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CURRENCY EQUIVALENTS

(Exchange Rate Effective August 6, 2013)

Currency Unit = Sudanese Pound
US\$1 = SDG 4.4090

ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activities	MDTF-NS	Multi-Donor Trust Fund –National (Sudan)
AfDB	African Development Bank		
BERP	Basic Education Recovery Project	MoFNE	Ministry of Finance and National Economy
CDF	Community Development Fund		
CEM	Country Economic Memorandum	MoH	Ministry of Health
CPA	Comprehensive Peace Agreement	NGO	Non-Government Organization
CIFA	Country Integrated Fiduciary Assessment	PASET	Partnership for Skills in Applied Sciences, Engineering and Technology
DDPD	Doha Document for Peace in Darfur		
DFID	Department for International Development	PER	Public Expenditure Review
		PETS	Public Expenditure Tracking Survey
DJAM	Darfur Joint Assessment Mission	PFM	Public Financial Management
DRA	Darfur Regional Authority	PSG	Peace-building and State-building Goals
EFO	Externally Financed Output		
ESPA	Eastern Sudan Peace Agreement	PV	Present Value
GDP	Gross Domestic Product	SME	Small and Medium Enterprises
GEF	Global Environment Facility	SMP	Staff Monitored Program
GNI	Gross National Income	SPF	State- and Peace-Building Fund
GPEF	Global Partnership for Education Fund	SPLA	Sudan Peoples’ Liberation Army
		SPLM	Sudan Peoples’ Liberation Movement
HIPC	Heavily Indebted Poor Countries		
iBES	Interim Basic Education Strategy	TA	Technical Assistance
ICA	Investment Climate Assessment	UNICEF	United Nations Children's Fund
IDA	International Development Association	UNFPA	United Nations Population Fund
		UNDP	United Nations Development Program
IDPs	Internally Displaced Persons		
IMF	International Monetary Fund	UNHCR	United Nations High Commissioner for Refugees
I-PRSP	Interim Poverty Reduction Strategy Paper	UNIDO	United Nations Industrial Development Organization
ISN	Interim Strategy Note		
IsDB	Islamic Development Bank	UNISFA	UN Interim Security Force for Abyei
JAM	Joint Assessment Mission		
LoGiCA	Learning on Gender and Conflict	WB	World Bank
MDG	Millennium Development Goal	WDR	World Development Report
MDTF	Multi-Donor Trust Fund	WHO	World Health Organization

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Executive Summary

- i. **A country of great but unrealized potential:** Sudan holds the potential to be a regional economic powerhouse. The largest economy in the greater eastern Africa region, it has abundant fertile lands and livestock, a reasonable manufacturing base, and a strategic market location at the crossroads of sub-Saharan Africa and the Middle East. Oil discovery and export in the last decade fuelled unprecedented growth (GDP grew more than six-fold from US\$10 billion in 1999 to US\$65 billion in 2010). However, much of this potential has not been realized due to long-running conflict and governance challenges; and the gains of the last growth decade have not advanced productive public investment that contributes to poverty reduction, or been widely shared.

- ii. **A fluid transition:** Recent political, security, and economic events in Sudan shape the present aspirations of the government and the context for international donor engagement. The secession of South Sudan in 2011 had immediate and drastic effects on Sudan. The most significant of these is a fiscal shock resulting from the loss of 70 percent of its oil revenues. Given the economy had become dependent on oil for a decade, the secession forced Sudan to revert to the long-neglected non-oil sector for growth opportunities. The secession also had direct and indirect political and security effects. The fiscal shock reduced the allocations available from the center to the states (therefore severely affecting basic service delivery) and reduced the resources available for patronage, including bloated public employment, necessary to maintain allegiance to the center. However, new opportunities are emerging for government to resolve internal conflict through negotiated peace agreements, giving a new possibility for investing in development in various areas long under violent conflict.

