5.5
	Kassala	58.7	84	66	81	49	24	4.0
	Red Sea	72.0	43	59	61	45	28	5.1
Two areas	Blue Nile	68.9	48	65	84	47	36	8.0
	South Kordofan	86.5	63	66	95	41	31	7.1
Kordofan	West Kordofan	71.8	37	59	82	43	24	4.0
	North Kordofan	66.1	54	66	42	41	20	6.5
Darfur	Central Darfur	86.0	39	54	77	48	31	5.6
	North Darfur	71.5	40	76	90	46	20	4.7
	West Darfur	81.0	40	67	91	35	37	4.1
	South Darfur	72.7	57	65	72	34	17	3.2
	East Darfur	75.3	51	67	117	47	17	2.0

[49] A 0.38 HCI index means that a child born in Sudan today will be 38 percent as productive growing up as he would have been if he had received complete education and full health.*https://databank.worldbank.org/data/download/hci/HCI_2pager_SDN.pdf*

[50] *https://databank.worldbank.org/data/download/hci/HCI_2pager_SDN.pdf*

	Sudan Average	61.1	63	74	68	38	34	
Best performing state		47.7	95	94	30	22	67	11.2
Worst performing state		86.5	33	54	117	49	17	2.0

Source: compiled from NBHPS 2014/15, children under 5 mortality rates from the Ministry of Health, Financing the Health sector report 2016 and the health insurance coverage from the annual report of the Health Insurance Fund 2014 and MICs 2014.
Note: Kordofan region excludes south Kordofan region.

Deep disparities in fiscal transfers and service delivery and poverty outcomes across states exist. Poverty levels are high in Darfur and Kordofan states, while access to education health, water supply is the low. It is in these states levels of fiscal transfers are very low (Table 7.1). In contrast, the states of Northern, River Nile and Al Gezira that have low levels of poverty have good access to education and other basic services. These states also receive high levels of fiscal transfers. Resource allocation and federal transfers to states have not significantly progressed in reducing state disparities in poverty and social outcomes.

Human capital and social development indicators are also aggravated by the country's constrained service delivery system, limited external financing, COVID-19 pandemic, floods, and demographic pressure. The service delivery system is still compromised by low levels of public expenditure, shortage of relevant personnel and dilapidated infrastructure. Moreover, the current adverse macroeconomic situation; limited external financing due to the country's external debt; inadequate strategic financial planning; and unavailability of innovative service delivery financing options such as Public Private Partnership (PPP) modalities including Build, Operate and Transfer (BOT) are additional challenges. Rebuilding/rehabilitating the education, health and water supply system is key. The COVID-19 pandemic, floods, demographic pressures, and climate change pose additional structural challenges. Sudan's population is young and expanding at a fast rate of 2.4 percent annual growth. All these vulnerabilities have pervasive impacts on the population, particularly the poor, requiring an effective social protection system.

There is an urgent need to improve data for evidence base policy making by strengthening institutional capacity to deliver on the production of core data that is of high quality, accessible and timely. Population censuses are out of date and household budget surveys are infrequent. The latest population census was conducted in 2008 and the latest household budget survey was carried out in 2014. The need for new core data is critical for effective policymaking based on up-to-date evidence and the implementation of the new population census and household-based survey would update information last collected in 2008 and 2014, respectively. The availability of core data should include disaggregation by state and locality, where appropriate, and with a focus on fragile and conflict settings where robust data is often limited.

7.2 Education sector

Situation analysis

Education is decentralized, and subnational levels of Government have the primary responsibility for the delivery of pre-university education. There are currently two years of preschool, eight years of basic education, and three years of secondary education. Starting from 2022, following a change in the curriculum initiated in 2015, the duration of primary education will be six years, followed by three years of lower secondary education and three years of upper secondary education. Secondary education can be academic or technical.

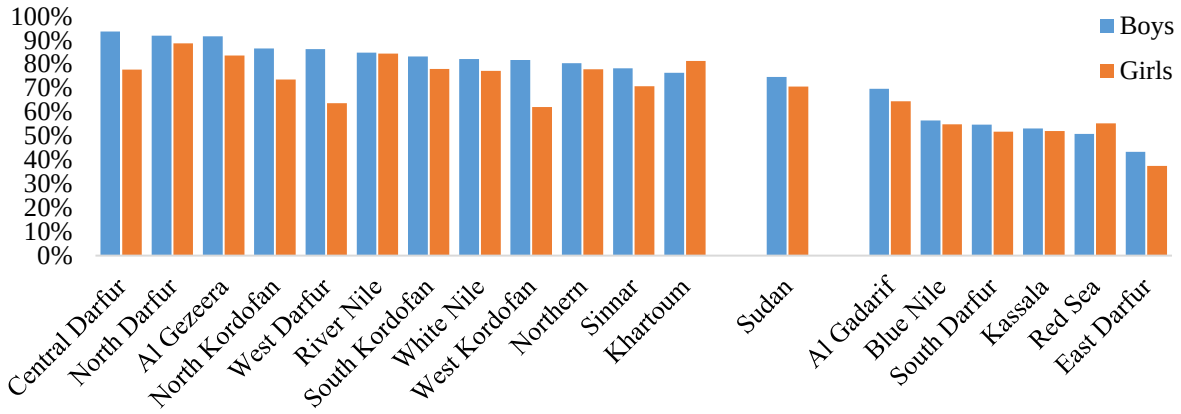
Education has been severely affected by COVID-19 pandemic. All education institutions have been closed since mid-March 2020. An estimated 127,000 children in Sudan could drop out due to the income shock of the pandemic, which will depress education demand and supply as it harms households and public finance. Schools

were expected to reopen in September 2020 but recent widespread floods in Sudan have delayed the process for a safe reopening, as the Nile River rose to its highest levels in over 100 years. This resulted in widespread destruction of infrastructure, crops, and livestock, directly affecting 650,000 people, and indirectly affecting 1,700,000. At both the federal and local levels, the education sector does not have the capacity to respond to these crises and ensure that students continue to learn.

Over the last decade, there have been positive trends in key education indicators. There were about 8.2 million children enrolled in basic and secondary education in Sudan in 2019, with 22,972 public and private schools, and over 390,000 teachers in the public education system. Access has improved, with an additional 2.2 million children enrolled in basic and secondary education. Secondary education enrolment growth was driven by an increase in enrolment in the academic track, but enrolment in the much smaller technical track contracted. The enrolment numbers for preschool remain exceptionally low but have nearly doubled over the same period. The number of students completing basic education and proceeding to secondary school increased from 251,000 to 336,000. Tertiary education intake increased from 158 thousand students to 231 thousand students, amounting to 5 percent annual growth.

Basic Education outcomes are low and substantially vary across states and gender. Considerable differences between boys and girls and significant disparities across states persist. More boys access basic schools compared to girls with a gross enrolment rate of 75 percent for boys compared to 71 percent for girls for the academic year 2016/2017. Access to basic education varies enormously from one state to anther with the range of GER spanning from less than 40 percent to over 90 percent (Figure 7.1). Poor states such as East Darfur, Red Sea, and Blue Nile lag central states such as Gezira, River Nile, and White Nile.

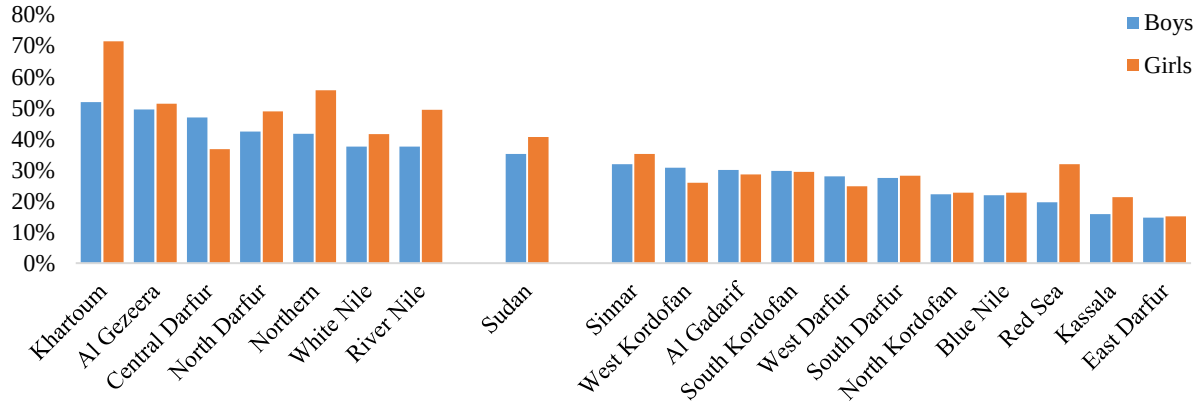
Figure 7.1: Gross Enrolment Rates in Basic Education, by State and Gender



Source: Federal Ministry of Education: Education Sector Analysis, February 2018

Secondary education performance also varies markedly by state and gender. The secondary school gross enrollment rate is about 38 percent or less than half the basic GER (General Education Sector Strategic Plan 2018-2022, Federal Ministry of Education, June 2018). In contrast to basic education, more girls access secondary schools compared to boys with an overall GER rate of 41 percent for girls and 35 percent for boys for the 2017 academic year. Girls are recoding better access than boys in all states except Central Darfur, West Kordofan, Al-Gadarif and West Darfur (Figure 7.2). In some states, the difference in secondary school access is as big as seen in the case of Khartoum, River Nile and Red Sea states. Access to secondary education varies markedly from one state to another and the disparities exhibited in basic education are carried over into secondary schools.

Figure 7.2: Gross Enrolment Rates in Secondary Education, by State and Gender



Source: Federal Ministry of Education: Education Sector Analysis, February 2018.

However, Sudan's education outcomes lag comparable countries and MDGs/SDGs targets. Despite progress in overall access to all levels of education, access remains a substantial challenge for basic and secondary education. Sudan's basic education system provides education opportunities for three-quarters of the age group (i.e. the gross enrolment rate (GER) is 73 percent). Only three out of four children of basic school age are receiving a formal education. According to the 2018 Education Sector Strategic Plan, close to 3 million children are out of school in Sudan, more than half having never been to school before. Sudan's progress lack behind comparable countries that have attained or are likely to attain the goal of universal education (Table 7.2).

Table 7 .2: Public Education Expenditures and Outcomes: Sudan and Regional Comparators

	Public expenditure on educatio % of total public expenditure	Primary school enrolment (% net)	Primary school enrolment (% gross)
Sudan	12.0	54	70
Neighboring countries			
Ethiopia	22.0	NA	98
Kenya	20.6	84	114
Uganda	14.0	91	107
Other SSA lower middle-income countries			
Cape Verde	15.0	98	114
Benin	22.3	95	124
Senegal	20.7	84	73
MENA lower middle-income countries			
Egypt	12.6	115	98
Morocco	18.5	118	98
Tunisia	21.2	110	99

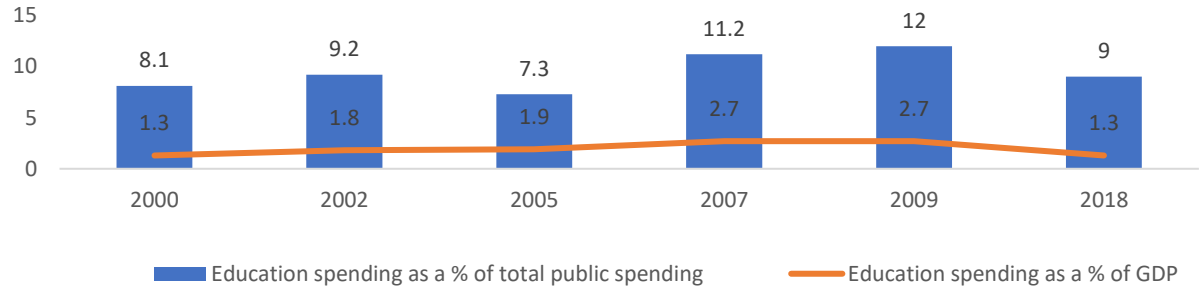
Source: World Bank; World Bank Development Indicators. Data refer to latest year available for 2014-2017.

7.3 Public Expenditure Allocation to the Education Sector

Public education expenditure has consistently low, especially by regional standards, and given the need to expand education opportunities increased expenditure allocation is required. Public education expenditure as a share of total public expenditure fluctuated between 7.3 and 12 percent during the last two decades, while it fluctuated between 1.3 and 2.7 percent of GDP (Figure 7.3). However, the budgetary allocation to education in the national budget for 2018 seems to be the lowest since 2007. Given the need to expand and improve education

access, increased public education expenditure allocation is required. The Transition Government, which took office in August 2019, plans to allocate about 25 percent of total public expenditure to the education and health sectors. Sudan spends less on education than do comparable countries. Comparable countries with similar dependency ratio (i.e. school age population as a share of the total population) spend more—including Ethiopia and Kenya, with a level of spending exceeding 20 percent of total public spending. Other lower-middle-income such as Morocco and Tunisia each spent more by this measure (Table 7.2).

Figure 7.3: Public Education Expenditure, 2002-2018



Source: 2018 data from Ministry of Finance administrative data and 2000-2009 data from World Bank (2012).

The bulk of the growth in public education expenditure occurs at the state level, which is consistent with the fact that the primary responsibility for basic service delivery lies with state governments. About 98 percent of total public spending now takes place at state level. State level education expenditure more than doubled in nominal terms during the review period. Spending at the federal level also increased over the period, but at a slower rate. However, state spending on education varies, and according to the recent study on education financing, West Darfur, West Kordofan, Blue Nile, Kassala, and the Red Sea are among those with lower spending on education as a share of public expenditure [51]. These states are also among the poorest in the country. The low level of state education expenditure is associated with an increasing household contribution to education cost.

Although basic education in Sudan is intended to be free and compulsory, household out- of -pocket is significant and poses a barrier to education, especially for poor households. Due to limited public expenditure on education, households pay for the running of schools in addition to other costs for uniforms, textbooks, and meals for their children. The government annually spends about SDG 378 (US$60) per pre-primary pupil, and SDG 550 (US$87) per basic and SDG 1240 (US$197) per secondary school student. Household expenditures (direct payment to public schools, excluding students' breakfast) annually amount to, on average, SDG 1166 (US$185) per pre-primary pupil, SDG 1024 (US$163) for basic, and SDG 1377 (US$220) for secondary school student[52]. Thus, households' contribution to the general education system financing in Sudan is three times greater than the government's spending in pre-primary, twice as much in basic and a bit more than government in secondary. For poorest households, out-of-pocket education spending poses a barrier to education.[53] Despite the constrained fiscal environment, the Transition Government plans to implement the free basic education policy, removing public school fees and providing free meal.

Consistent with the Sustainable Development Goals and drawing on the 2018 Education Sector Analysis, the 2018 Education Sector Strategic Plan (ESSP) was prepared. The plan has identified thirteen key priorities for investment during the 2019-2023 period. The policies priorities emphasized improving access and quality of pre-

[51] UNICEF, Sudan-Country Study on Cost and Financing of General Education 2012-2015, April 2018
[52] UNICEF, Sudan-Country Study on Cost and Financing of General Education 2012-2015, April 2018
[53] Compared to household contributions in Malawi of less than half (42 percent) and in Rwanda of less than third (32 percent) of what government spends on a student, household contributions in Sudan are quite high by African standards.

school, basic school, and secondary school as well as strengthening systems for delivery of education programs (e.g., curriculum, leaning materials, teacher training).

The plan—which is ambitious— is expected to cost SDG 63.5 billion (US$3.5 billion) over its five-year implementation (2019-2023). The total cost includes SDG 50.7 billion in recurrent expenditure, and SDG 12.8 billion in capital expenditure. These expenditure requirements are driven primarily by enrolment whilst also recognizing the necessary inputs to ensure quality of learning. According to the resource projections the education sector will potentially be allocated SDG 38 billion during the plan implementation period (Table 7.3). This implies a finance gap of SDG 25 billion (US$1.4 billion) for the entire plan including the conservative inputs to TVET and higher education (ESSP, page 91).

Table 7.3: Financing requirements and gaps - Education Sector

	2019	2020	2021	2022	2023	TOTAL
ESSP expenditure requirements SDG	10,821	11,786	13,019	13,666	14,213	63,505
Total projected public resources for general education (million SDG)	6,604	7,114	7,654	8,226	8,831	38,428
Total projected donor financing (million SDG)	0	0	0	0	0	0
Total expected resources (million SDG)	6,604	7,114	7,654	8,226	8,831	38,428
Financing gap (Million SDG)	4,217	4,672	5,366	5,440	5,382	25,077
Financing Gap (Million USD)	234	259	297	301	298	1,389

Source: Federal Ministry of Education: General Education Sector Strategic Plan (ESSP: 2018-22, June 2018

Key challenges

Despite improvements in education outcomes, many significant challenges remain:

- School dropouts: About 22 percent of primary school-aged children and 25 percent of secondary school-aged children are estimated to be out of school; more than 500,000 children in primary education are overaged. This affects mostly children from poor households, and girls in rural areas. There are also significant state disparities—for example, net enrollment in primary education in Central Darfur was at 54.1 percent, but 95.5 percent in Northern State. Out-of-school rates for primary and secondary education are slightly higher for girls than for boys; about 55 percent of women with no education in Sudan were married by the age of 18, compared to only 3 percent of those with higher education.

- Response to shocks: Capacity to respond to the pandemic and floods need to be further strengthened at both federal and state levels to ensure that students continue to learn using digital solutions and other methods of distance learning.

- Quality of education: Data from learning assessments indicate that students do not attain adequate learning levels: Learning poverty, defined as being unable to read and understand a simple text by age 10, is a significant concern. In 2014, only 5 percent of Grade 3 pupils were able to read fluently in Arabic and 40 percent were not able to read at all, the lowest rate among Arabic-speaking countries. Drop-out rates which are already high are expected to worsen because of the COVID-19 pandemic.

- The technical and vocational education system is facing considerable challenges that constrain its progress such as; lack of policies, poor management system, disconnection of the system from the labor market, curriculum weaknesses, poor funding resulting in weak school environment and low rates of graduates; the teaching and training conditions in the technical and vocational institutions are not conducive to teacher and learner's performance, all this in addition to the misconception of society regarding technical and vocational education.