- iii. **History of fragility and conflict:** Several internal and external stresses have contributed to a history of violent conflicts since independence and have resulted in depressed development outcomes in spite of Sudan's robust resource endowment. The marginalization of non-riverine regions and communities has resulted in long-term conflict not only with the south but also in the east and in Darfur. This marginalization takes the form of unequal allocation of public resources, unequal representation in central institutions, and the unequal results in economic development, provision of services, and human development outcomes. It also takes the form of lack of provision of security for citizens and lack of credible institutions to mediate or manage conflict, including around natural resources such as water, land, pasture and mineral wealth. The overall result is deep poverty and inequality in spite of Sudan rising to lower middle income status in the last decade due to oil wealth.

- iv. **Debt burden:** Securing debt relief has the potential to open up new channels of finance to support the development agenda. Sudan's huge stock of external debt, most of which is in arrears, further limits the government's ability to provide basic social and economic services to the large number of poor and vulnerable people. The hardship to citizens arising from the current fiscal shock (including the steep inflation) potentially exacerbates an already fragile situation and therefore necessitates an urgent response from the government. How the government manages these challenges in the short to medium term will shape prospects for peace, growth and shared prosperity.

v. **Government response and development opportunity:** In response to the recent developments, the government has articulated a vision for economic recovery in the short term, for diversifying the economy in the medium term, and for providing more equitable opportunities to all Sudanese. The government's vision 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 and forward movement from recent peace agreements, including recent agreements with South Sudan allows the international development community to engage with reformers to support economic management for equitable development and support peace through institution-building. The improved context also empowers constituencies for reform that are keen to establish credibility domestically through: (i) a service delivery and accountability agenda; and (ii) political and economic inclusion of marginalized groups; and internationally through a peace and inclusion agenda. This has the potential to facilitate access to development finance and reduce Sudan's isolation. The consolidation of peace in Sudan has the potential to positively impact peace and development in the region, especially in the Nile River Basin, South Sudan, and the Sahel.

vi. **A complex environment for Bank operations:** The World Bank has supported Sudan since independence; however this support has been interrupted by conflict and arrears -- a situation that persists today. In 1994, due to arrears and no IDA lending activity, the Bank closed its office in Khartoum. Following the signing of the 2005 Comprehensive Peace Agreement (CPA), the Bank re-opened the office in Khartoum and a new sub-office in Juba in 2006. This re-engagement was made possible by a Multi-Donor Trust Fund-National (Sudan) (MDTF-NS) with the Bank as administrator on behalf of contributing donors and the government. The current operating environment is made more complex by continuing tensions and disputes between Sudan and South Sudan, the lack of concessional development finance due to Sudan's unresolved arrears to bilateral and multilateral creditors, and the impact of international sanctions.

vii. **A partnership and knowledge-driven program for US\$120 million:** Given Sudan's non-accrual status and ineligibility for IDA, the Bank will work, as it has done in the last seven years, in partnership with bilateral and multi-lateral donors. In a constrained and difficult environment, the Bank has made an impact on development outcomes, including in conflict-affected areas, due to a strong relationship with the authorities, and partnerships with bi-lateral and multilateral donors still operating in Sudan. Given the constraints on available financial resources, knowledge intensive services, including capacity building and training, have and will continue to constitute a significant part of the proposed program. The Bank will continue to work closely with the IMF on the macro-economic issues and especially on the technical preparedness for debt relief and on the macro-economic framework to support sustainable fiscal adjustment and to provide incentives for growth. The agreement on a Staff Monitored Program (SMP), implementation of the Interim Poverty Reduction Strategy Paper (I-PRSP), together with renewed political momentum behind a peace-building agenda and governance improvements would open up new opportunities to prepare for possible debt relief and new lending. In the meantime, the Bank will continue to engage through a select number of trust-funded interventions. The Bank will also continue to play a key role in donor coordination, including in managing a pooled trust fund to support development interventions as laid out in this strategy. The Bank's strategy remains flexible and will develop the knowledge necessary to quickly scale

up development support should Sudan's debt challenge be resolved, allowing for full normalization of relations with the Bank.