- Public expenditure: Having a spending level commensurate with its level of income and the needs of its education system is crucial for the country's effort to enhance economic growth, poverty reduction and improved service delivery. In addition, public expenditure on education shows large disparities across states. States with lower spending on education as a share of public expenditure are also among the poorest states in the country. The low level of state education expenditure is associated with an increasing household contribution to education cost.

7.4 Strategic direction

Consistent with the Sustainable Development Goals and drawing on the 2018 Education Sector Analysis, the Education Sector Strategic Plan (ESSP) 2018-2023 was prepared. The strategy aims at strengthening the national education systems to be more inclusive and equitable and with improved quality. Strategic priorities include improving access to education, reduce school dropout, and improve learning outcomes. Within the overall education strategy, consideration will be given to the most vulnerable groups who are affected by complex and mutually reinforcing patterns. They include children from poor households and in areas with the highest poverty rates, girls, and children affected by conflict and displacement.

Access to education will be improved by increasing the enrollment rate, giving priority to closing the geographical and gender disparities in access to education. Government capacity to respond to the COVID-19 pandemic will be improved to sustain student enrollment and cope with the learning loss due to the school closure during the pandemic in the medium-term.

The government will reduce the rate of school dropout by addressing barriers to school retention. The government will work with the communities to remove the sociocultural barriers to school participation, especially for girls. More schools will be built to reduce the walking distance and improve the school environment by equipping schools with fencing, water and separate latrines for girls and boys to contribute to the reduction of the school dropout rate. Poor households being unable to meet some of the cost of education of their children, pull their children out of school. School grants to incentivize poor households not to pull their children out of school will be expanded with assistance from the development partners.

The quality of learning, which currently below standard, will be improved. The curriculum will be reformed, teachers training, and supervision will be improved, and teachers will be provided with quality teaching and learning materials and qualified teachers will be fairly distributed between rural and urban areas and between states.

The government will give priority to reforming the technical and vocational education as a mean to empower youth, enhance employment, and increase productivity. The government will reform governance and increase funding of technical and vocational education, improve social perception of and promoting technical and vocational education among youth and their parents; reform curricula and teachers training and build partnerships with the private sector to promote technical and vocational education.

7.5 Health Sector

Situation analysis

The health sector has been affected by the recent flooding and COVID-19 pandemic and the Government has established a high-level emergency committee to oversee the operations to deal with COVID-19 pandemic.

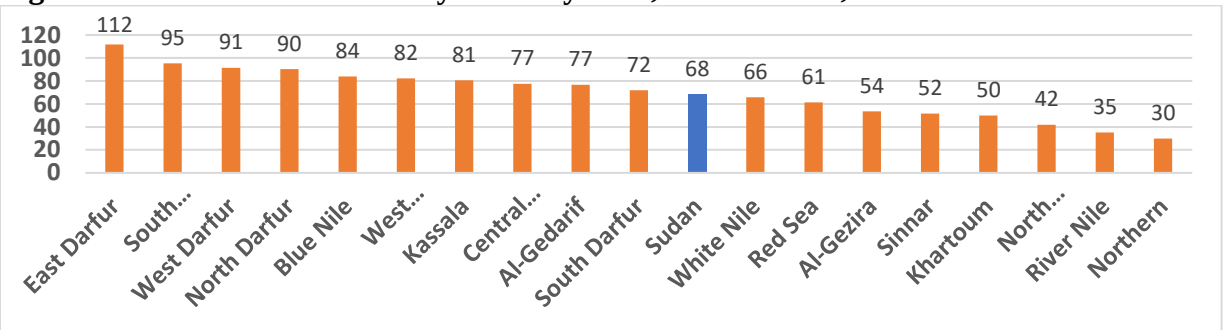
As of October 14, 2020, the Government of Sudan reported 13,691 confirmed cases and 836 deaths. After weeks of decline, the COVID-19 infection rate in Sudan started to rise at the beginning of November. The second wave led to an increase in the number of cases and deaths to 16,052 and 1,197, respectively, as of November 25, 2020. COVID-19 cases have been reported in all of Sudan's 18 states, but most people with confirmed COVID-19 are in the Khartoum State. On March 14, 2020, the Government announced closure of schools and prohibition of mass gatherings. Two days later, they closed airports, ports, and land crossings, banned travel between states, and required a one-month quarantine for incoming travelers. On March 25, 2020, authorities released 4,217 prisoners as a precautionary measure to reduce the risk of transmission in detention. A night curfew was imposed from 6:00 p.m. to 6:00 a.m., while the State of Khartoum announced a partial lockdown starting April 18 for three weeks. People could move within their districts between 8:00 am and 1:00 pm (which was later further extended to 3:00 pm). The lockdown was further extended until July. Starting July 8, 2020, Sudan began loosening lockdown measures in and around the capital Khartoum after three months of tight restrictions. The Government prepared the Multi-hazard Emergency Health Preparedness Plan and the financing needs to cope with COVID-19 related health care is about US$230 million.

Sudan has made good progress in health indicators, but challenges remain. The under-five mortality rate (deaths per 1,000 births) improved, dropping from 83 per thousand live births in 2010 to 68 per thousands in 2014. The maternal mortality rate declined from 534 per one hundred thousand live births in 2010 to 521 per one hundred thousand in 2013 (2014 MICS). Infant mortality rate remined stagnant, dropping from 34 per 1000 live births in 2010 to 33 per 1000 live births in 2014. The leading causes of under 5 mortalities are acute respiratory infection (18 percent), diarrhea (11 percent), prematurity (14 percent) and intrapartum related complications (12 percent). DPT3 coverage has improved significantly over the years (from 62 percent in 2000 to 93 percent in 2013), however, only 43 percent of children between 12-23 months were fully immunized in 2014 (MICS, 2014). Child malnutrition and low access to essential services impedes any major decline in disease burden and causes premature deaths from these diseases. Iron deficiency anemia affected 23 percent of pregnant women and deliveries attended by skilled birth attendants reached around 80 percent while 70 percent of deliveries taking place at home (MICS, 2014).

Despite progress health indicators are lagging MDGs/SDGs targets. Sudan continues to have high child and maternal mortality rates. The under-five mortality rate of 68 deaths per 1,000 births in 2014 is far above the 2015 MDG target of 41 per 1,000 births and the 2030 SDG target of 25 deaths per 1,000 births. The maternal mortality is 521 per one hundred thousand in 2014, while the 2015 MDG target is 134 per one hundred thousand and the SDG target is 70. Similarly, Sudan’s infant mortality rate of 33 deaths per 1,000 live births is high compared to the SDG target of 12 deaths per 1,000 live births in 2030.

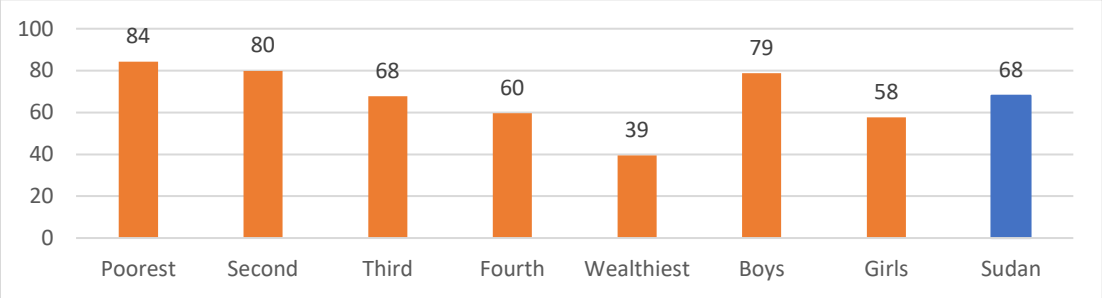
Health outcome disparities across states, gender and poverty levels have not yet been fully addressed, necessitating further effort to consolidate and improve progress. The under-five mortality rate is highest in East Darfur State (112) and lowest in the Northern State (30), according to the 2014 MICS results (Figure 7.4). Children living in poorest households are double times at risk of dying before their fifth birthday (under-five mortality rate of 84), compared to children from the wealthiest household (under-five mortality rate of 39) (Figure 7.5). There is a marked difference between the probabilities of dying among boys (79.8) and girls (58).

Figure 7.4: Under Five-Mortality Rates by state, Sudan MICs, 2014



Source: Sudan Multiple Indicators Cluster Survey, 2014, Central Bureau of Statistics, Khartoum, Sudan.

Figure 7.5: Under Five-Mortality Rates by Sex of Child and Wealth Quantile, Sudan MICs, 2014



Source: Sudan Multiple Indicators Cluster Survey, 2014, Central Bureau of Statistics, Khartoum, Sudan.

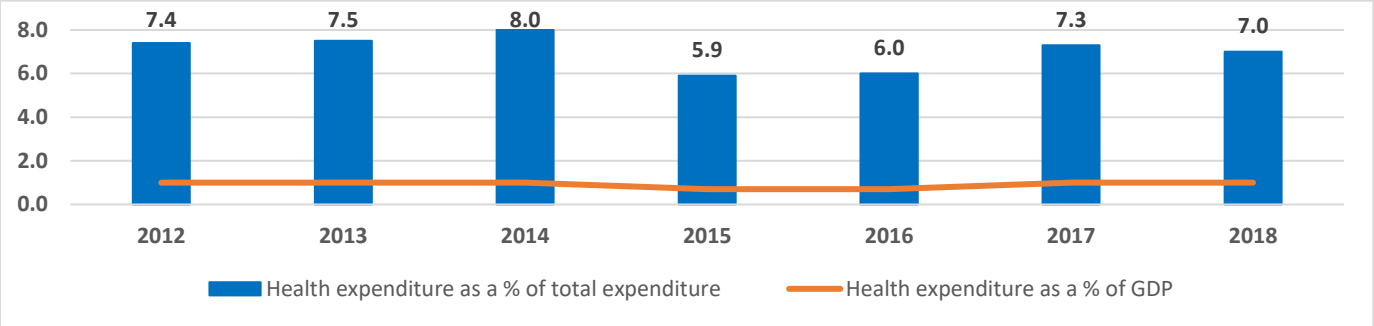
Sudan's child malnutrition levels are high. Despite all efforts made by the government of Sudan and development partners in the past 25 years, malnutrition rates have remained unacceptably high. The absolute number of wasted, stunted, and underweight children under five years of age has risen significantly (UNICEF,2014). This has put the country in the status of continuous emergency and reflected the limited progress that has been made. As per 2014 MICS, the estimated prevalence of malnutrition conditions among children in Sudan is as follow: 38 percent for stunting, 33 percent for underweight, 16 percent for wasting, and 5 percent for sever wasting. Stunting is lowest in Khartoum and Northern states (22 percent and 23 percent respectively) compared with southern or border states such as Kassala, East Darfur, Central Darfur, and Blue Nile (close to 50 percent). The most common micronutrient deficiencies include iodine, iron and vitamin. The National Health Strategic Plan (NHSP 2017-2021) recognized nutrition as a key component of the basic health care package of primary health care services.

HIV prevalence is low, the incidence of tuberculosis (TB) is declining and malaria treatment is improving; however, the recent flooding may reverse trend**s**. Prevalence of TB declined to 114 per one hundred thousand in 2012. However, the TB detection rate is 35 percent, well below the 70 percent target, though the treatment success rate is 82 percent. HIV prevalence amongst the population aged 15-49 was estimated at 0.24 percent in 2013, with annual new HIV infections and AIDS deaths standing at 7, 032 and 4, 797, respectively (African Economic Outlook, AfDB, OECD and UNDP, 2015). Malaria patient's treatment has improved. Malaria patients' receiving treatment within 24 hours increased to 36 percent in 2013, up from 16 percent in 2010. However, effort is still needed to roll back malaria. According to the 2013 World Malaria Report, Sudan accounted for 57 percent of malaria cases and 27 percent of reported malaria deaths in the Eastern Mediterranean Region, indicating that much effort is needed to reverse the disease

7.6 Public Expenditure Allocation to the Health Sector

Public expenditure on heath declined between 2012 and 2018 even though health—MDGs have not yet been met. Public expenditure allocation to the health sector, as a share of total public spending fluctuated between 7 and 8 percent during the last decade but expected to rise as indicated in the Transition Government plan (Figure 7.6). Sudan's level of public spending on health is lower than Ethiopia and Uganda, but Sudan spends more than Kenya, Egypt and Morocco (Table 7.4). However, Sudan is performing worse than its income peers, suggesting that while appropriate budget allocations are necessary, the quality of service delivery is also critical for having improved outcomes. The foregoing analyses suggest a need for substantial improvement on health outcomes.

Figure 7.6: Public Health Expenditure, 2012-2018



Source: Ministry of Finance and Economic Planning and I-PRSP Status Report, 2016.

Like the education sector, health expenditures predominantly take place at the state level, consistent with the fact that the primary responsibility for basic service delivery lies with state governments. Around 87 percent of the health expenditures occur at the state level. The share of expenditures at the federal level shows a declining trend.[54]

[54] The Sudan Interim Poverty Reduction Strategy Paper Status Report: A Joint World Bank Group and Sudan's Ministry of Finance and Economic planning, Nov 2016.

Table 7.4: Public Health Expenditures and Outcomes: Sudan and Regional Comparators

	Public expenditure on health (% of total public expenditure)	Under-5 mortality rate (per 1,000)	Maternal mortality rate (per 100,000 live births)
Sudan	7.0	68	512
Neighboring countries			
Ethiopia	16.4	64	420
Kenya	5.9	71	400
Uganda	24.3	66	360
Other SSA and LLMICs			
Cape Verde	10.0	26	53
Benin	10.7	85	340
Senegal	7.6	55	320
MENA lower LMCs s			
Egypt	5.5	22	45
Morocco	6.0	30	120
Tunisia	13.3	15	46

Source: WHO, Global Health Observatory Data World Bank; World Bank Development Indicators. Data refer to latest year available for 2014-2017.

Despite government commitment for free medical care in emergency, free medicine for children under five and free medical care for certain diseases, however people pay considerable amount as out of –pocket expenses. The situation is further aggravated by the limited coverage of the health insurance coupled with the poor availability of medicine in the insurance list. Out-of-pocket paid by household share is about 70 percent (US$84.0 per capita) of total expenditure on health while the general government heath expenditure represents only 22.3 percent (US$26.9 per capita), according to the 2014 Health system Financing Review Report. [55] About 35 percent of the out -of -pocket expenses are spent at primary health care centers, mainly for paying user fees and cost of medicine, while 26 percent is spent at state ministry of health hospitals, over 15 percent is paid at physician's private clinics and 2.56 percent at private hospitals. Most of the put-of-pocket expenses amounting to 79 percent is paid for curative care, and 19 percent of household out of pocket expenses are used on drugs and medical consumables. The 2010 Review of Free Care in Sudan reached similar findings: households' out of pocket contribution is substantial. Sudan's National Health insurance coverage increased from 40 percent of the population to 68 percent in 2018 (below the target of 80 percent by 2020) but varies markedly across states (Table 7.1).

The high out-of-pocket expenses indicate inadequate financing for the health sector. The Federal Ministry of Health report, Health System Financing Review, indicated that health care facilities receive only 27 percent of their actual requirements. A major concern is the extremely low level of development/investment spending in the health sector. About 75 percent of the public expenditure on health is devoted to recurrent expenditure. Improved service delivery to the poor requires larger investment in health infrastructure. Striking the appropriate balance between development and current expenditures is warranted given that health-MDGs were not met and progress towards achieving SDGs targets is slow.

Strengthening health capacity at state and local levels is key to enhance efficient resource management and service performance. The capacity for data collection and information management within the decentralized framework of service delivery needs to be further improved. The improvement would help enhance monitoring and evaluation (M&E) of expenditure and related outcomes at these levels (i.e. inadequate M&E). Improving efficient resource management, linking resource allocations to sector outcomes, and enhancing stakeholder's

[55] Figures from the Health System Financing Review Report: Public Health Institute Federal Ministry of Health. Khartoum, Sudan: 2014. The out-of-pocket expense of 70% in this report is not far from the World Bank data figure for Sudan of 63% in 2015

ownership and participation would contribute to improve service delivery and enhance sustainability. Future sector reviews could help evidence base planning and targeting service delivery

7.7 Key challenges

Strengthen capacity to prevent, detect and respond to the threat posed by COVID-19 as well as strengthen national systems for public health preparedness in Sudan. According to the Multi-hazard Emergency Health Preparedness Plan, the financing needs to cope with COVID-19 related health care is about US$230 million. The plan is currently under funded and the needs are imminent especially with the expected 2nd wave and the recent deadly flooding in the country. The World Bank approved a grant of $21.99 million to help Sudan mitigate the effects of the COVID-19 pandemic. Of the total amount provided, $6.5 million is provided by the Health Emergency Preparedness and Response Trust Fund (HEPRTF), and $15.49 million is provided by the Sudan Transition and Recovery Support (STARS) Trust Fund, World Bank (2020).

Achieving health related MDGs/SDGs targets is a daunting challenge. The dominance of recurrent spending over development spending raises concerns about the level and quality of health services. Improved service delivery in the sector requires investment in health infrastructure, equipment, training and capacity building. This urges actions aim at improving resource allocation, assessing the appropriate balance between investment and recurrent expenditures is key given health-MDGs/SDGs have not yet been met. More importantly, the high level of absolute poverty and low levels of health indicators indicate a need to further improve the efficiency of expenditures to make room for improved quality of services. Maintaining public expenditure reviews alongside public financial management work would serve the objective of rationalizing public expenditures better.

Other challenges include the need to expand health insurance coverage; promote private sector role in providing health services and create opportunities to introduce viable public private partnerships; strengthen coordination between several health service providers; enhance efficient resource utilization; and increase public expenditure on health.

7.8 Heath strategic direction

The most recent policy is the National Health Policy 2017-2030 that was based on in-depth review of the previous National Health Policy (2007-2016). Stakeholders were then identified, and they were actively involved and engaged from the start. The policy is based on adopting a multi-sectoral approach in the form of health-in-all policies (HiAPs) and investing in the health system to achieve Universal Health Coverage. The major objectives are to: i) cover all Sudanese citizens by essential health package ii) avail people centered family health approach iii) decrease burden of communicable and non-communicable disease iv) decrease maternal and under 5 morbidity and mortality v) promote equalities vi) strengthen health governance vii) strengthen resilience of health and community systems and viii) raise life expectancy. However, the plan has not identified the financing requirements to achieve its objectives

7.9 Safe drinking water and sanitation

Situation analysis

The roles and responsibilities for water between levels of government are more complex than in education and health sectors. The nature of water sector means that it cannot so easily be divided along administrative boundaries and levels as education and health. There are multiple sources of water; surface water - rainfall and wadis (seasonal non-Nilotic streams) water, and the Nile system; groundwater that cross administrative boundaries. There are also different uses; irrigated agriculture, human and animal consumption, industrial and other uses that needs to be matched with appropriate methods of development and management requiring skill

sets and capacities that may not be available or needed at all tiers of government. For example, a specialized skill such as dam construction engineering would not be needed at all levels so can be centralized while other skills and roles such as managing a town water utility benefit from subsidiary – being managed at the lowest appropriate level. These tensions of geography, specialization and subsidiarity support the idea that the management of water should be a concurrent power but have also been a source of friction and inefficiency in Sudan – particularly over the way infrastructure and services are financed. There is unclear delineation of mandates and coordination among different sector institutions and the National Council for Water Resource has not been functioning for years.

The current model for water management includes roles for a national ministry with an array of specialized units and enterprises, state-level urban development ministries and state-level water corporations. The national ministry leads the management of water resources of the Nile Waters and dams, wadis, underground water, research and metrology. The Federal Drinking Water and Sanitation Unit, used to be the National Water Corporation, a semiautonomous body operating under the Public Corporations Act, but in 2014 it was converted into a Unit under the MWRIE. The unit is mainly responsible for setting national standards, design, procurement and implementation for federally financed development projects, and handing over these projects to the states after construction. Each state has its own water corporation; the State Water Corporation (SWC) backed by a state law for urban and rural water supply delivery. The SWC is assigned the responsibility for regulating, implementing, operating, mainstreaming, and managing water projects as well as collecting revenues from the water tariffs to finance their operations. Besides SWC, water at the community level is also provided by the private sector and the community's organizations. The Ministry of Urban Development and Public Utilities at the state level is also assigned the responsibility of small dams and water embankments for irrigation.

Several water policies have been defined. A water policy was formulated in 1992 with the objectives of ensuring that water resources are properly managed, protected and efficiently utilized and to informing the water legislation and strengthen water intuitions. Several attempts were made to review and update this policy. A multi-disciplinary, multi-sectoral committee was formed for this purpose. A preliminary draft of the national water policy was circulated in 2000 to stakeholders within Sudan; it was then evaluated and presented at a national workshop before finally being referred to all related federal ministries and state governments for comments. However, the policy has not yet been approved by the National Water Resources Council. Another policy draft was formulated in 2006 but was not officially endorsed. The policy covered water resources management, water utilization, legal and institutional framework, and capacity building. Despite being a comprehensive water resource management policy document, it is not officially endorsed. A sub-sector plan is the "Zero Atash" or Zero Thirst, which covered the period 2016-2020 and developed by MWRIE based on the Water Resources Atlas prepared in 2016. The objective is to develop rural areas and water resources away from the Nile; enhance animal and agriculture production; adapt and mitigate floods, drought, and climate change; and meet the needs of settlement of IDPs and nomads and pastoralists. It aims at providing water within 2 kilometers walking distance to all people in rural areas and within 100 meters for urban areas. However, this document is not a sustainable full fledge water resource management strategy.

A related sub-sector plan that focuses on water and sanitation is Sudan Water, Sanitation and Hygiene Sector 2019-2030 Sustainable Development Goal Six (SDG6) Plan developed with support from UNICEF. The plan aims to ensure availability and sustainable management of water and sanitation for all Sudan. It will be broken into three phases: a foundational, an expansion and a consolidation phase. It is costed at over US$17 billion split among government, development partners and communities.

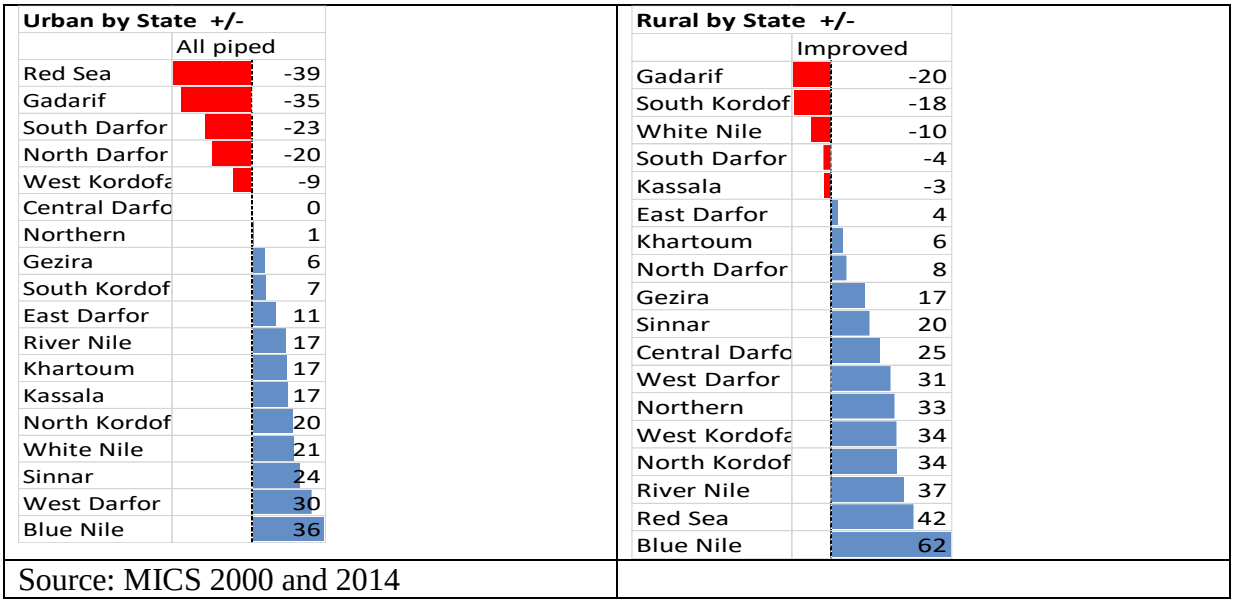
Sudan did not meet its MDG targets for water supply and sanitation and still has a long way to go to meet universal access by 2030. Household access to improved water sources for drinking water (i.e. piped to premises, public taps and hand pumps) increased by just 5 percentage points across Sudan between 2000 and 2014; rising

from 63 percent to 68 percent. Out of a population of around 37 million in 2014 there were still around 12 million people not using an improved water supply as their main source of drinking water. The number of people in urban areas that are using unimproved sources – particularly water purchased from vendors – has grown by a million to nearly 3 million whereas the number of people using unimproved sources in rural areas is still 9 million – the same number that did not have access in 2000.

Slightly better progress was made on sanitation (plus 14 percentage points) but from a very low base. In 2000 only a fifth of households had access to basic sanitation and this rose to just over a third by 2014. An estimated 24 million people in Sudan without access to even a basic toilet facility in 2014. Even for those with access to basic sanitation, less than half had hand washing facilities with water and soap.

Overall progress in access to improved drinking water varies across states and between urban and rural areas within states. There were major slippages in urban coverage in Red Sea and Gadarif states where household use of improved drinking water sources dropped by over 30 percent. There were also big strides forward in rural water supply coverage with increase of over 30 percent in Blue Nile, Red Sea, River Nile and parts of Kordofan and Darfur (Figure 7.8). However, these variations in progress reinforced the existing skew in access towards the states of Gezira, Khartoum, Northern and River Nile. These states that already had good levels of access (>50%) in 2000 that made good progress ending up with access levels over 85%. Except for West Kordofan, all these states had the lowest incidences of poverty and have sizable irrigation schemes (i.e. substantial water resources and engineering capacity). In contrast, a second group of states that had good levels of access (>50%) in 2000 performed very poorly (Gadarif, South Kordofan, Kassala, North Darfur, South Darfur, Red Sea). The reasons underlying decline in these states reflect a combination of issues that need to be examined by urban and rural sub-sectors. For example, slippage in Red Sea was driven by the struggle to expand water resource availability in line with Port Sudan's population growth. By contrast in South Kordofan and Kassala progress in expanding access to water in urban areas progressed but services to their mainly rural populations declined.

Figure 7.8: Progress in access to improved drinking water across states and between urban and rural areas within states



Source: MICS 2000 and 2014

The poorest segments of the population have limited access to improved water facilities. Access to piped water by the poorest 20 percent of the population is limited at 14 percent, whereas the richest 20 percent accessibility exceeds 60 percent. That is households in the wealthier consumption quantile are four times more likely to have access to a piped source of water than households in the poorest quintile. Most of the Sudanese

households rely exclusively on boreholes, hand pumps, wells and running open water source (e.g., river and pond). Table 7.5 shows the percentages of individuals in each quintile living in households reporting each of the possibilities for the household's main access to drinking water.

Table 7.5: Type of access to drinking water by quintile of consumption, 2014

Service level	Categories of water supply in NBHBS	Poorest	Second	Third	Fourth	Wealthiest	Total
Piped	Water filtering stations/ Boreholes/Stations/ Sand filters with network	14.33	30.53	43.63	54.77	62.93	43.47
Non-piped improved	Deep Boreholes/hand pumps	30.82	22.89	19.51	16.03	12.31	19.49
Non-piped not improved	Dam/wells	20.89	15.21	9.14	7.61	4.75	10.78
	Running open water source	5.9	6.28	4.53	3.65	3.13	4.55
	water vendor	28.07	25.08	23.19	17.96	16.87	21.70

Source: Based on analysis of the 2014 National Baseline Household Budget Survey.

Access to improved sanitation masks significant disparities across states and is inversely correlated to poverty rates. In line with disparities in access to water, the level of sanitation access is highest in Northern, Khartoum, River Nile states (with the lowest poverty rates), In contrast less than 20 percent of those living in Darfur states, Gadarif and Western Kordofan have access to improved sanitation. Most people in the Darfur region rely on unimproved pit latrines. (Table 7.6) Red Sea, Kassala and Central Darfur are the states with the highest open defecation rates as well as highest poverty rates. Access to improved sanitation facility is strongly correlated with consumption poverty. While about 40 percent of Sudanese households (or 4 in 10) have no toilet facility, even for the richest 20 percent, accessibility to private flush toilet is about 19 percent, whereas the rate of access to private flush toilet is less than one percent for the poorest 20 percent. In contrast, about 50 percent of households reported having access to a private pit latrine and the access rate varies from 40 percent for the poorest to about 60 percent for the wealthiest

Table 7.6: Type of Sanitation Facility by Quintile of Consumption, 2014

	Poorest	Second	Third	Fourth	Wealthiest	Total
Pit latrine - private	39.46	48.6	59.23	62.05	56.86	54.14
Pit latrine - shared	10.63	10.29	11.22	10.71	9.09	10.34
Flush toilet - private	0.9	1.76	2.9	6.37	18.78	6.89
Flush toilet - shared	0.49	0.99	0.67	1.05	2.98	1.33
Hufra - imtysas	3.18	3.05	3.47	3.06	2.15	2.94
Bucket toilet	0.06	0.10	0.00	0.16	0.21	0.11
Public sewage system	0.08	0.12	0.06	0.23	0.56	0.23
No toilet system	45.19	35.09	22.45	16.38	9.37	24.01

Source: Based on analysis of the 2014 National Baseline Household Budget Survey.
Figures shown are the percentages of individuals in each quintile living in households with each type of toilet facility

Many schools have no access to water and sanitation with a negative effect on school enrolment. About 28 percent of secondary schools have no access to water, according to the 2018 Education Sector Analysis. [56] Of the secondary schools that have access to water, about 9 in 10 are connected to the water network, while 1 in 10 schools have to rely on wells for their water supply. For basic education, about 7 percent of basic education schools do not have supply of water. Half of the basic schools are connected to the water network and about one third of the schools rely on wells and pumps for their water supply. One fifth of the basic schools rely on other sources of water which mostly include buying from vendors. The Ministry of Education reported, in 2016, that

[56] Sudan Federal Ministry of General Education, Education Sector Analysis, Feb. 2018.

38 percent of schools did not have sanitation facilities. Of the 62 percent that did there was no assessment of whether these were adequate or not. Only 35 percent of schools had an adequate number of toilets (one toilet each for 50 boys and 30 girls) compared to the number of users and that most of them were unclean with no source of water. This means, 7,700 need the toilets to be upgraded and around and 14,300 need to have new toilet complexes to meet the national norm of one toilet each for 50 boys and 30 girls. [57] Lack of water is one of the reasons for not attending school, particularly for girls.

7.10 Institutional assessment of sector financing

Water Supply and sanitation development expenditure has sharply declined since 2014 even though there are urgent needs. Water supply and sanitation allocations decreased markedly from US$383 million in 2014 to US$106 million in 2016, but increased in 2017 and 2018, reaching nearly US$200 million (Table 7.7). However, the development expenditure in 2017 and 2018 is far below its level in 2014. According to the most recent plan: Sudan Water, Sanitation and Hygiene Sector 2019 -2030 Sustainable Development Goal Six (SDG6) Plan developed with support from UNICEF is estimated to cost around US$206.4 million including US$109.6 million from the government, US$82.0 million from communities, and covering household latrine construction and water and solid waste management tariff, and US$14.8 million from UNICEF and other Development partners" page 15.

Based on the existing level of spending in the sector, there is US$1.2 billion a year funding gap. The level of spending of US$200 million constitutes only 15 percent of the required average annual funding of US$ 1.4 billion to achieve the SDG goals of universal access to water and sanitation, according to Sudan: Water, Sanitation and Hygiene Sector: 2019 -2030 Sustainable Development Goal Six (SDG6). The Plan is very ambitious, being costed at US$17 billion with an average annual spending of US$1.4 billion split among government, development partners and communities. The highest share of the estimated cost is allocated for sanitation, over US$8.4 billion (half of the budget). The second highest share is allocated for water supply system with over US$5.7 billion. The remaining balance is allocated to cross cutting cost including integrated water resource management M&E, capacity building, and school water supply. Financing the cost of achieving the SDGSDG6 is expected to be mobilized by the government and its development partners and communities. The government and its development partners are expected to allocate US$6.4 billion (or 40 percent of the total cost). Communities—including household latrine construction and water and solid waste management tariff—are expected to mobile the highest share of US$10.5 billion (or 60 percent of the total cost) during the period 2019-2030.

Table 7.7: Development expenditure allocations to water supply and sanitation

	2014	2015	2016	2017	2018*
Water supply and sanitation projects	218.8	598.6	431.6	677.7	NA
Water supply and sanitation projects included in reconstruction funds (e.g. Darfur Fund for Rehab. Fund for Rehab and Dev. of Eastern Sudan).	663	503.6	275.6	630.2	NA
Total allocations to water supply and sanitation (current SDG million)	881.8	1102.2	707.2	1307.9	1362.3
Total allocations to water supply and sanitation (current US$ million)	383.4	334.0	106.0	196.1	206.4

Source: Data compiled from budgetary sources.

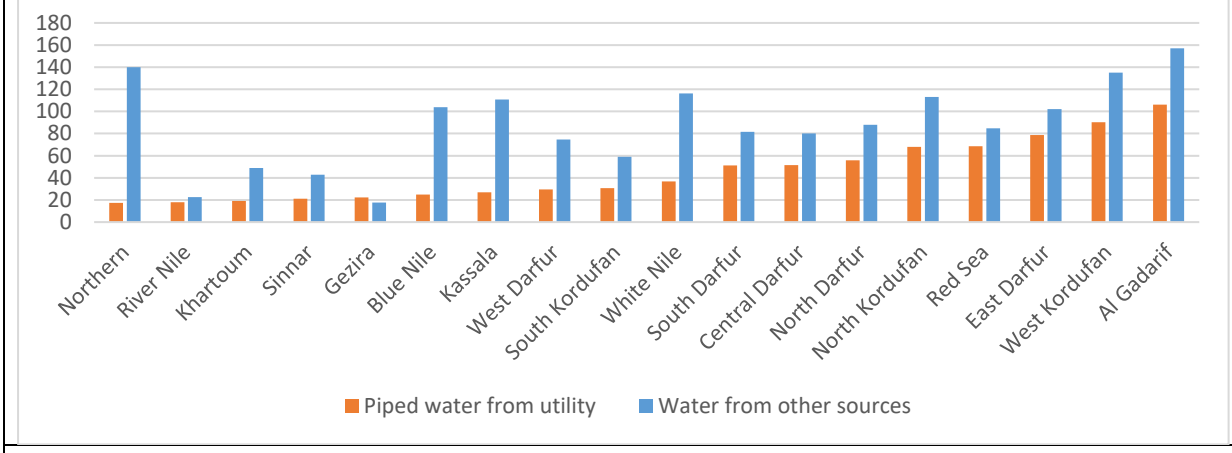
Note: Development expenditure also includes projects financed by development partners (e.g. Islamic Development Bank, UNICEF). * The 2018 data is taken from Sudan: Water, Sanitation and Hygiene Sector: 2019 -2030 Sustainable Development Goal Six Plan.

[57] GoS and UNICEF (2018). National Road Map: Sanitation for All in Sudan

Water Supply and sanitation development expenditure has sharply declined since 2014 even though there are urgent needs. Water supply and sanitation allocations decreased markedly from US$383 million in 2014 to US$106 million in 2016, but increased in 2017 and 2018, reaching nearly US$200 million (Table 7.7).

Water tariffs are low, and the cheapest source of water is from piped water. The 2014 National Baseline Household Budget Survey (BHBS) provided an estimate of monthly household expenditure on water. This data show that the cheapest source of water in Sudan is from piped water directly purchased from a utility. On average, households spent 30 SDG a month for piped water if they purchased it directly from a water utility compared to an average of 110 SDG a month if purchased through an intermediary. This benefit not only accrued disproportionally to urban compared to rural households but also to the same states that have better access to piped water (Figure 7.9). Thus, households connected to piped water systems both save time collecting water and pay less for water than do households using other sources of water. However, the cost of piped water varies significantly across states. For example, North Kordofan state water tariffs were three times higher than Khartoum state.