viii. **The Bank's proposed program:** The Bank's response to this context will reflect the lessons of the WDR 2011, in particular proactively engaging during key transition moments to support the building or reforming of institutions in order to expand economic opportunities and consolidate citizen security. Lessons of the WDR 2011 and of the Bank's work in Sudan over the last six years underscore the need to act in partnership with others, especially where security remains a challenge. The Bank's response will focus on achieving the overarching goal of shared growth and institutional reform that reduces conflict and provides economic opportunities. The Bank will focus on supporting activities that accelerate growth and expand sources of growth, ensure equitable distribution of resources and access to services, and respond urgently to opportunities to consolidate peace in areas emerging from conflict. The proposed program reflects current realities of available resources. Resolving Sudan's debt crisis would make available significant resources for its development, providing an opportunity to have a transformative impact on poverty and inequality in the country.

ix. **The two pillars of the Strategy:** The Bank will support Sudan through carefully selected knowledge products and projects financed through partnership funds and structured across two pillars, with a cross-cutting focus on governance and gender:

Pillar 1: Manage the Economic Transition: Support policy and institutional reforms at the national level to improve economic management to achieve fiscal adjustment, proper debt management and readiness for debt relief; to promote new sources of growth and to accelerate growth that empowers citizens; and institutional reforms that ensure equitable distribution of fiscal resources across regions.

Pillar 2: Address Socio-economic Roots of Conflict: Support to national and local programs for service delivery focusing on key human development outcomes; to establish mechanisms that minimize the impact of the fiscal shock transmitted to households through cutbacks in services or through inflation; and to building systems for service delivery and accountability, especially in areas emerging from conflict, including Darfur.

x. **Alignment with World Bank Group corporate priorities:** The two pillars of the program are closely linked to progress on poverty reduction, in a country where around half of the population lives below the poverty line. The first pillar builds on Sudan's formidable economic and human potential to support higher sustainable economic growth, as a necessary condition to reducing the high level of poverty. The second pillar, with its focus on equity, strives to ensure that the gains from economic growth are spread evenly, both through market and public spending mechanisms. In order to monitor progress on poverty, the World Bank will work closely with the authorities and the African Development Bank to support the production of updated poverty data in the next two years.

I. Introduction

1. **Sudan has been in conflict for most of its independence history.** This conflict arises out of non-inclusive institutions with limited effectiveness and often disputed legitimacy across Sudan and has resulted in depressed development outcomes. While the defining conflict between the northern and southern regions was largely resolved by the secession of the latter to form the Republic of South Sudan in July 2011, tensions still remain. Several other conflicts with varied histories persist in different stages of intensity, stalemate, or resolution. Weak institutions at both national and subnational levels are unable to resolve most conflicts, often resulting in violence. Violent conflict, especially rebellion against the center and armed response by the state, is a direct contributor to the extreme poverty in Sudan's conflict-affected areas. Security concerns continue to inordinately shape economic and fiscal choices made by the government resulting in detrimental development outcomes and perpetuating weak institutions for public goods provision.

2. **Sudan presents institutional discontinuities across its various regions and this is reflected in its regional economic imbalances and its geography of conflict.** At the centre, Sudan has institutions that enforce compliance and execute core state functions of providing security, commanding fiscal mechanisms, and delivering services. However, state presence and effectiveness diminishes further outside Khartoum and is out-rightly contested in many peripheral areas. As with political power, the economy is centered in Khartoum and proximate riverine states giving rise to significant inequality between the centre and periphery, and historically between riverine and hinterland communities. Development indicators starkly mark the resulting inequality: while Sudan boasts a GNI per capita of US\$1490 (i.e., lower middle-income) its poverty rate is 46.5 percent. In fact, poverty ranges from 26 percent in Khartoum state to 62.7 percent in Darfur, based on 2009 data.

3. **Yet, Sudan holds tremendous potential, much of it unrealized due to long-running conflict and governance challenges.** Some of this potential was realized in earlier decades, including during early industrialization, in large scale irrigation in support of food and export crop agriculture, and in investments from recent natural resources discoveries. Once the largest country in Africa, even in its diminished state Sudan holds the potential to be an economic powerhouse. It sits at the crossroads of sub-Saharan Africa and the Middle East, with fertile lands and abundant livestock, and manufacturing that make it the third largest economy in North Africa (after Egypt and Morocco) and the largest economy in the greater eastern Africa region. The consolidation of peace in Sudan has the potential to positively impact peace and development in the region, especially in the Nile River Basin, South Sudan, and the Sahel.