Figure 7.9: Average monthly household expenditure (in Sudanese Pounds) by source of water and state



Source: World Bank analysis of the 2014 National Baseline Household Budget Survey

7.11 Key challenges

A comprehensive country water resource policy comprising and integrating the different water related sectoral policies needs to be clearly defined. Without a very clear delineation of mandates among different sector institutions – and the National Council for Water Resource not functioning for many years – a fragmented approach to water sector development has emerged. Adequate coordination among water related sectors is an essential requirement in developing an integrated, holistic approach needed for sustainable water resources management.

An adequate financing for the water supply and sanitation sub-sector is a major challenge. Budget allocations of the water sector are fragmented across different institutions and tiers of government, hindering a comprehensive overview of funding. This is due to inadequate comprehensive vision, coordination, financial support and clear horizontal and vertical reporting lines. Moreover, limited external financing due to the country's external debt; the current adverse macroeconomic situation; inadequate strategic financial planning; improper use of the available financial resources; and unavailability of innovative sector financing options such as Public

Private Partnership (PPP) modalities including Build, Operate and Transfer (BOT)[58]; and absent, low or irregular water supply tariffs pose additional challenges.

Improved water and sanitation services could reduce the regret costs associated with poor health outcomes and human capital formation. With high open defecation rates, Sudan suffers from high levels of communicable diseases, at a rate well above the regional average, personal hygiene, waste disposal and sanitation are of concern for the health and well-being of Sudanese, especially women and children. Improved water and sanitation services for Sudan could reduce the regret costs associated with poor health outcomes and human capital formation. The Economic Impacts of Poor Sanitation in Africa study that covered 18 African Countries indicated that Sudan is estimated to lose 2.1 percent of the GDP due to poor sanitation. [59]

7.12 Social Protection Programs

Situation Analysis

The country faces considerable shocks/vulnerabilities with direct consequences on the poor and their capabilities. Vulnerabilities include political instability, internal conflicts, and displacement in certain parts of the country; harsh climate conditions, flood, erratic and low rainfall; frequent economic shocks, including South Sudan secession; and high external debt burden and limited concessional financing. [60] Of concern is the recent food price hikes that contributed to ever increasing inflation, while economic growth and per capita GDP is decreasing. All these vulnerabilities have pervasive impacts on the poor, food security and nutrition, requiring an effective social protection system. This is urgently needed as the impeding reforms will require having a system in place for social transfer schemes and safety nets delivery.

The Government has set an extensive social protection system, involving several institutions and financing arrangements. The social protection system comprises: (i) safety nets interventions including direct cash transfer and in kind transfers by the Government and Zakat Fund/Islamic Charity; (ii) contributory social insurance programs including Pension Fund, Social Security Fund and Health Insurance Fund; (iii) general subsidies and general support to certain medical care services like free treatment in emergencies and free lifesaving medicines (iv) microfinance; and (v) Support programs to special groups like poor university students, rural women, DDR programs for ex-combatants, vocational training centers to enhance youth employment, support to humanitarian crises in conflict affected areas. The social protection system is supported by government (budgetary resources), non-governmental institutions (e.g. Zakat), development partners (e.g. UNICIEF WFP, World Bank) and informal networks including remittances transferred by Sudanese migrants abroad. Coordination remains a daunting challenge given weak capacities in most of the institutions concerned.

Public expenditure on social protection programs has significantly grown over time, it remains substantially below general subsidies expenditure that constitutes a very significant share of GDP amounting to 7 percent. Public expenditure on social protection programs (excluding subsidies) as a share of total expenditure or as a percentage of GDP almost doubled between 2012 and 2018. Social protection expenditure (excluding subsides) accounted for 1 percent of GDP, with an increasing trend since 2012. In contrast, the cost of subsidies—covering fuel products, wheat and electricity—increased from 1.9 percent of GDP in 2012 to 2.3 percent of GDP in 2013 and 2014 and further to 6.8 percent in 2018 (or nearly one half of total expenditure (Table 7.8).

However, these subsidies are universal in nature and the subsidy resources could benefit the poor more effectively if they were targeted. Sudan runs an extremely expensive general subsidies system that is not better targeted towards the poor. General subsidies dominated by fuel products representing over 80 percent of the total

[58] The only exception is Al-Manara Water Company, which is facing financial difficulties.
[59] WSP (2012). The Economic Impacts of Poor sanitation in Africa
[60] This section draws heavily on a thematic paper commissioned by UNICEF and titled, "Social Protection and Poverty in Sudan", December 2019.

subsidies. Subsides disproportionally benefit the rich are thus ineffective in protecting the poor. This is because the rich 20 percent income group has a larger budget share on fuel based on estimates from the latest household survey (2014/15 NHBPS). Most of the benefits from subsidies are captured by higher-income households and the burden of increasing energy prices falls more heavily on the richest 20 percent households.

Critical financing, amounting to US$370 million, for the first phase of the Sudan Family Support Program SFSP/cash transfer has been provided by the World Bank and European Union. [61] The program aims to deliver cash transfers and improve safety net systems for the Sudanese families affected by expected economic reforms and other short-term shocks. SFSP is led and implemented by the Sudanese government.[62] The pilot phase is being launched in October 2020 and the program will be gradually scaled up over the next few months, starting with the states of Khartoum, Red Sea, South Darfur and Kassala. It is anticipated that additional donor contributions will be received to cover the balance needed to fully fund the first phase that costs US$400 million.

Table 7.8: Public expenditure on social protection, 2012-2018 (SDG million)

	2012	2013	2014	2015	2016	2017	2018
Subsidies	4,235	9,714	10,520	9,931	8,979	12,755	64224
Pension contribution	884	1,172	2,826	2,890	3,223	2,255	2,742
Cash transfers	0	110	702	900	1,080	1,260	1,350
Health insurance contribution on behalf of the poor	0	0	271	340	505	1,080	5,508
Health weavers							
a) Free of lifesaving medicines, operations in hospital and treatment in emergency	175	215	264	334	556	1,396	982
b) Support to local health institutions	0	0	0	0	0	45	153
c) Primary health care in rural areas	250	0	84	97	111	117	171
Students support	9	0	17	22	30	37	40
Support to social activities	219	248	189	282	352	991	875
Support to prisoners	1	1	1	1	6	10	34
Others (higher education)	0	0	0	0	0	0	33
Total (excluding subsidies)	1,538	1,746	4,354	4,866	5,863	7,191	11,888
Total including subsidies	5,773	11,460	14,874	14,797	14,842	19,946	76,112
In percent of total current expenditure							
Subsidies	16%	27%	21%	18%	15%	18%	41%
Social protection excluding subsidies	6%	5%	9%	9%	9%	10%	8%
Social protection including subsidies	22%	32%	30%	27%	24%	28%	49%
Note item							
Total current public expenditure in SDG million	26,272	36,178	50,380	54,864	62,195	71,886	157,090

Source: UNICEF (2019), Poverty and social Protection, a thematic paper.

Notes: Others include higher education-Gezira pension-additional support to social security and Pension-Students support, primary health care in rural areas and social insurance was transferred to the starts in 2013

The World Food Programme (WFP) runs nutrition centers across Sudan where children receive protein-rich supplementary foods that are filled with essential nutrients to address stunting and malnutrition. WFP has successfully launched VITAMINO, a micronutrient product to tackle malnutrition within vulnerable groups. WFP expenditure on emergency food averaged about US$ 300 million during the period 2012-2018, while UNICEF nutrition support to children increased from US$13 million in 2012 to US$43 million (UNOCHA Sudan Financial Tracking).

[61] The World Bank approved a US$200 million Pre-Arrears Clearance Grant for the Sudan Family Support Program (SFSP). This is in addition to US$200 million approved by Management from the Sudan Transition and Recovery Support Trust Fund (STARS), of which US$170 million has been received from donors (mainly European Union; Germany Ireland, the Netherlands; and Sweden) to-date for the first phase of the SFSP.

[62] The Sudan Family Support Program is being implemented by the Ministries of Finance and Economic Planning, Labor and Social Development, and Interior, along with other relevant agencies, and will be executed by the Digital Economy Agency.

The social protection programs have grown in terms of coverage and benefit provided to poor households. Significant increase in coverage for most of the social protection programs has been made. However, progress varies from one program to another. Despite progress made, the country has a long way to go to reach adequate coverage in certain programs like cash transfer, health insurance and microfinance given the magnitude of vulnerability and widespread poverty as well as the low base from which these programs started. For example, the health insurance coverage increased from 34 percent of the population in 2014 to 66 percent in 2018, below the target of 80 percent by 2020. According to the Director of NHIF about 60 percent of the poor are still outside the coverage[63] (Table 7.9). The cash transfer coverage increased from less than 100 thousand in 2012 to 500 thousand households in 2018, representing only 19 percent of poor households. However, given, recent developments (i.e., political and macroeconomic instability including high inflation and shortages of bread and other food and low economic growth), the number of eligible poor households is expected to have substantially risen.

Table 7:9: Social protection programs beneficiaries (Number of beneficiaries)

Program	2012	2013	2014	2018	Beneficiaries Type
Zakat	3,111,996	3,037,255	1,920,000	3,800,000	households
Social Insurance Fund	316,606	323,538	321,318		persons
Health Insurance Fund	10,044,829	10,857,063	12,252,692	24,505,384	Persons
Pension Fund	412,733	412,733	503,217		persons
Cash transfers -	99,817	260,000	500,000	500,000	Families
Poor students	150,000	194,000	200,000	200,000	University students
Microfinance	184,000	490,000	624,000	854,000	Clients
WFP/UNICEF	3,500,000	3,600,000	3,600,000		persons

Source: Annual Reports: Zakat Chamber (2012-2013), Central Bank of Sudan, Microfinance Unit, Performance of Social Security Institutions, Ministry of Welfare and social Security (2012-2013)

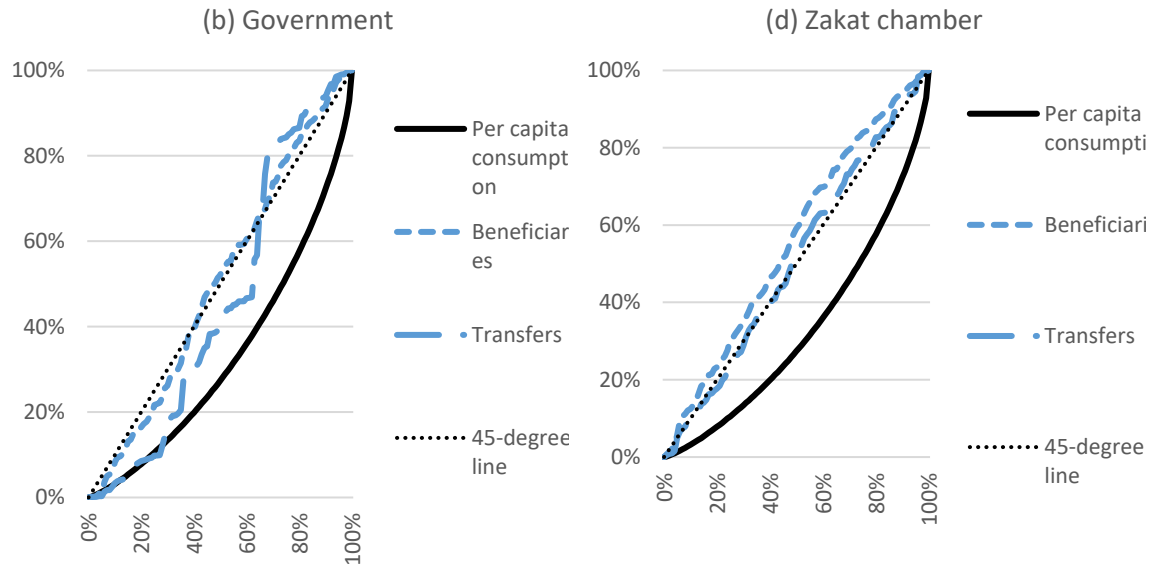
Government transfers and Zakat transfers have low targeting accuracy. The bottom-40 percent accounted for only 39.4 and 46.5 percent of the beneficiaries of government programs and Zakat transfers, respectively (Figure 7.10). Receipts from transfer programs appear small and are very likely underreported in the 2014/15 NHBPS survey. The survey estimates suggest that only 5.0, 2.4, 2.4, and 4.5 percent of the population received food aid, government programs, transfers from NGOs and charities, and from the Zakat chamber in either cash or in-kind, respectively. These estimates are roughly in line with administrative data. For instance, the Social Initiative Program (SIP) reportedly covered 5.3 and 7.1 percent of the population in 2014 and 2015, respectively, similar to the combined coverage of government and Zakat transfers. But the size of these programs relative to GDP and as a share of household expenditure in 2014 appears very small. With a recall period of twelve months, one reason may be recall decay, the tendency of respondents to report smaller quantities with increasing time period over which quantities are recorded. It may also be that respondents receive transfers frequently but that they are unable to calculate and report the sum of transfers over the course of a year. However, while the transfer amounts may be underreported, it may still be informative to compare characteristics of beneficiaries and non-beneficiaries to shed light on the adequacy of targeting of transfers at the end of 2014.

The cash transfer program covers all 18 states, however, a large variation in the cash transfer coverage among states is evident with the poorest states receiving the least benefit, necessitating better targeting. A breakdown of cash transfer by geographic locations reveals important variation across the 18 states (Figure 7.10). Khartoum and Gezira states (where poverty is relatively low) host nearly 30 percent of cash transfer beneficiaries (Khartoum State 16 percent and Gazira State 11 percent). Residents of Darfur, Kordofan, and other less developed areas were significantly worse-off in terms of cash transfer than the rest of the country. For example,

[63] Workshop of States Coverage Directors, National Health Insurance Fund (NHIF), Khartoum, August 2015).

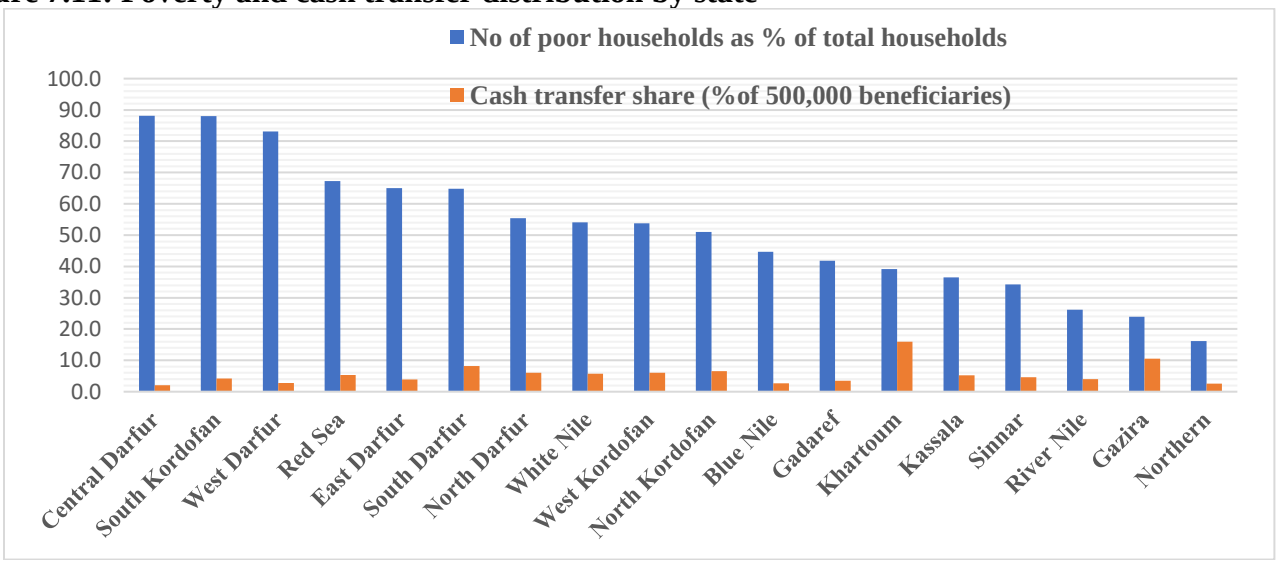
Central Darfur poverty rate is the highest in the country (67.2 percent) but hosts only 2 percent of cash transfer beneficiaries. The cash transfer program has also encountered many challenges, including substantial inclusion and exclusion errors in beneficiary selection, payment delays and inconsistencies, and weak M&E systems.

Figure 7.10: Lorenz-curve for per capita consumption and concentration curves for beneficiaries and transfer amounts by program, 2014.



Source: Calculations based on NHBPS.

Figure 7.11: Poverty and cash transfer distribution by state



Source: Calculations based on the Mistry of labor and Social Development and World Bank Analysis of the 204/15 household survey

7.13 Strategic Direction

Develop a comprehensive social protection policy. While there are several social intervention programs supported by several institutions and development partners, however there is no one single comprehensive/universal national social protection policy. This has led to some overlaps, geographical inequality,

and inefficiencies in these programs. Coordination remains a daunting challenge given weak capacities in most of the institutions concerned. The Ministry of Labor and Social Welfare and other government institution and agencies responsible for social protection and poverty reduction, and development partners should work closely together for better coordination. The national policy is not integrated into the government strategies, plans and programs and budgets. The states do not formulate their own policies within the framework of the national social protection policy. These policies are not based on wide stakeholder's consultations to enhance ownership by local communities.

Improve equity of social protection programs. Geographical coverage particularly for cash transfers/family income support, health insurance, and Zakat is not equitable. The rollout of the cash transfer/income support program providing cash transfers to 2 million households is major step to improve the coverage. However, improving the targeting mechanisms of the social protection programs delivery is key towards successful implementation. There is evidence of poor targeting of social transfers, including cash transfer, health insurance and microfinance, zakat and subsidies at the income and state level. Improvements are required in targeting of beneficiaries and the delivery mechanism for the social transfers, closely linking transfers to poverty.

Develop a new credible data base and a unified social registry. Database of social protection data in Sudan is not comprehensive and there is no credible result base monitoring system to support the social protection programs. There exists an urgent need to develop a unified beneficiary registry, in which multiple forms of social assistance can be managed to reduce overlaps and create synergy. This is critical due to the weakness of the data base, which is founded on Zakat list as generated by the Zakat gross root communities, and the system is believed to be used to leverage political support or misuse of funds during al-Bahir regime. Thus, a new credible data base and a unified social registry should be established.