4. **Sudan's prospects for poverty reduction are also hampered by its huge stock of external debt, most of which is in arrears with the implication that Sudan is cut off from much needed official development assistance.** Sudan's external public and publicly guaranteed debt as at end 2012 was US\$41.6 billion in nominal terms, which accounted for 69 percent of GDP and 744 percent of exports. About 73 percent of outstanding debt was contracted with bilateral creditors. Almost 88 percent of Sudan's debt is in arrears. Application of traditional debt relief mechanisms under the Heavily Indebted Poor Countries (HIPC) framework would reduce Sudan's debt burden by about 47 percent to about US\$23.5 billion in

Present Value (PV) terms and reduce it further to US\$9.3 billion in PV terms after HIPC debt relief. The clearance of arrears would allow Sudan to access significant levels of concessional financing. Resolving Sudan's debt crisis would make available significant resources for its development, providing an opportunity to have a transformative impact on poverty and inequality in the country.

5. **Since 2011, Sudan has also had to adjust to a large economic shock caused by the loss of 70 percent of the oil revenue due to the secession of South Sudan.** The shock led to the economy contracting by 3.3 percent in 2011 and by a further 11.1 percent in 2012. In June 2012, the Government adopted a comprehensive reform program, including an exchange rate devaluation of about 66 percent, tax increases, a reduction in fuel subsidies, cuts in non-priority public expenditures, and a strengthening of social safety nets to cushion the impact of these reforms. The overall fiscal deficit is estimated to have increased to 3.7 percent of GDP in 2012 and in the 2013 budget the funding gap stands at SDG 10 billion, a full one third of the budget. How Sudan responds to this economic shock will be critical to stability and greater shared prosperity in the years ahead.

6. **The government has set out an ambitious strategy for economic adjustment and taken recent actions to lay the groundwork for debt relief.** On the economic front, the government adopted a three-year emergency economic recovery program (2011-2013) and implemented an austerity budget, including rolling back subsidies. A medium term vision is articulated in an Interim Poverty Reduction Strategy Paper (I-PRSP) completed in 2012 with the support of the donor community and whose implementation donors are keen to support. Although the macroeconomic framework remains weak, both the International Monetary Fund (IMF) and the World Bank are working with the authorities to strengthen it in order to support policies that accelerate broader growth and shared prosperity.

7. **The government has also entered into several peace agreements with internal rebel groups and with South Sudan to address conflicts that hold back Sudan's potential.** This includes peace agreements with a number of rebel groups in Darfur, permitting representation at the center and regional self-government of formerly marginalized groups (See Annex 6). Most critically, in September 2012 Sudan concluded agreements with South Sudan under the sponsorship of the African Union High-Level Implementation Panel (AUHIP) to, among other things, allow for the flow of oil from the latter and therefore significant new revenues for Sudan. The September 2012 agreements with South Sudan include the so-called "zero option" on external debt, a time-bound clause by which South Sudan would not inherit any external debt, if Sudan commences a debt relief process by September 2014. Any setbacks and lack of progress on debt relief are likely to make economic recovery as well as relations with South Sudan more challenging.

8. **The Bank's strongest comparative advantages correspond well to the challenges and opportunities facing Sudan.** Relevant Bank strengths include its expertise in reform for inclusive growth, its focus on long-term institution building, its results-driven operational experience in all regions of Sudan, and its status as a trusted source of knowledge and global expertise. One of the key lessons of the World Development Report 2011 on Conflict, Security and Development is that the Bank should respond swiftly to such contexts with a focus on

institution building, expanding economic opportunities and enabling the consolidation of citizen security. An interim strategy is called for because the operational conditions are very fluid – the fiscal shock and an uncertain adjustment, continuing conflict in several areas, and elections and a new constitution anticipated in the next two years.