Reform subsidies system. Subsidies are universal in nature and the subsidy resources do not benefit the poor more effectively. Sudan runs an extremely expensive general subsidies system that is not better targeted towards the poor. General commodity subsidies dominated by fuel products representing over 80 percent of the total subsidies. Subsides disproportionally benefit the rich are thus ineffective in protecting the poor. This is because the rich 20 percent income group has a larger budget share on fuel based on estimates from the latest household survey (2014/15 NHBPS). Recently, the transition government has lifted the fuel and electricity subsidies.

8. PROMOTING PEACE AND PROVIDING EQUAL OPPORTUNITIES FOR ALL SUDANESE: PILLAR 4

8.1 Situation Analysis

A salient feature of poverty in conflict countries is its association with conflict and Sudan is not an exception[64]. Sudan has been in conflict for most of its post–independence history. The conflict started in South Sudan region between the government and South Sudan rebel movement spanning the periods 1955-1972 and 1983-2005. The conflict then spread to the two areas: South Kordofan and Blue Nile states in 1984; to Eastern Sudan region in the early 1990s, and a vicious conflict broke out in Darfur, Sudan's largest region, in 2003.

The conflicts in Sudan have devastating impacts on the country. Livelihoods were disrupted, asset were stripped, production and markets failed, children lost access to education, human rights were violated and the long history of conflict has had significant impacts on the environment. The conflict in Darfur, South Kordofan and Blue Nile left close to two million persons in protracted displacement. According to UN[65] about 1.8 million continue to live a situation of protracted internally displaced persons, registered in approximately 60 Government recognized camps. Most of the IDPs are in Darfur accounting for 89 percent of total displaced while 11 percent are in South Kordofan and Blue Nile. An unknown number of unregistered IDPs are located in host communities and remain uncounted in the aforementioned total. The United Nations and partners estimate that a further 500,000 displaced people live in host communities and settlements in Darfur. Armed struggle movements in South Kordofan and Blue Nile estimate that an additional 545,000 people are displaced in areas under their control[66]. Under these circumstances, poverty appears inevitable.

Poverty indicators in Sudan reveal that that the poorest states in the country are the conflict states. In 2014/15 all the poorest seven states in Sudan are war affected with poverty incidence rate ranging from 67.2 in Central Darfur state to 42.3 in North Darfur state. This situation is not different from 2009. Poverty in Darfur Region was 62.7, the worst region in terms of poverty, and the war affected states of South Kordofan and Blue Nile were among the worst six states in terms of poverty.

Several attempts were made in the past to resolve the conflict. The protocols for the resolution of the conflict in Southern Kordofan and Blue Nile States' were signed on 26 May 2004 between the government and the armed rebel group "Sudan People Liberation Movement –North"; and was part of the CPA though having a different implementation track. In October 2006 Sudan government and East Sudan Front signed a peace agreement – Eastern Sudan Peace Agreement -in Asmara, Eritrea, to end the 12-year armed conflict in eastern parts of the country. A peace agreement for Darfur "Darfur Peace agreement DPA" was concluded in May 2006 between the government and Sudan Liberation Movement- SLM/ MM, in Abuja, Nigeria; while the other two armed movements refused to sign. The Doha Document for Peace in Darfur (DDPD), the product of a new settlement attempt was signed in Doha, July 2011 between the Government of Sudan and the Liberation and Justice Movement, but two factions refused to join. Despite the aforementioned numerous signed peace agreements to resolve conflict in Sudan, but conflict continued.

[64] Poverty rates are 20 percent higher in countries affected by repeated cycles of violence. Despite overall reduction in poverty rates globally however, countries affected by conflict are lagging. See: World Bank Group: Poverty and Shared Prosperity 2020-Reversal of fortune. World bank: Fragility, Conflict and Violence.

[65] UN OCHA" Sudan – Humanitarian Needs Overview 2020 and Humanitarian Response Plan 2019

66 UN OCHA –Sudan, Humanitarian Response Plan 2018

8.2 Key Challenges

The previous peace agreements although covered power and wealth sharing but did not cover the root causes of the conflict, and as such they were not sustainable. The previous peace agreements have failed to find a durable solution for the return of IDPs and refugees. They have failed to tackle the management of diversity of the Sudanese people, without religious, ethnic, cultural or gender discrimination. They also failed to address historical injustices and inequities which have accumulated as a result of past practices. They have failed to address the issues of land rights and management of natural resources. They have failed to address the quest for justice and reconciliation and the historical absence of accountability for human rights violations committed during deadly conflicts. Moreover, they were not inclusive as some of armed groups were not party to the agreements or aborted them at the implementation stage. Therefore, the challenge was to reach an inclusive sustainable peace agreement with all armed struggle groups that addresses the root causes of the conflict

8.3 Actions

The government managed to reach a peace agreement –Juba Peace Agreement –on the third of October 2020, with main arm struggle groups. The signatories to the agreement from the armed struggle groups were: Justice and Equality Movement (JEM) and Minni Minawi's Sudan Liberation Army (SLA), both from the western region of Darfur; and the Sudan People's Liberation Movement-North (SPLM-N) led by Malik Agar, present in Blue Nile, along with other smaller groups.

The government key actions are based on Juba Peace Agreement. The government actions will address the following issues that are expected to achieve a lasting peace in Sudan: IDPs and refugees return, managing diversity, geographical disparities, competition over natural resources and land, and transitional justice

8.4 IDPs

The government will implement durable solution for IDPs and returnees, to put an end to the protracted displacement in the country. The durable solutions for the return will be underpinned by the principles of voluntariness, safety, dignity and non-discrimination in accordance with the international law.

IDPs and refugees will not be relocated by force but will be fully protected to return voluntary to their area of origin or integrate locally or relocated in other areas of their choice. IDPs will be provided with all necessary documents that will enable them to practice their legal rights as citizens. People who occupied the land of IDPs will be evicted. IDPs will have access to their property and assets or to be compensated for the loss if these assets cannot be redeemed.

Insecurity which remains a predominant concern for IDPs, particularly women, in the presence of armed groups and militias, will be resolved. The government and the armed struggle groups signatory to the Peace Agreement will ensure the security and safety of IDPs. The Permanent Seize Fire Committee composed of the parties to the agreement, with membership from the international and regional organizations will supervise the collection of arms by the government from all militias, tribal groups and armed individuals operating outside the law. A joint force from the government forces and the armed groups will be established to enforce law and order in Darfur including security for IDPs in camps and in areas of return. Consideration will be given to the impact on stock routes as a result of the return of IDPs to their place of origin to avoid any conflicts.

Appropriate institutional set up and financial resources will be availed to successfully implement the return of IDPs and refugees. A Commission for IDPs and Refugees will be established to supervise the return operations with assistance from the concerned international organizations especially the relevant UN agencies. Adequate government resources will be allocated to the Construction Funds which are entrusted with the task of

providing livelihood, basic services, infrastructure, and microfinance in the areas of return and in areas of relocation for those evicted from the lands that they have illegally occupied.

The government will seek assistance in terms of financial resources and technical assistance gained from global experience in post-conflict reintegration and development from the international partners. The Government will build a strong partnership with the international development and humanitarian partners in this important effort. Use will be made of previous efforts like the work of the Durable Solutions Working Group by UNAMID and the United Nations /Humanitarian Country Teams.

8.5 Managing Diversity

The relation between religion and state is a major issue that **ought to be** addressed. There will be a complete separation between religious institutions and state institutions and the state will remain equidistant from all religions and sacred beliefs without racial, and cultural bias. This principle will be incorporated in the Constitutional Document of the transitional government. Managing diversity, citizenship and relationship between religion and state is set at the top of the agenda National Constitutional Conference which will take place before the end of the transitional period, with the work of the Constitutional Making Commission to take place within a maximum period of six months after the signature of Juba Peace Agreement. The regions/states of The Blue Nile and Kordofan were given the right to legislate under the 1973 constitution (legislation that is not based on Sharia-Islamic laws). A National Commission for Freedom of Religion will be established to address issues of religious diversity.

8.6 Geographical Disparities

The government will address disparities of marginalized and war affected areas by providing necessary resources and affirmative actions for these areas. A National Commission for Financial Allocation and Monitoring of Revenues will be established to allocate resources from the federal government to the regions/states based on affirmative actions to remove disparities and raise the low level of development and services in Darfur, Blue Nile, South Kordofan, Eastern Sudan as areas suffering from historical marginalization and conflicts, to equate them with other regions of Sudan. The government will also establish Darfur Development Bank, Darfur Fund for Peace and Sustainable Development Support, Darfur Compensation and Reparation Fund, National Fund for Reconstruction of for other war affected areas and will provide support for Eastern Sudan Reconstruction Fund, to promote development and increase basic service delivery in these war affected areas to ensure reduction of disparities in development and services. A share of 40 percent from oil and gold generated from extractive industry in the war affected regions/states will be allocated to the concerned region.

Affirmative actions for war affected areas will be taken in several front. The governed will allocate 20 percent of middle and senior levels posts in the civil service, judiciary, and general prosecutor to Darfur and establish a committee to correct any imbalances in the representation of the people from Darfur in the civil service. It will allocate 28 percent of civil service jobs to other war affected areas. Affirmative action measures will also be taken to allocate certain percentages in national higher education institutions to students from war affected areas.

8.7 Competition over Natural Resources and Land Rights

A Commission for the Development of Farmers and Pastoralists will be established, to handle conflict over natural resources between settled farmers and pastoralists which is the most common conflict. The Commission will be mainly responsible for organizing the relation between farmers and pastoralists, opening of livestock routes, developing the livestock sector, implementing environmental awareness campaigns, and provide basic services. This will be supported by mechanisms to reform environmental regulations and institutions to address causes of the environmental degradation.

Conflict caused by extractive industries mainly oil and gold mining, will be addressed. The government will ensure sound environmental practices in the oil fields and facilities and in mining sites. The affected regions/states and communities will participate with the national government in supervision and monitoring the management of these resources. An environmental review will be undertaken for existing concessions in the natural resources sector.

Customary rights over tribal land –Hawakir- and historical right of pastoralist livestock routes and access to water will be recognized. The government will establish national and regional/states land and Hawakir commissions in Darfur, Blue Nile and South Kordofan to deal with disputes and claims on land as result of the conflict including land occupation by others, land grabbing, and land forcefully taken by any party. The contradictions between statutory and customary laws of land will be reviewed.

8.8 Transitional Justice

The government will ensure justice to the victims of the conflict. It is now recognized that to address grievances and divisions brought about by the conflict, suffering needs to be acknowledged, and transitional justice is becoming vital for securing a peaceful transition from conflict to peace without fear of recurrence. This is particularly true for Sudan as it witnessed persistent impunity on human rights violations that encouraged the perpetrators. The government will approach transitional justice from several angels including (i) a special court for Darfur crimes, (ii) a truth and reconciliation structure, (iii) traditional justice, and (iv) cooperation with the International Criminal Court (ICC).

A special court for the crimes committed during the conflict in Darfur will be established with an independent prosecutor. Its jurisdiction will cover genocide, crimes against humanity, and war crimes. A group of experts from the African Union will be allowed to monitor the process of adjudication to ensure its conformity with the international law.

A Committee for Truth and Reconciliation will be established. It will be tasked with recording, investigating, documenting causes of the conflict, establishing individual and groups perpetrators' accountability, calling witnesses to tell the story of what happened, availing opportunity for victims to share their experiences, giving amnesty to perpetrators with the consent of the victims to facilitate healing and reconciliation. It will work on reconciliation between the various communities to reach a true healing of wounds within the communities.

Traditional mechanism of Justice will be used to allow tribes to punish perpetrators in crimes that fall outside the jurisdiction of international courts and the national judiciary and truth and reconciliation committee. The courts will use customary norms to perform this function and can refer cases outside their jurisdiction to the competent bodies

The government will fully cooperate with the ICC. The government has officially agreed with the ICC General Prosecutor for a full cooperation in implementing the decision of outstanding arrest warrants against suspects wanted by the ICC for alleged war crimes and genocide in Darfur, including the ousted president. The government and the armed struggle groups will facilitate easy access for ICC prosecutors and investigators to victims, witnesses, and investigation sites and to move freely in the country.

To implement the peace agreement, the Government will build a strong partnership with the international relief and development agencies. These agencies will help in raising funds for the programs as well as in bringing technical expertise gained from global experience in post-conflict reintegration and development. The government expects that the establishment of the United Nations Integrated Transition Assistance Mission in

Sudan (UNITAMS), by the United Nations Security Council Resolution (2524) in June 2020, will assist in meeting the political benchmarks of the Constitutional Declaration. One of the major tasks of the mission is to support implementation of peace agreements in conflict affected areas, as required; and assist in national-led peacebuilding efforts.

The government recognizes that there are certain challenges and risks facing Juba Peace Agreement, which it will try to address. Inclusiveness of the peace agreement is not yet achieved as some factions still did not sign a peace agreement. The government will exert all efforts to bring the two main factions who did not yet sign the peace agreement to join the peace process. The Sudan People's Liberation Movement-North (SPLM-N) led by Abdelaziz al-Hilu from South Kordofan, though has signed a separate ceasefire, but not the Juba Peace Agreement, agreed to resume talks which already started with technical workshops. Efforts will be made to bring the second faction to the peace process; the Liberation Movement (SLM) faction led by Abdelwahid Nour, realizing that Juba Peace Agreement meets his substantive demands.

The second challenge will be the substantial financial resources required for the implantation of Juba Peace Agreement. Many activities will need money to implement, including: humanitarian needs, IDP return and rehabilitation of the war affected areas, disarmament, demobilization and reintegration (DDR), the commissions (like land commissions, farmers and pastoralists commissions, the Constitution Making Commission, Peace Commission, transitional justice commissions) and the population census. The required resources go beyond the government financial capacity, which is struggling with many other competing priorities. Successful implementation of the peace agreement therefore requires sustained support from regional and international partners, to avoid slippage in the implementation and reoccurrence of the conflict

9. STRENGTHENING GOVERNANCE AND INSTITUTIONAL CAPACITY: PILLAR 5

9.1 Introduction

Governance issues are at the heart of Sudan's economic, social and poverty trajectory. It is the nature of governance systems and institutions that have shaped the macro-fiscal, human capital and security outcomes discussed in earlier chapters. Likewise, the poverty reduction strategy set out in this document cannot be successful absent reforms to strengthen the performance of basic governance functions. Investing in institutions to promote accountable, efficient, and equitable decision making and management of resources is essential to deliver a pro poor agenda, especially in the current context of extreme fiscal constraints and deep mistrust. This is true from a technical perspective – all reforms require a well-functioning governance machinery. Importantly, it is also true for the broader objective of building a strong social contract to underpin the successful completion of Sudan's democratic transition. At the heart of this transition is the transformation of institutions from tools of the previous regime to instruments that deliver inclusive and equitable public goods.

The challenge of improving governance is tremendous: Sudan has suffered from decades of mismanagement of resources, corruption, weak public sector institutions, and lack of accountability which have contributed to increasing poverty, inequality, marginalization, and conflict. [67]

Sudan has a unique opportunity to launch a systematic reform program to address these challenges. The Constitutional Declaration sets out the commitment to accountable, rights-based governance. Reshaping state institutions to deliver on the ambitious agenda requires deep technical reforms, changes in mind set and building a culture of transparency and trust. While this transformation is a generational one, this chapter sets out the core priorities of the near term.

The priorities in governance reforms are guided by the commitments of the Constitutional Declaration and Juba Peace Agreement, and they can be grouped into three sub-pillars. These include: (i) reforming federal system and intergovernmental fiscal relations; (ii) strengthening state effectiveness; and (iii) strengthening anti-corruption, justice, and rule of law institutions.

9.2 Federal System Institutions and Intergovernmental Fiscal Relations:

Situation analysis

The Interim National Constitution (INC) set the principles of resource sharing and expenditure responsibilities between the three level of the government; federal, states and localities; however, the transition government is undertaking major reforms of the current system. The federal government is assigned the power to collect customs revenues, business profit taxes, personal income taxes, and VAT and non-tax revenues, mainly from oil (Table 9.1). The federal government agrees with states for the share of these revenues to be transferred from the federal government to the states (vertical transfers) every year. The vertical transfers are negotiated and not built on a specific formula. During the previous regime, the negotiations were initiated by the Fiscal Financial Allocation and Monitoring Commission (FFAMC) to ensure an annual intergovernmental transfers system

[67] Sudan currently ranks at the bottom of most indices measuring the performance of governance and public sector institutions. For example, Sudan ranks 173 out of 180 in the 2019 Corruption Performance Index of Transparency International. A similar pattern exists in many other indices such as Government Effectiveness, Public Sector Accountability and Transparency, Accountability of Public Officials, and Rule of Law.

between the federal government and the states. However, the transition government plans to reform the federal system as discussed below.

Table 9.1: Fiscal decentralization

	Federal	States	Localities
Revenues assignment	Value added tax Taxes on international trade Corporate or business profit tax National personal income tax Public enterprises and government companies' profit	State land and property tax, and royalties Service charges for state services Licenses State personal income tax. Levies on tourism Stamp duties Agricultural taxes (currently on hold and states are compensated for the loss of revenue). Border trade charges or levies in accordance with national legislation.	Real estate's proceeds Local sales tax Agricultural and animal production tax Local land and river means of conveyance fees Local industrial and crafts production fees Local fees for mining services for traditional mining
Expenditure responsibilities	Defense and Security, Foreign affairs, Higher education (concurrent power with states) National agriculture and livestock projects, Aviation, dams, navigation and shipment, National debt,	State Irrigation and Embankments, State agriculture and livestock, Secondary and technical education, urban water supply, Higher education (concurrent power with federal), Social welfare, including State pensions, state natural resource,	Preschool and basic education, dressing stations, rural water supply, sanitation, social welfare
Equalization: vertical and horizontal		(i) Current transfers: composed of (a) non conditional transfers (b) conditional transfers: allocation to health, education (school's construction, seating and textbooks), tertiary education (support to universities that were transferred to states in 2005) and police (some security activities transferred to states in 2005) (c) 2 percent from the oil revenue allocate to the producing states: (ii) Development transfers: are mostly earmarked by project including education, health, water supply, roads, and agriculture. The development transfers also include pool resources for the reconstruction funds created by the peace agreements in Sudan and earmarked for certain war affected areas (i.e. Darfur Fund for Rehabilitation and Development, Eastern Sudan Development Fund, Blue Nile State Development Fund and South Kordofan State Peace Fund).	

Source:

The 2019 Constitutional Document endorsed by the transitional government has stated that Sudan will remain a federal state, but the issue of region or state sub-national level will be decided later. Until the new levels are organized, the current system of the federal, states and locality levels will continue. The transitional government however abolished the Fiscal Financial Allocation and Monitoring Commission (FFAMC) which was the body responsible for the fiscal transfers but operated under considerable political intervention from the presidency of the previous regime. The Ministry of Finance and Economic Planning is currently undertaking the responsibility of the FFAMC until new arrangements are made as discussed below.

Federal transfers allocation for each state (horizontal transfers) is based on a specific formula that is not always adhered to. The horizontal formula for allocating the subnational share of national revenues across the states is updated periodically to reflect a range of data points. Since 2017, the formula is based on eight criteria including: financial performance (10 percent), population size (25 percent), agricultural requirements (15 percent), security situation (15), education (13 percent), health (12 percent), distance to center and port (8

percent), and off-budget support (2 percent). These eight categories have 27 sub-categories, each with a relative weight. The criteria consist of both formula-based and discretionary factors. For development transfers, the following criteria is endorsed: strategic importance (15 percent), impact on people (15 percent), alignment with the development objectives (15 percent), state importance (15 percent), economic return (10 percent), social return (10 percent), state implementation capacity (10 percent) and geographical balance (10 percent). However, in practice the formulas are not always strictly adhered to, exposing transfers to political interventions.

States finance their expenditure including general education and health and water from two sources: (i) own revenues; and (ii) federal transfers. Own revenues are collected directly by the states, including local taxes and fees as detailed in Table 9.1, and the states have the highest degree of autonomy, including rate-setting authority. Federal transfers allocation for each state (horizontal formula) is determined as noted earlier.

9.3 Key Challenges

Fiscal Transfers face several challenges. Major challenges related to the transfers are: (i) fiscal space is constrained mainly due to declining federal government revenues and expenditures following South Sudan secession and the loss of 75 percent of oil and 50 percent of government revenues; (ii) the transfer mechanisms have not narrowed states' equity gaps in poverty, education, health and other basic services (iii) states are highly dependent on transfers from the federal government; (iv) federal transfers to states are dominated by current rather than development transfers and the majority of the state's direct their resources to current spending rather than development; and (v) the low budget credibility of federal transfers to states has significant implications upon states' budget planning and execution.

Table 9.2: States resources and expenditure responsibilities

State resources	Expenditure items
Own resources of states (state land and property tax and royalties; service charges for state services; licenses; state personal income tax; levies on tourism; national parks; stamp duties)	Mostly meeting wages and salaries of Education (pre-schools, basic secondary vocational and technical education, adult education)- Health (hospitals, primary health care units, dressing stations) and in some states subsides for the wages and O&M of SWCs
States Water Corporation (SWC) tariffs	Wages and O&M for urban and rural SWCs
Federal transfers	
Current transfers	
Earmarked transfers	Mainly wages and some running expenses for health insurance, free medical care by states, support to hospitals (recently transferred to the states from the federal government as per the constitution), reduction of child and maternal mortality rates programs
Two percent of total current transfers deducted by the federal government for earmarked transfers to state	School environment improvement (textbooks, seating, teachers training, etc.) and primary health care
Unconditional transfers	Education and health mainly to supplement the states own resources which are mostly directed to wages and salaries
Development transfers	Construction and rehabilitation of schools, construction of health facilities infrastructure, urban and rural water facilities infrastructure,

Source:

Sudan's total government revenues are low and declining, adversely affecting government expenditures and transfers to states. Prior to South Sudan's secession in 2011, federal revenues were largely driven by non-tax revenues, mainly oil. However, non-tax revenues have decreased since the secession as most oil producing fields are in South Sudan and non-tax revenues dropped from an average of 8 percent of GDP in 1995–2011 to an average of 2.0 percent of GDP during 2012-2018. Tax revenues have remained flat at around 5-7 percent of GDP since 2012. Public expenditure followed the declining revenues trend. Public expenditure that benefited from the

discovery of oil generated substantial revenue and resulted in an increase of public expenditure as share of GDP from 8 percent in 1997 to 23 percent on average during 2005-2011. However, the South Sudan secession resulted in a fiscal shock and a reduction in public expenditure, hovering around 10 percent during in 2016 and 2018. With declining public expenditures, transfers to states also dropped, reaching 2 percent of GDP in 2018 (Figure 9.1).

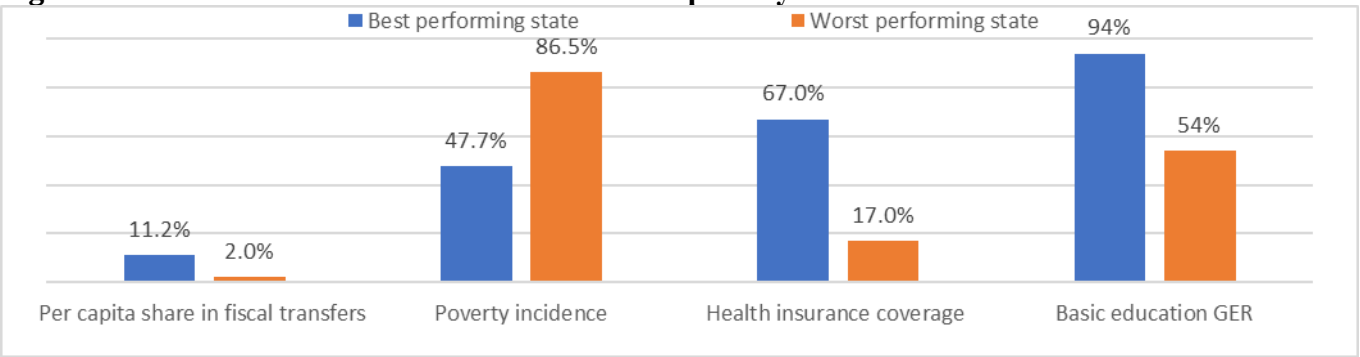
Federal transfers have not narrowed equity gaps in poverty and access to basic services among states. Transfers per capita accrued to the top recipient state with the lowest poverty rates were more than five times higher than those of the bottom recipients with the highest poverty rates. A similar pattern exits, when the per capita share in transfers were compared to the level of access to basic services (e.g., basic education gross enrolment rate and health insurance coverage). Thus, the transfer mechanisms (vertical and horizontal equitization formulas) seem not to fully capture these disparities (Figure 9.2). Although the principle underlying the equalization of transfers was well understood, it lacked in clarity on whether the equalization can be achieved by providing equal access to services such as health and education through blocked and specific purpose grants, by increasing access to funding, or some other options. Moreover, the complexity of the formulas has made it difficult for the federal government to clearly communicate the basis on which it decides the amount of federal resources to be transferred to the states, which creates a lack of transparency. .

Figure 9.1: The trend and composition of federal transfers to states (2005-2018)



Source: Authors' estimates based on data drawn from Ministry of Finance and Economic Planning Annual Performance Reports.

Figure 9.2: Federal transfers in relation to states' poverty levels and access to basic services.

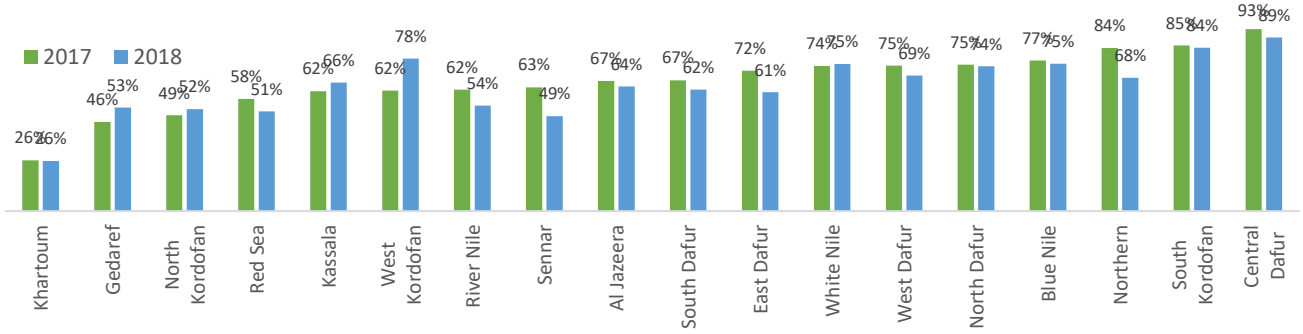


Source: Compiled from NBHPS 2014/15, Ministry of Health, Financing the Health sector report 2016 and MICs 2014.

States are highly dependent on transfers from the federal government. The level of dependence on federal transfers, measured as the share of federal transfers in total state revenue is high in all states apart from Khartoum.

While the share of federal transfers represents only 26 percent in Khartoum state, it accounts for 50 to 93 percent of the revenues of all other states in Sudan (Figure 9.3). In states where poverty is high such as South Kordofan and Central Darfur the share of federal transfers exceeds 85 percent.

Figure 9.3: Share of Federal Transfers as Percentage of Total State Revenues

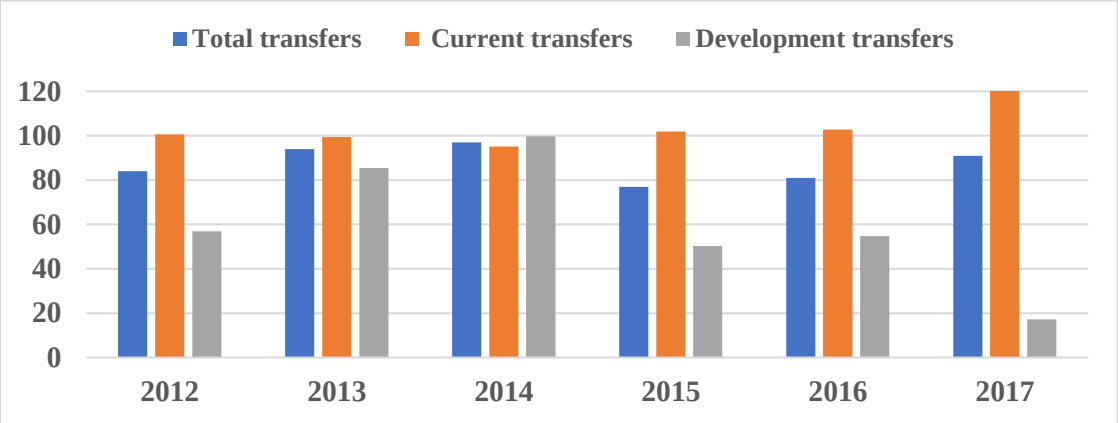


Source: Administrative data from the Ministry of the Federal Government

The composition of federal transfers to states has favored current transfers. Federal current transfers to states—for salaries and non-salary recurrent—amounted to three quarters of total transfers, on average, during the review period 2012-2018. Within current transfers salaries constitute the largest share. A low share of transfers, amounting to 25 percent, on average, is directed toward development expenditure on basic services, which states are entrusted to provide according to the fiscal decentralization policy. The low development expenditure has a direct impact on the quality and sustainability of basic infrastructure and service delivery at state level.

The low budget credibility of federal transfers to states remains a concern. Actual transfers to states continue to suffer from low execution rate (i.e. actual transfers compared to planned/budgeted transfers). The overall execution rate of transfers to states has been low, averaging 87 percent during the review period 2012-2017 (Figure 9.3). The brunt of low budget creditability is borne by state transfers, especially development transfers. During 2012-2017, the execution rate was the highest for current transfers and lowest for development transfers. Actual development transfers to the states ran significantly short of plans: only around 50 percent of the budgeted levels were transferred in 2015 and 2016 (Figure 9.4). These shortfalls have serious repercussions for the state's entire budget process as well as for effective implementation of state's programs and development efforts. This urges actions that aim at improving resource allocation, given that the primary responsibility for basic services delivery lies with the state governments.

Figure 9.4: Low budget credibility in federal transfers to states, especially for development (2012-2017)



Source: Author's estimates based on data drawn from Ministry of Finance and Economic Planning Annual Performance Reports.

9.4 Strategic Direction for Federal System

A fundamental reform in the federal system and intergovernmental fiscal relations will be undertaken as part of the process of constitutional reform and peace implementation. The government is planning to hold a National Governance Conference (NGC), before April 2021, to redesign the federal system and the intergovernmental fiscal relations to address the geographical disparities and marginalization, reduce poverty and improve service delivery. The specific objective of the NGC, is to determine the structure of a new governance system in Sudan, review the administrative boundaries of the regions, determine the different levels of the sub national governments, and the jurisdictions and powers of each level of governance. Prior to the conference, the government will take necessary legal steps to reinstate the regional system of governance in Sudan, which will replace the current states system.

The government, guided by Juba Peace Agreement, will determine the specific sources of revenues for the federal government and the regions/states, giving more tax powers to the sub national governments to increase their tax base. The government will also ensure transparency in the nationally collected revenues from which regions/states receive their equalization share. For this purpose, the government will enact a law establishing a National Revenue Fund (NRF) in which all nationally collected revenues will be pooled. The NRF will be the sole institution in which all national revenues are deposited. With the objective of addressing disparities and mitigating the impacts of war, the states affected by conflict, mainly Darfur, Blue Nile, South Kordofan and Eastern Sudan, will receive in addition to their share from the horizontal equalization formula, additional funds from the government to be allocated for reconstruction, rehabilitation, sustainable development and other peace building needs.

Also guided by the Juba Peace Agreement, expenditure on service delivery will be at the sub national level. More freedom will be given to regions/states to determine their expenditure priorities based on the interest of the local population, and without contradicting the federal policies.

The Fiscal and Financial Allocation and Monitoring Commission (FFAMC), which was established in 2007as part of the Comprehensive Peace Agreement (CPA) with South Sudan was designed to maintain equalization formulas and allocating transfers, accordingly, did not perform well. The FFAMC was subject to considerable political interventions and lacked transparency leaving much space for discretionary allocations. The FFAMC has now been abolished, and a law will be enacted establishing a new National Commission for Resource Allocation (NCRA) which will be headed by an independent person who will be appointed by the Prime Minister.

The law of the NCRA will ensure fair representation of the regions/states in the decision-making process of the NCRA. The NCRA, will be granted extensive powers including: a) monitoring all national revenues which are deposited in the National Revenue Fund, and act as the custodian of these resources; b) determine the shares of the federal government and the regions/states from the national revenues based on fair criteria for vertical and horizontal allocation; c) ensure that resources are fairly allocated between the regions/states and their lower levels of government; d) ensure timely and unconditional transfers of resources to sub national levels to allow for better fiscal planning.

The government will remedy the existing system of the equalization formula. The current vertical and horizontal formula, clearly failed to achieve the equity objective; rather, they created huge disparities across regions, states and localities, and did not encourage sub national revenue mobilization, leading to the increased dependency of the subnational governments on federal transfers, especially for states with the highest poverty incidence. A new formula for vertical and horizontal equalization will be determined by the NCRA. The formula will be specific, transparent, and equitable. The criteria of the equalization, which will be agreed upon will address inequalities among states particularly the poorest and those affected by conflict and historical injustice; and will ensure the encouragement of production, efficient tax collection and better resource management.

9.5 Strengthening State Effectiveness

Managing public resources

Closing the large gaps needed to reach SDGs in education, health, water, and other critical sectors will require enhancing the strategic allocation of resources and efficiency of budget execution. As laid out in the chapter on human development, these sectors suffer from very poor quality, unevenness, and governance weaknesses. At present, there is no effective process to ensure alignment of the budget with national policy priorities over the medium or longer term, nor to track budget expenditure. There is evidence, however, that Government spending in education and health sectors is highly inefficient. Sudan spends more than its regional peers on health, yet its population bears the burden of out of pocket expenditures for health reaching 70% (see Table 6.4). Budget execution is further negatively affected by poor cash management practices and inadequate commitment controls.

Sound public financial management is essential to support the government in its efforts to manage ongoing and future economic crises. Ensuring checks and balances in managing the country's fiscal resources, support it on its path to fiscal sustainability, and ensure service delivery that is geared towards the poor and most vulnerable of Sudanese society are critical to improving public financial management. The current system falls short of these aims in significant ways.[68]

Increasing efficiency of spending is necessary, but insufficient; there is an urgent need to increase revenues to meet critical funding gaps. Despite vast endowments in natural resources, the revenues collection is extremely low due to inefficient revenue policy and administration. With tax collection rates of around 5 – 6% of GDP, Sudan ranks among the lowest in the world. Moreover, a dramatic increase in inflation is believed to be distorting features of the tax system, including brackets and thresholds (e.g., value added tax (VAT) registration). An expected economic decline is likely to further aggravate revenues, including through reductions in compliance.

[68] Ongoing diagnostics are providing a comprehensive analysis of current laws and practices of public financial management and tax administration to inform a multi-year reform strategy. Preliminary findings highlight the following weaknesses.

While decelerating economic growth is a factor in poor tax performance, deficiencies in both tax policy and administration are important contributing factors. Exemptions are generally accepted as a driver of poor performance in recent years, as are exchange rates and relatively low tax rates on some core taxes (i.e., business profit tax (BPT) 10%, personal income tax (PIT) 15%). At the same time, due to poor regulatory and oversight practices, the government has been unable to benefit from important sources of revenue from both the mining sector and from the vast number of state-owned enterprises.

Improving Management and Incentives for the Public Service

Sudan currently has no civil service diagnostic that can help lay out some of the immediate priorities actions to strengthen the government implementation capacity to carry out all the reforms required by the ambitious PRSP. However, it is clear that some of the main challenges for improving governance in Sudan are the capacity of the civil service to implement and coordinate government policies and programs and to be performance oriented. In addition to the limited financial resources, technical and institutional capacities are weak to support the wide-ranging governance reforms that require multi-stakeholder proactive engagement and coordination.

Priority areas for the next three years of the Poverty Reduction Strategy include.