9. **Although the operating environment for the Bank is constrained by Sudan’s lack of access to IDA funding and a difficult international political context, the Bank program over the next two years will be reasonably resourced through the use of trust funds and partnership arrangements.** The ensuing engagement will increase Bank preparedness for a possible resumption of IDA lending in the future. Sudan’s arrears to several bilateral and multilateral creditors, including IDA, severely limit the country’s access to concessional development finance. The business environment for the Bank is also affected by a history of continuing tensions and disputes between Sudan and South Sudan, and the impact of international sanctions. Given the complex environment, resources for the proposed program have been identified through a deliberate strategy of partnership with other development partners and the leveraging of available trust funds. The financing will provide immediate support to pro-poor economic management and peace-building and could serve as a bridge towards full normalization of relations and access to IDA resources following the eventual initiation of the debt relief process.

10. **The Bank’s interim strategy for Sudan will therefore focus on assisting the authorities to achieve results in two areas, which are fully aligned with the Bank’s mandate to eradicate extreme poverty and promote shared prosperity – manage the economic transition to promote fiscal adjustment and diversification of the economy, and service delivery improvements to address socio-economic roots of conflict.** First, the Bank will support policy and institutional reforms at the national level to support economic management to achieve fiscal adjustment, proper debt management and readiness for debt relief; to promote new sources of growth and to accelerate growth that empowers citizens, and institutional reforms to ensure equitable distribution of fiscal resources across regions. Second, the Bank will support national and local programs for service delivery focusing on key human development outcomes, to establish mechanisms that minimize the impact of the fiscal shock transmitted to households through cutbacks in services or through inflation, and to building systems for service delivery and accountability, especially in areas emerging from conflict.

II. Country Context

A. Political Economy and Security Developments

11. **Under the terms of the 2005 Comprehensive Peace Agreement and following a successful referendum, Sudan allowed southern Sudan to secede to form the Republic of South Sudan.** Secession was the culmination of the successful implementation of the CPA signed in 2005 between the Government of Sudan and the Sudan’s Peoples Liberation Movement (SPLM), ending decades of civil war. The CPA was aimed at making unity between the two parties attractive and featured several measures pertaining to power- and wealth-sharing. It also made possible recovery and development activities in war-affected areas. The CPA

mandated a referendum on independence for southern Sudan and another for the contested region of Abyei to choose to remain in Sudan or join South Sudan, in case the latter seceded.

12. **The South's secession has had fundamental repercussions on Sudan as evidenced by significant stresses in the macro-fiscal situation, the structure of the economy, and the political economy.** While it removed the key conflict in Sudan, the secession induced multiple shocks. The most important and immediate was the loss of the oil revenue, aggravated by the several years of oil-export driven growth, extravagant public investments, and expanded public employment. In political economy terms, the secession has rendered the remaining territorial disputes with South Sudan (e.g., over Abyei, borders, etc.) and with other populations within Sudan (e.g., South Kordofan) particularly difficult as the state views further compromise on territory as a threat to the integrity of the remaining Sudan. However, it has also made other concessions (e.g., limited autonomy) more acceptable and newly used in peace agreements. (See Annex 6).

13. **However, not all conflict has been arrested; tensions continue and are expected to persist in the foreseeable future.** The most potentially disruptive conflict remains the conflict in the "Three Protocol Areas" (Blue Nile and South Kordofan states and Abyei area) where previous peace protocols have not yet been fully implemented. Abyei is one of the areas that suffered most from insecurity due to the conflict between the Misseriya and the Dinka-Ngok over natural resources (water and pasture) in the borderlands of Sudan and South Sudan. This culminated in a confrontation in May 2011 between Sudan and South Sudan armies. Tensions continue with South Sudan, including recent mutual accusations of support to rebels that continue to make the border areas insecure. (On further security challenges, see Box 1). These tensions have the potential to threaten the shipment of South Sudanese crude oil through Sudanese pipelines, a situation that would be very destabilizing to both economies. Finally, the potential lapse of the "zero option" on external debt, in case Sudan does not commence the process of securing HIPC debt relief by September 2014¹, also has the potential to increase tensions between the two countries, as it could result in contentious negotiations about external debt apportionment.