- Establishing consistency between HR and Payroll to enhance controls over payroll including the removal of ineligible payroll recipients such as ghost workers and others.
- Taking stock of workers and salary scales in SOEs to better assess the contingent liabilities to the government and fiscal risks associated with that.
- Establishing a contractual relationship with senior public service officers to improve the quality of service delivery.
- Revisiting the relationship between cost and function at FG and LG levels to establish consistency and ensure that cost follows function.
- Taking stock of all payroll that is budgeted directly or indirectly and supported by the budget and classify related expenditure properly, e.g. budgeted projects that have no acquisition of assets and should rather be classified under recurrent expenditure line items.
- Setting a plan to secure funds for the new applied salary scale.
- Revisiting the allowances to link them to incentive schemes.
- Carrying out a civil service policy and administration diagnostic to assess the civil service policy and management with a view to propose reform recommendations that will strengthen a public administration that lacks modern management tools, and support the adoption of human resource management practices that enhance performance of the public sector while adopting and abiding by fiscal rules and policies to ensure sustainability of the wage bill.

Coordination and monitoring

Project planning and implementation at sub-national levels is undermined by weak coordination and communication between the state and federal ministries (including functional line ministries). Responsibility for providing basic services lies at the sub-national level, while the federal level still controls the majority of government resources and states have limited revenue-raising authority. On the other hand, the management of some development programs by federal bodies results in a potential disconnect between the federal and state levels in planning and supervision of the activities, and in subsequent operating of projects/assets. In some cases, state finance officials do not have knowledge of national development projects which are under implementation in their own states. This underscores the need for guidelines to clarify the specific roles of each level of government, in terms of the planning, execution and monitoring of development projects.

There is an urgent need to strengthen the link between budget allocations and outcomes in basic service delivery. Since responsibility for basic services devolved to the state and locality levels and more resources are getting to these sub-national levels, it is imperative to monitor and evaluate progress on the use of funds and related outcomes at the state/locality level. The weak capacity at the sub-national levels has led to incomplete reporting of expenditures and inadequate monitoring and evaluation (M&E) of outcomes. The capacity for data collection and information management within the decentralized framework of service delivery remains weak. Weak financial management capacity at the state and locality levels led to incomplete reporting/monitoring of expenditure and inadequate evaluation of related results at these levels. This challenges evidence base planning and targeting service delivery. Therefore, capacity building efforts need to be strengthened in those areas.

With significant responsibility for basic service provision at the sub-national level, sound public financial management (PFM) systems are required to ensure effective service delivery and poverty reduction and to mitigate risks of corruption. As increased resources reach the sub-national levels of government, their institutional and administrative capacity in strategic budgeting and execution must be strengthened, to enhance the efficiency and accountability of resource use. In particular, efforts to strengthen expenditures reporting by purpose/function (e.g., across education, health, roads), economic lines (e.g., wages), and by administrative levels (e.g., state, local) would also allow for a more systematic analysis of the fiscal position of states/localities and as well as sectors. In turn, improved data on sectoral outcomes would highlight potential disparities across states.

Establish Oversight of State-owned enterprises (SoEs)

The Government is exposed to high levels of fiscal risk through the operations of public sector entities. The federal government's monitoring and reporting on fiscal risk is very weak to nonexistent. The government has no records of contingent liabilities and other fiscal risks. State-Owned Enterprises (SOEs) pose particularly high fiscal risks, but lack any framework for data collection, analysis and decision-making regarding financial performance and contingent liabilities.

There are hundreds of SoEs with ad-hoc ownership and oversight structure that are either parent companies or subsidiary companies involved in various civilian industries and a few involved in core defense industries. The broad range of activities in which the SOEs participate distorts competition in those markets, as these SoEs were often granted government bids and tenders under the previous regime and allowed to purchase U.S. Dollars (USD) from the Central Bank of Sudan (CBoS) at the official exchange rate.

The main action under the SOE reform program is the transfer of ownership rights of all SOEs from the various ministries and government agencies to the MoFEP. The transfer will enable the MoFEP to monitor the performance of all SoEs. In addition, MoFEP will develop an ownership policy articulating the Government strategic objective in creating SOEs and the sectors in which the government should be actively engaged through SOEs and the entry and exit strategy for SoEs. In accordance with the SoE ownership policy, the government will establish sectoral review committees to review the existing portfolio of SoEs to rationalize the number and scope of these SOEs. The committees will divide the SOEs into three groups: (i) SoEs which serve strategic objective to justify the government maintaining 100 percent ownership, this group will be maintained with enhanced governance structures; (ii) SoEs with business rationale but with no justification for full government ownership, in this group the government will either reduce its level of ownership by offering shares to the private sector or in some cases fully privatize the SoE; and (iii) SoEs which do not serve any strategic or business purpose and these will simply be liquidated.

Under the reform program the Government will issue oversight protocols and rules for managing the SoE portfolio including clear delineation between the role of MOFP and the role of the technical line ministries or government agencies. These oversight rules will include clear guidelines for the appoint of directors in SoEs in a transparent and a competitive manner to ensure that the directors of all SoEs are competent to manage these SoEs. Also, the rules will address the issue of conflict of interest between the SoEs and the ministries or government agencies responsible for the oversight of the SoEs. The reform program will also examine the MoFEP's institutional oversight modality for SoEs, currently MoFEP conducts this role through a department for SoEs, however, the government will examine other models including the holding company model or establishing a separate organization for management of SOEs or keeping the current structure with enhanced capacity and skills.

Renewing the Social Contract

The overall objective of the transition is to build a resilient social contract – that is one in which the state is able to deliver in response to citizen expectations, in particular in responding to the aspiration of the population and the younger generation for greater participation, for transparency and for combatting corruption; and for good economic governance overall. This is a critical challenge where the ability of the state to deliver is constrained by the damage done by prior regime, including deep fiscal crisis, trust is low and demands are high. Strengthening the social contract requires two overarching, and mutually reinforcing elements:

(i) The importance of strengthening state capacity and country institutions to enact policies and regulations that address the socio-economic needs of the population, ensure their implementation, and continuously assess these policies and adapt them to support service delivery where it is most needed, foster development, reduce poverty and respond to the aspirations of the population.

(ii) The importance of building trust, to navigate the complex economic and democratic transition and emerge stronger, through a commitment to open, accountable, and responsive state-society relations.

Leveraging Technology for Accountability, Efficiency and Equity

Information technology presents a tremendous opportunity for governments across the world to increase efficiency and effectiveness to develop and implement economic and social policies that address the needs of the populations. When used properly, digital technology can be transformational, it enables government to improve their operational efficiency, provide better services that respond to the needs of citizens through regular feedback mechanisms, and empower citizens to demand accountability, access services faster, and monitor government performance.

To create the conditions for a vibrant digital development sector, the government will set up a dedicated digital technology program or department as a reference point for all public sector levels (state, regional and local), private initiatives, donor driven initiatives and other actors in the digital development ecosystem. It will also establish procurement frameworks that allow all government levels to pilot and experiment with new digital solutions. Taking inspiration from the fintech sector, the government would establish digital technology-specific regulatory framework to allow digital solutions to be tested safely. Finally, the government will establish citizen-centric digital development accelerators- bringing together civil servants, international donor agencies and citizens to prototype solutions that can be replicated and scaled. Prototypes could become startups, SMEs, or NGOs, with mentoring and investment services offered by the government.

Strengthening Public Financial Management for Strategic resource Allocation and Efficient Spending

Strengthening state effectiveness is a key government objective that requires a multi-pronged approach. To achieve and maintain a sustainable fiscal position, effective allocation of government resources, and the provision of efficient delivery of public goods and services, the transition government will build on the early achievements and commits to strengthen public financial management. The government commits to carrying out reforms to enhance budget planning, fiscal reporting, fiscal risk management, and the treasury single account (TSA). Reforms will also support the development and use of medium-term fiscal framework into budget planning by 2022. Early progress in establishing the TSA will continue with the aim of improving further cash forecasting, extending the setting of cash ceilings for ministries, departments, and agencies from one to three months, improving management of payments, and gradually extending to extrabudgetary funds. Improving the capacity of the civil service--particularly at sub-national levels--to implement and coordinate government policies and programs and to be performance oriented is key to managing resources effectively.[69] All bank accounts of ministries and public corporations held at the CBOS have been consolidated into a TSA. And to enhance transparency of budget execution, by early 2021, the MoFEP published on its website monthly budget execution reports. The government also commits to strengthen public procurement rules with technical assistance from donors.

Various other areas of PFM will also need government attention to achieve fiscal sustainability, efficiency. These include critical debt management issues. The government will need to finalize and implement the debt policy and strategy, developed in cooperation with the IMF, including through better reporting and clarification of roles and responsibilities for debt management and reporting. The government will also need to address issues related to controls and standards to strengthen budget execution and reporting discipline including integration of HRMIS with Payroll, assess and the complete the GFIMS to ensure it its basic functions are operational; Adopt IPSAS cash standards of accounting and reporting. Public investment management is another important area that needs to be improved. The government needs to develop and issue guidelines for the selection, implementation, and monitoring & evaluation of capital projects; establish a central PIM unit; and implement PIM guidelines to key spending federal entities.

Enhancing Revenue Mobilization through tax Administration Reform

To restore fiscal sustainability and increase resources for pro-poor spending, it is crucial to increase revenue mobilization. The government commits to continuing to expand the tax base by streamlining tax exemptions and rationalizing corporate taxation while improving tax administration. The goal is to implement revenue measures that would yield increased revenues in the coming two years. Despite these efforts, the economic fallout from COVID-19 is expected to reduce tax revenue by 1½ percentage points of GDP to 4 percent of GDP in 2021, before rising to 9¼ percent of GDP in 2022. Specifically, the policy measures include:

- By July 1, 2021: (i) removing value added tax (VAT) exemptions granted to the sales of sports equipment (local and imported), manufacturing inputs, plates and plate-printing machines, diesel, gasoline, and sugar; (ii) raising the VAT rate on telecommunication services from 35 percent to 40 percent; and (iii) raising corporate income tax rates from 10-12 percent to 15-25 percent and the property lease tax rate from 10

[69] A diagnostic review of the civil service in Sudan would help guide further reforms.

percent to 12 percent. Altogether, these measures are expected to yield ¼ percent of GDP in additional revenue in 2021, with full year impact in 2022 and beyond.

- Valuation effects of liberalizing all but the customs exchange rate on oil revenue and grants, which is expected to yield ¼ percent of GDP in the second half of 2021, with additional full year impact in 2022.

- Gradually increasing the customs exchange rate while reducing the average import tariff rate from 20 percent to 10 percent would raise VAT and import duty receipts by ¾ percent of GDP in 2021 and 4 percent of GDP in 2022.

- Also, under the 2021 budget GoS will remove income tax exemptions for roughly 80 percent of the companies that currently benefit from these exemptions. We will continue to improve the tax administration to widen the tax-base and curb tax evasion, including by consolidating all tax collection agencies.

The recent Tax Administration review carried out with the help of the World Bank, shows that strengthening the weak tax administration will enhance compliance, reduce tax evasion, and improve tax services. These activities are expected to enhance the very low tax/GDP collection and increase government revenues. Specific immediate actions to enhance the STC performance include:

- Introduction of a unified tax code, addressing the policy challenges including consolidation of federal and state responsibilities
- Design and implement a new headquarters organizational structure to support full function-based model of tax administration
- Revise the STC's annual performance targets to include additional metrics (expanding the focus beyond immediate revenue collection)
- Redesign core processes in all tax offices to fully operate on the principle of self-assessment and minimal contact with STC staff, and begin implementing them
- Prepare key planning documents to include a tax administration reform strategy, a corporate strategy (i.e., "strategic plan") and an information technology strategy
- Refresh the STC's web site, introduce e-filing security mechanisms, expedite the e-payment pilot and relaunch e-services as part of a national awareness campaign
- Secure the support necessary to introduce a business intelligence platform allowing staff the capability for on-demand and ad-hoc reporting.

9.6 Strengthening Accountability and the Rule of Law

1. Strengthening Anti-Corruption Institutions

Sudan currently ranks at the bottom of most indices measuring the performance of governance and public sector institutions. For example, Sudan ranks 173 out of 180 in the 2019 Corruption Performance Index of Transparency International. In 2019, Sudan ranked 48 out of 54 African countries on the Ibrahim Index of African Governance (IIAG)[70]. It scored 104.8 on the 2020 Fragile States Index (maximum is 120), ranked as one of the

[70] The key components of Ibrahim Index of African Governance are classified in four categories, including safety & rule of law, participation & human rights, sustainable economic opportunity and human development. The index provide data for 54 African countries for the year from 2008-2017. Indicators for the index are collected from 35 independent sources, such as UN agencies, the

top 10 fragile countries in the world. Sudan also ranked quite low at all the governance indicators published as part of World Bank's Governance Indicators. Sudan ranks 37 out of 54 African countries in Public perception of overall governance indicator[71].

The transition government approach to fighting corruption focuses on the whole cycle of fighting corruption addressing the prevention, detection, and deterrence measures. However, given that the main challenge facing Sudan is the weak political commitment, the cornerstone of the new anti-corruption strategy of the government is the enactment of the anti-corruption law and the establishment of an independent Anti-Corruption Commission which will have the mandate and tools to intervene and/or take the lead with investigations without influence from the political system. The Commission will play an important role all aspects of fighting corruption. These include conducting investigations, strengthening government agencies' capacity and skills, monitoring and reporting on the status of corruption in the country and the performance of various agencies in their roles, and coordination among the various state actors, the private sector, and non-government and civil society organizations.

On the prevention and detection measures, the Government will focus on strengthening public sector institutions. Measures include reforming the civil service to ensure that a competent work force oversees managing the public resources, and by strengthening the role of MoFEP under the various fiduciary laws of the Procurement Law and the Financial and Administrative Procedures Law. Finally, by strengthening the Office of Auditor General of Sudan and ensuring its independence to play its role in uncovering instances of corruption and non-compliance with fiduciary rules.

Strengthening the role of journalism, civil society, and the private sector is an essential element of the government anti-corruption strategy, this includes strengthening access to information law and practices as well ensuring protection and capacity building for journalists and civil society organizations and strengthening the link between these entities and the government to ensure collaboration in in the fight against corruption. The private sector will also play its role by enhancing its ethics and business conduct practices and work on cleaning up its own activities in dealing with the public sector.

2. Strengthen Justice and Rule of Law Institutions

The Constitutional Declaration and Juba Peace Agreement include many provisions and obligations on the transition government with regards to reforming the justice and rule of law and justice institutions. Reforms include establishing several commissions including the constitutional reform commission, law reform commission, transitional justice commission, and human rights commission. The establishment of these commissions and their reform work will continue throughout the next 3-4 years and beyond.

One of the most important reforms underway are the reforms of the judiciary and prosecutor general, two very important institutions which had been significantly weakened by the former regime. A key objective is to ensure the independence of these institutions and towards that objective a new Chief Justice and new Prosecutor General have been appointed and who have already started reforming their respective institutions.

The Ministry of Justice is also going through its own reform efforts to ensure that MoJ plays its important role as the main legal adviser of the government and providers of essential legal services to the people. Reform efforts include legal aid and access to justice services. MoJ completed a Needs Assessment Report and launched

World Bank and African Development Bank, data projects, and surveys. Therefore, it also includes perceptions-based data. The gray and orange bar represent the distance of the 3rd and 1st quantile from the median of selected groups

[71] As published in Ibrahim Index of African Governance

an institutional reform exercise to ensure that MoJ is well placed and equipped to its role within the government during the transition period and beyond.

9.7 Strengthening Transparency and Citizen Engagement

Equitable service delivery and economic opportunity requires strengthening of transparency and citizen engagement. The successful implementation of the reform priorities discussed in Section 9.5 (strengthening state effectiveness) and Section 9.6 (strengthening accountability and the rule of law) will require greater *trust* between citizens, between civil society and the government, and among local officials, civil servants, and national political leadership. Strengthening trust will take years but is critical to promote the innovation (in the bureaucracy, in the society) required for rapid economic growth. Trust, above all, is about eliminating fear and building social capital within local communities by giving citizens more voice and participation in decision-making. Openness or transparency to citizens are not ends in themselves but are key contributors to building deeper level of trust.

1. Budget Transparency

The government will make the budget process more transparent, accessible, and accurate so that the budget can be properly analyzed; its implementation can be thoroughly monitored, and its outcomes can be evaluated. It will also take steps that budget information is disseminated in a timely manner, allowing a wide range of stakeholders to use it effectively to provide feedback that can influence policy formulation and resource allocation.

Releasing budget-related information will allow citizens at large to provide government with critical information on their needs and priorities and, through monitoring, how the budget is carried out and whether public funds reach the intended beneficiaries. Moreover, budget transparency efforts will also help engage with other actors of the accountability system, such as academics, researchers, and the media. They will not only be able to bridge a more effective engagement with the public (simplify and disseminate), but would be able to maximize the effective use of available budget information by facilitating the analysis of budget-policy linkages as well as examining, among other issues, government's immediate and long-term fiscal sustainability through examining issues such as debt, relationship between capital and current spending, and other macroeconomic indicators. The engagement of this wide range of actors around budget issues is only possible when fiscal and financial information are made available to them.

From the perspective of *ordinary citizen*, the first step towards government budget transparency is publication of a *Citizen's Budget*. Though the exact format for the citizen budget will be finalized after consultations with local and international stakeholders, the citizen budget of Sudan will broadly contain the following set for information:

- *Basic economic information*: including expectations about economic growth and inflation, predictions about whether the government is on track in achieving the debt targets, surplus or if they will face a deficit in the new fiscal year.
- *Revenue collection*: an explanation of where the government's money comes from. It is important that citizens understand that governments do not have an unlimited availability of funds to allocate to programs/sectors that could be of people's priority. On the contrary the government will only be able to allocate and spend the same amount of money it is able to collect from a limited number of sources (taxes collection, investment income, foreign aid, etc.)
- *Spending allocations*: an explanation of how the money will be spend and why. Allocations presented by sectors that are of importance for the people (e.g., health, education, roads) are always recommended

and/or trends in allocations over years so people understand the financial support provided to specific programs that are part of the budget's objectives and national priorities etc.

- *Significant policy initiatives and or priority changes*: an explanation of sizable increases or decreases in revenue or spending.
- *Budget Glossary and Contact information*: what each term of the used in the citizens' budget reports means as well as details of who to contact for further information.