14. **In most regions of Sudan, conflict over access to natural resources between pastoralists, agro-pastoralists and settled farmers is endemic and also contributes to regional conflict, such as in the Sahel.** Such conflict often leads to violence due to weak institutions for conflict management and especially weak natural resources management regimes. Climate change is likely to put further pressure on already fragile ecosystems and livelihoods dependent on them and may lead to further conflicts. In the western part of Sudan, especially in Darfur, conflict is exacerbated by porous borders that allow easy movement of rebels and arms, population shifts due to climatic changes as well as displacement from internal and regional conflicts, and lack of well-regulated resource sharing among different groups, including across borders.

¹ The Agreements signed between Sudan and South Sudan on September 27, 2012 included the 'zero-option' whereby Sudan will retain all external debt liabilities if the two states committed to a joint outreach strategy to secure from international creditors a firm commitment to provide comprehensive debt relief of Sudan's external debt, resulting in reaching the HIPC decision point within two years of signing, or a later date as agreed by the two states.

Box 1: Security and Development in Sudan

Although the CPA implementation and the peaceful secession of South Sudan ended Sudan's longest running civil war, Sudan continues to suffer insecurity from internal rebellion, tensions with neighbors, and porous borders that expose it to regional security incursions. A significant political breakthrough was reached between Sudan and South Sudan on March 12, 2013 allowing the resumption of oil flow vital to Sudan's stability and economic recovery. Tensions remain however in Blue Nile and South Kordofan, as well as parts of Darfur and have heightened following the creation of the Sudan Revolutionary Front (SRF) in November 2011. An armed coalition (comprising SPLM Northern Sector (SPLM-N) and all Darfur rebel movements) that advocates for the forceful removal of the government. In May 2013, the SRF rebels attacked three major towns in North Kordofan and captured a fourth on retreat, relinquishing control only after a major offensive by the government. Calls for ceasefire and negotiations between the government and the SPLM-N have met only partial success, even under UN Security Council pressure. In Abyei, the third of the CPA protocol areas, the security situation has improved following the withdrawal of the Sudan Armed Forces from the area and the deployment of the UN Interim Security Force for Abyei (UNISFA). The situation however remains volatile with the CPA-stipulated referendum yet to be conducted and the status of the region disputed by Sudan and South Sudan. In Darfur, sporadic fighting continues despite the signing of the DDPD in July 2011 and current negotiations to bring more factions under it have proven only partially fruitful.

These internal conflicts are connected to regional conflict dynamics with epicenters in Northern Uganda (Lord's Resistance Army), central Africa and the Sahel, as well as fall-out from the now-ended Ethiopia-Eritrea war, with 3 million refugees in eastern Sudan. Regional security often has see-saw dynamics and contradictory effects. For example, while the relative peace in Darfur benefits from a détente between Chad and Sudan, and the signing of the September 2012 Cooperation Agreements between Sudan and South Sudan, new challenges have arisen with the fall of the Gadhafi regime and the broader Sahelian conflict. For instance, media reports indicate rebels fleeing the conflict in Mali have entered Sudan from its western border. Finally, in November 2012 Sudan was subject to an air strike on an arms factory near the capital. Further tensions with South Sudan and a heated political conflict with Uganda risk escalating conventional military action.

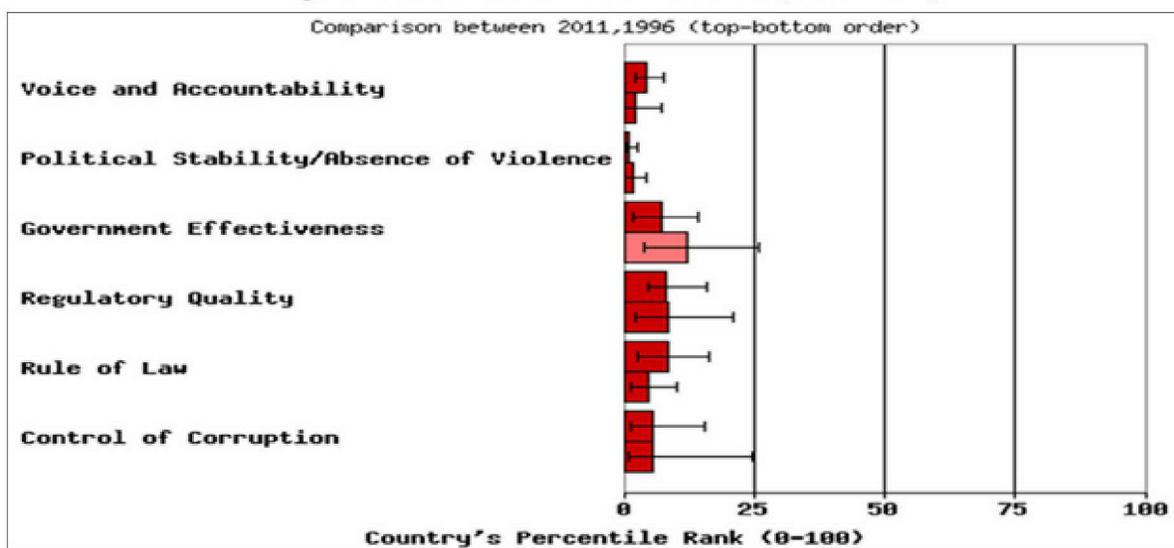
These security challenges have developmental impact from a variety of perspectives ranging from citizen insecurity, destruction of lives and property as well as diversion of policy attention and resources from development efforts (See also Annex 5 on Drivers of Fragility and Conflict).

B. Drivers of Fragility and Conflict

15. Lack of inclusive institutions to mediate demand for power- and wealth-sharing, especially between the center and the periphery, has been the underlying source of fragility and conflict in Sudan. A study of conflict drivers that threaten stability in Sudan was commissioned to help deepen understanding of conflict factors and accordingly, calibrate Bank engagement under the ISN. The main conclusion of the study was that inequalities in allocation of public resources and in access to natural resources are the main drivers of conflict, feeding into a potent mix of ideology, ethnicity and socio-economic marginalization that threatens to pull the country further apart. Denial of or lack of access to public funds or services is no longer perceived as simply a result of poor governance, bureaucracy or lack of efficiency, but as marginalization by central authorities against ethnically different peripheral communities (See Annex 5).

16. **Weak governance and accountability have contributed to fragility and conflict, including between the center and periphery.** While some progress in government openness and pro-poor policy has been made, particularly since the signing of the CPA and the enactment of the Interim National Constitution in 2005, there remains a substantial governance agenda ahead. Progress in the delivery of basic services has been uneven and an acute challenge in peripheral areas. Governance institutions necessary to effect sound public financial management; define and execute sectoral strategies; and ensure transparent, efficient, and equitable inter-governmental transfers, remain weak. As shown below (Figure 1), capacity to maintain peace and security; promote rule of law; control corruption; and effectively manage public finance for delivery of services to the population remains very low in absolute and in comparative terms, and has hardly changed since 1996.

Figure 1: Sudan Governance Indicators (1996 – 2011)



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

17. **Fragility and conflict in Sudan is also driven by corruption, further reinforcing barriers to investment and equitable growth that would provide opportunities to citizens.** Institutional and governance weaknesses are further exacerbated by internal conflict, regional tensions, and international isolation, all of which conspire to divert attention away from the governance agenda. A weak civil society is unable to mount effective demand for improved corruption prevention and oversight systems or for greater transparency that help reduce the opportunities for corruption and misuse of resources.

18. **Intrinsic to issues of allocation and management of resources and the need for greater transparency and accountability are the broader issues of the transformation of the state by providing for more participation of citizens and communities in decisions.** The government indication of its willingness to engage in an inclusive process towards a new constitution might mitigate the lack of political reforms following the end of the CPA. As the WDR 2011 points out, inclusive compacts are crucial to reducing the exclusion that often drives conflict and participatory governance is necessary to restore confidence in public governance at

national and local levels. For Sudan, heeding calls by civil society and political parties for fair elections and an all-inclusive and participatory constitution-making process may represent the best opportunity to ground the needed institutional changes in a sustainable political process. The Bank's previous analytical and technical assistance work with the supreme audit institution and parliamentary oversight committees (e.g. budget and public finance committees) has also produced modest results in transparency in the management and use of revenue and follow up of reports of the audit institution.