2. Commitment to Inclusive Process of Constitutional Reform and Peace Implementation

Several fundamental reform areas will be developed as part of the process of constitutional reform and peace implementation. This includes decisions about the structure of the federal state, alignment of functional responsibilities and funding, redress for past abuses and marginalization. The government recognizes that only a transparent and participatory process can yield a system that is legitimate and responsive to all Sudanese. As part of its commitment to supporting an evidence-based participatory process, the government will conduct and publicize analysis on the current fiscal decentralization system**.** This analysis will lead to ways to reform the system to better achieve the aims of poverty reduction, improved social outcomes and reduction of regional disparities. This will involve renovating the fiscal transfer system to increase transparency and predictability through clear and simplified formula-based allocations that better target poor and under-served regions. It will aim to increase the amount and quality of spending on much needed service delivery infrastructure to expand the reach of services. And it will do so while simultaneously strengthening the capacities and accountabilities of local government in managing social spending. This will further be part of a broader strategy for increased revenue mobilization and enhanced sharing mechanisms at both the sub national and central levels.

10. IMPLEMENTATION, MONITORING AND EVALUATION AND RISKS

10.1 Implementation

The PRS sets out a broad agenda of macroeconomic stability, inclusive and sustainable growth, human and social development, peace and equality, and governance interventions that together, will contribute to reducing poverty and vulnerability in Sudan. Chapter 3 describes poverty in Sudan as a complex phenomenon that is experienced in multiple, interrelated dimensions. These are monetary poverty, a low level of education, a low standard of living, and limited access to water, sanitation, and health services. Based on this description, nearly all Sudanese experience poverty of one kind or another. Furthermore, the depth and severity of poverty in Sudan point to extremely high levels of vulnerability within the population, meaning that relatively small shocks and perturbations can easily send poor households into destitution, and nearly-poor households into poverty, from which they will struggle to recover. Sudan is prone to severe shocks, whether arising from natural disasters driven by climate change and environmental degradation, or from conflict, insecurity and displacement caused by the country's political and economic fragility. The scale and complexity of poverty in Sudan, combined with low government capabilities and capacities, significantly increase the challenge for implementing the poverty reduction strategy.

To meet this challenge, the implementation approach will be based on three guiding principles. First, implementation will be multi-dimensional. Government and partner interventions, at national and state levels,

while composed of the strategies described under the five Pillars, will be programmed and coordinated to reflect explicitly the conclusions of the stakeholder consultations, poverty analysis and to align with the national priorities identified in the national development plan. Second, implementation will preserve national ownership and be commensurate with government capacities. This does not mean that interventions will all be government-managed; rather the government will work with development partners in a manner that effectively multiplies its capacity and allows interventions to be taken to scale. In the end, however, interventions conducted under the PRSP will be fully owned by Government. Third, interventions will be focused and demonstrate progress against one or more indicators contained in the PRSP policy matrix. In this regard, the ambition of the PRSP demands an incisiveness of its interventions that will be best achieved through very clear articulation of targets, outputs, and outcomes and how these contribute to the goals of the PRSP. Adherence by Government and its development partners to these three principles will address the challenges of scale, complexity, and capacity, and will enhance implementation effectiveness. Acknowledging the importance of inclusive development, the government will continue to explore the role of the private sector in contributing towards poverty reduction and development targets.

10.2 Monitoring and Evaluation

The main objective of the PRSP monitoring and evaluation (M&E) system is to follow up on implementation of the sectoral and cross cutting plans articulated in the strategy to ensure effectiveness of government policies and strategies aimed at reducing poverty. The M&E system provides a tool to follow progress in achievement of planned targets, maintain the coherence and integration of the overall economy, take timely corrective measures when needed, and manage the development and poverty reduction process effectively. As there is currently no strong and systematic M&E system in Sudan, an M&E tool will be developed to monitor progress towards implementation of the PRSP, as well as other government targets (including the SDGs). It is imperative that the M&E system has adequate data inputs. To support this need, the Central Bureau of Statistics is currently developing a National Strategy for the Development of Statistics (NSDS) in consultation with relevant stakeholders. The NSDS will help generate data through surveys and censuses, which would facilitate monitoring of PRSP implementation progress. Administrative data generated by sectoral line ministries will also provide an input to the M&E system. Data from surveys, censuses and administrative sources will be used to generate full-fledged poverty and socio-economic analysis reports by the Ministry of Finance and Economic Planning (MoFEP). The MoFEP is primarily responsible for implementation of the PRSP. The MoFEP also holds responsibility for ensuring coordination and effective alignment of the priorities in the medium-term national development policy framework as well as the overall monitoring and evaluation, in conjunction with other line ministries, departments and agencies.

The country is in great need to update various socio-economic surveys and censuses. There has not been a major statistical operation since 2015, leaving the country with serious data gaps across multiple sectors. The latest population census was conducted in 2008, after which Sudan suffered several significant political and social changes, including the secession of South Sudan in 2011. Essential social and economic indicators collected through surveys like the Multiple Indicator Cluster Surveys or Labor Force surveys have not been collected since 2014 and 2011, respectively. There has not been an agriculture survey or census in over 20 years, and the latest Industrial Establishments' Survey was fielded in 2003. The Government of Sudan is currently trying to secure funding for the next Population and Housing Census and Agriculture census. The aim is to implement these by 2023. Sudan is currently planning new surveys and censuses as shown in Table 10.1, which will provide invaluable information the for M&E system.

Table 10.1. Main statistical operations planned for 2021-2023

Activity	Date
Household Budget and Poverty Survey	2021
Financial Inclusion Survey	2021
Industrial Survey	2021
Multiple Indicator Cluster Survey 6 (MICS)	2022
Agriculture survey	2023
Comprehensive Agricultural Census (including livestock and crops)	2023
Population and Housing Census	2023

Source: Sudan Central Bureau of Statistics.

10.3 Implementation Risks

The risks for the successful completion of the PRS are in its ambition, low implementation capacity and funding. Risk mitigation measures that address the foreseeable risks in the implementation process include improving domestic revenue mobilization, a policy action articulated under Pillar 1. Increasing domestic resource mobilization will involve improvements in the tax administration system and broadening the tax base. Government, organizations, and individuals will be encouraged to increase their savings to provide adequate resources for the country's investment needs. The business environment will be improved to support effective utilization of the capacities of communities and the private sector in the development process. External finance resources will be mobilized and, where secured, will be effectively used for investment in priority sectors highlighted in the PRSP. Given the weak fiscal space of the Government of Sudan, the contribution of the international community will be crucial for successful implementation of the PRSP. Measures will also be taken to address capacity limitations by strengthening the implementation of the civil service capacity at all levels.

10.4 Communication

Successful implementation of the PRS also requires conducting an effective communication and building capable communication system in Sudan. Information will be effectively communicated to the public so that the population become more motivated for greater participation and engagement in the implementation of the strategy. Communication of information that supports national consensus and builds image of the country will emphasize the achievements of the PRSP by showing to the citizens and the international community that Sudan is making significant progress in improving poverty and socio-economic development. The strategic direction therefore focuses on building national consensus and strengthening public participation in implementation of the PRS. Initiatives that will be taken to realize the government's communication objectives are to improve media coverage across the country by leveraging on existing channels, including television, radio, and social media.

Annex 1: Policy Matrix

PILLAR 1: Promoting Macroeconomic Stability		
Area/sector	**Objectives and targets**	**Policy measures/programs**
Macroeconomic stability	Overall Strategic Objective: Restore macroeconomic stability. Key targets by year 2023: Fiscal deficit 2 percent of GDP; Inflation 20 percent (period average) External current account balance less than 10 percent of GDP; and economic growth 3 percent.	Implement the fiscal, monetary, exchange rate and financial sector policies outlined below:
	Enhance revenue mobilization	• Eliminate tax exemptions and revenue earmarking that contribute to the erosion of the revenue base (short-term) • Implement a progressive income tax and broadening the tax base (short term through medium term) • The custom valuation exchange rate will be adjusted gradually (short term) • agriculture taxation will be revisited (short term) • Streamline the taxation of artisanal gold mining (short term) • Upgrade the capacity of the Taxation Chamber (medium term)
	Rationalize expenditure	• Eliminate fuel subsides and gradually reduce other subsidies (short term) • Increase social spending to mitigate the effects of reforms through the introduction of the Sudan Family Support Program (SFSP) (short-term) • Strengthen transparency and oversight of state spending and state-owned assets/enterprises and improving public financial management (short and medium term)
	Monetary policy	• Restore the independence of the Central Bank of Sudan to perform its mandate of price stability through the revision of the Central Bank Act (short term) • Reduce reserve money growth to facilitate inflation reduction (short term). • Use available monetary tools (e.g., Shahama and investment certificates) to mop up excess liquidity to reduce inflation (short term and medium term). • Accelerate the transition from cash economy to electronic payment system by issuing relevant regulations for mobile money and strengthening the Electronic Banking Service Company of the Central Bank of Sudan (short term/medium term).
	Exchange rate and financial sector policies	• Maintain a competitive and flexible unified exchange rate (new policy direction) • Monitor the demand for foreign exchange (short term) • Address weaknesses in the banking sector (medium term) • Introduce a dual banking system to expand resources in the banking system (short term). • Strength the capacity of the central bank to supervise commercial banks. (medium term).
PILLAR 2: Fostering Inclusive and Sustainable Economic Growth		

Area/sector	Objectives and targets	Policy measures/programs
Agriculture	Overall strategic Objective: Achieve inclusive and sustainable socioeconomic development led by a robust agricultural sector that supports small producers, increased production, exports, and employment particularly for youth, and reduces poverty	• Data and information: complete the agricultural census (short term). • Increase productivity: Improved input supply, invest in research, extension, and technology transfer, and strengthen the Plant Protection Department. (medium term) • Rehabilitate production infrastructure: (i) rehabilitate the irrigated schemes infrastructure including removal of accumulated siltation from the canals; (ii) support water harvesting infrastructure in rainfed sector, (iii) invest in infrastructure for livestock disease control, and (iv) rehabilitate the gum Arabic belt. (medium term) • Improve access to markets; increased rail and roads connectivity through investment & rehabilitation and maintenance of existing infrastructure; (medium term) • Enhance access to credit: raise the capital of the Agriculture Bank of Sudan, develop new relevant financial products, and direct the bulk of its financial resources to small producers. (short and medium term). • Institutional reforms: (i) review all laws and regulations of the agriculture sector; and (ii) reform the ministry of agriculture and livestock and its affiliated corporations. (medium term) • Attracting FDI into the agriculture sector to improve supply chains and enhance value addition to several key agricultural products. (short term).
Enabling **Environment for** **Private Sector-led growth**	Promote the private sector to become innovative, productive and competitive and a source of inclusive growth and employment	• Design enterprise support schemes (e.g. deferral of payments, restructuring loans) to help SMEs cope with COVID-19. (short term) • Improve economic certainty and predictability (reduce inflation and exchange rate fluctuating). Related to pillar 1 • Reform the regulatory environment for doing business, putting priority on trading across borders; access to credit; paying taxes and protecting minority investors. (short term). • Strengthen the capacity and empowering the recently created Investment and Private Sector Development Authority. (short term) • Address the large presence of state-owned enterprises and the adverse impact of crowding out private investment (medium term). • Increase financial inclusion and improve access to finance (medium term).
Natural Resources **and the Environment**	To meet the SDGs and ensure environmental sustainability through addressing challenges related to environmental degradation and climate change with negative impact on food security and incomes to the rural population that depend on agriculture and where poverty remains high.	• Create an enabling regulatory, institutional and policy framework for environment protection to stop the degradation of natural resources; land and forests (short term). • Strengthen the resilience of communities in the face of climate change (medium term). • Develop a national strategy to address desertification (short term). • Strengthen international cooperation in environment and climate change. (short term).
Infrastructure services for recovery and growth	Rehabilitate and expand infrastructure services to recover production costs and improve competitiveness	• Improve governance along the transport corridors by eliminating the numerous check points (short term) • Develop a network of rural feeder roads, linking production areas to markets and improve maintenance of existing roads (medium term).

		• Diversify energy resources to reduce overall cost of generation, giving priority to solar and wind energy. (short term) • Create opportunities to engage the private sector in infrastructure and introduce viable PPPs to finance infrastructure investments (energy, roads) (short/medium term).
PILLAR 3: Boosting Human and Social Development		
Area/sector	**Objectives and targets**	**Policy measures/programs**
Social development (cross-cutting imperatives	Overall strategic Objective: Address the pattern of inequitable social development and basic service delivery	• Strengthen public service delivery, establishing roles and responsibilities as part of ongoing federal/peace negotiations (reinforcing measures suggested under the governance pillar). (short term). • Review the formula for federal transfers to states to address state disparities in access to basic services and consider other options such as blocked and specific purpose grant in certain critical areas like education. (short term). • Increase budget allocations to education, health and water (% of budget allocated) through greater domestic revenue mobilization (reinforcing measures proposed under the stabilization and economic growth pillars) and gradual transition from recurrent spending toward capital and development investment with sufficient safeguards. (medium term) • Introduce an expenditure reporting tool at the state level to track expenditures on social spending with the ultimate objective of linking spending with human development outcomes. (short term) • Partner with donors to address funding gaps and finance the implementation of the sector plans: (General Education Sector Strategic Plan (2018-2022), Multi-hazard Emergency Health Preparedness Plan and Water, Sanitation and Hygiene Sector (SDG6) Plan. (short term). • Strengthen information systems to map demands of the population. (medium term).
Education	Inclusive and equitable quality education that promotes life-long opportunities in line with SDG4	• Enhance government capacity to respond to the COVID-19 pandemic to ensure continued learning (short term). • Increase enrolment for primary and secondary school (proportion of students enrolled disaggregated by gender, state, and poverty level) (medium term). • Bridge enrolment gaps by state and gender (medium term). • Improve education infrastructure and capacity for service delivery, particularly in lagging regions/states (medium term). • Improve quality of education and reduce the high drop-out rates (number of trained teachers and survival rates to Grade 6 disaggregated) (medium term).
Health	Improved health services and outcomes consistent with SDG 5	• Strengthen capacity to prevent, detect and respond to the threat posed by COVID-19 as well as strengthen national systems for public health preparedness in Sudan. (short term). • Improve basic health outcomes: child mortality rate and maternal mortality rate from …. To …. (medium term) • Invest in primary or secondary? health facilities/infrastructure and essential supplies, particularly in lagging regions/states. (short/medium).

		• Expand health insurance coverage, targeting the poor (proportion of population insured was estimated at 68 percent in 2018, below the target of 80 percent set for 2020). (short term). • Scale-up capacity at state and local levels to enhance efficient resource management and service performance. (medium term).
Water and sanitation	Improved water and sanitation services and outcomes consistent with SDG 6	• Develop a national plan to ensure sustainable water management among competing uses (short term). • Increase availability and access to safe water and sanitation, particularly in less-developed regions/states (proportion of population with access to safe water and sanitation). (medium term). • Enhance coverage to under-served groups like the poor, rural population as well as under- served schools and health facilities (proportion of population with access to safe water and sanitation disaggregated). (medium term) • Improve water and sanitation infrastructure, particularly in less-developed regions/states (medium term). • Encourage Public Private Partnership (PPP's) modalities including Build, Operate and Transfer (BOT). (medium term). • Adjust water tariffs to cover operations and maintenance, particularly for piped water, which is currently the cheapest source of water. (short term).
Social protection	Strengthen Social protection	• Formulate a comprehensive social protection policy comprising and integrating several sectoral programs, institutions, and financing arrangements. (short term). • Develop a unified social registry in which multiple forms of social assistance can be managed to reduce overlaps and create synergy. Building on the existing framework and that developed under the Sudan Family Support Program (SFSP). (short term). • Expand social protection programs coverage and ensure equitable geographical coverage particularly for cash transfers/family income support, health insurance, and Zakat. (short term). • Reallocate budgetary resources from expensive universal subsidies schemes to well -targeted social protection programs. (short term).

PILLAR 4: Promoting Peace		
Area/sector	**Objectives and targets**	**Policy measures/programs**
Peace	Overall Strategic Objective: Promoting peace, national unity and providing equal opportunities for all Sudanese in line with Juba Peace Agreement	• Establishment of a Commission for IDPs and Refugees to supervise the return operations with assistance from international organizations especially the relevant UN agencies and UNITAMS (governance pillar). (short term). • Address disparities of marginalized and war affected areas by providing necessary resources. (short term). • Take affirmative actions for war affected areas: Allocate 20 percent of middle and senior levels posts in the civil service, judiciary, and general prosecutor to Darfurians and 28 percent of civil service jobs to other war affected areas. (governance pillar). (medium term). • Establish a Commission for the Development of Farmers and Pastoralists to address conflict over natural resources between the two groups (governance pillar). (short term) • Recognize customary rights over tribal land –Hawakir- and historical right of pastoralist livestock routes and access to water (governance pillar) (short term) • Ensure justice to the victims of the conflict, including (i) a special court for Darfur crimes, (ii) a truth and reconciliation structure, (iii) traditional justice, and (iv) cooperation with the

		International Criminal Court (ICC) (governance pillar) (medium term). • Build a partnership with regional and international partners to mobilize the substantial financial resources required to implement the Juba Peace Agreement (short term).
PILLAR 5: Strengthening Governance and Institutional Capacity		
Area/sector	**Objectives and targets**	**Policy measures/programs**
Governance and institutional capacity	Overall Strategic Objective: Improve state effectiveness through efficient, capable, and coordinated public institutions	• Reform the federal system and intergovernmental fiscal relations as part of the process of constitutional reform and peace implementation. (short/medium term). • Enact a law establishing a National Revenue Fund (NRF) in which all nationally collected revenues will be pooled. (short/medium term). • Establish a new National Commission for Resource Allocation (NCRA) (short term) • A new formula for vertical and horizontal equalization will be determined by the NCRA. (medium term). • Strengthen public finance management for strategic resource allocation and efficient spending (short/medium term). • Strengthen Anti-corruption Institutions (Anti-corruption law and independent Anti-Corruption Commission) (short term). • Improve Trust and Accountability vis-a-vis citizens through increased participation and transparency and equitable and efficient service delivery (medium term). • Establish oversight of state-owned enterprises (SOEs) by transferring of ownership rights of all SOEs from the various ministries and government agencies to the MoFEP (short term). • Improving management and incentives for the public service (medium term).