19. **Finally, in most regions of Sudan conflict is also driven by competition over access to natural resources.** This contributes to conflict and violence at the local level because weak or non-existent institutions lead to ungoverned competition or unstable rule for sharing commons. For example, a Bank study assessing factors contributing to conflicts among pastoralists, agro-pastoralists and farmers revealed that the lack of clear demarcation and mapping of livestock routes was a key driver of conflict. Given the lack of strong governance institutions for Sudan's renewable resources, biodiversity is threatened and climate change is likely to put further pressure on already fragile ecosystems and livelihoods (e.g., pastoralism and dry-land agriculture) that depend on natural resources such as water, pasture, and subsistence farming.

C. Economic Developments

20. **The oil sector has been pivotal in the last decade, accounting for over half of government revenues and 95 percent of exports.** Over the last decade, Sudan enjoyed an average real economic growth of seven percent, but a relatively high average annual inflation rate of 13 percent. The high real GDP growth and the even higher inflation, in a context of a stable nominal exchange rate peg to the dollar, swelled the nominal GDP in US dollars from US\$10 billion in 1999 to US\$65 billion in 2010. The real effective exchange rate (REER) appreciated by around 75 percent over the same decade. In per capita terms, Sudan's GNI (Atlas method) rose from around US\$350 per capita in the beginning of the 2000s to about US\$1,600 in 2011, putting Sudan nominally in the ranks of lower-middle income countries. However, the loss of oil production and the massive devaluation are projected to bring down Sudan's GNI to around US\$1,200 per capita in 2012, putting it below the 2009 level.

21. **The loss of about three-quarters of oil production owing to the secession of South Sudan brought about a significant correction to past trends in the economy in late 2011 and in early 2012.** This loss led to a substantial increase in the fiscal deficit, a deterioration of the trade balance, a massive devaluation of the currency (which cut its official value by 66 percent in 2012). For 2011 and 2012, economic growth rates were -3.3 percent and -11.1 percent, respectively (IMF estimates). The fiscal deficit has been deepening, reaching an estimated 3.7 percent of GDP in 2012, notwithstanding severe reductions of public expenditure in the second half of 2012, and is officially set to 3.3 percent of GDP in the 2013 budget, but likely to be much higher unless stringent fiscal measures are implemented before the end of the year. Rising consumer price inflation reached 48 percent in April 2013, three times the pre-secession rate of inflation. (The inflation rate for July 2013 was 24 percent.) Triggered by extreme supply side shocks (i.e., currency depreciation), which raises import prices, and by supply bottlenecks,

inflation is being fuelled by lax fiscal policy and the associated excessive monetary financing of the budget deficit by the central bank.

22. **The post-secession dispute with South Sudan over transit fees has been costly to both economies.** In January 2012, South Sudan shut-off oil export through Sudan’s pipelines over a dispute regarding transit fees. An agreement was signed on March 12, 2013 to, among other things, resume oil export. If fully implemented, this will result in over US\$1.5 billion a year in new revenue to Sudan from transit, and other fees over the next three years and around US\$0.5 billion thereafter. For the remainder of the 2013 budget, the revenue would only be around US\$0.5 billion, as oil production in South Sudan resumes only gradually. If the new revenues are sustained (which requires maintaining peaceful relations with South Sudan) and are directed at supporting service delivery, equitable distribution and productive public investments, they could contribute to longer term peace-building in Sudan. As of August 2013, the situation remained tense as Sudan again planned to shut off transit of South Sudan’s oil through its pipelines in response to alleged South Sudanese support to rebels attacking Sudan.

23. **Since the secession, Sudan’s trade balance has shown a substantial deficit; combined with high inflation, this has had a severe impact on the poor as a number of staple food items are imported.** The trade deficit was US\$0.7 billion in the first quarter of 2012. Exports in the first quarter (US\$940 million) remained less than one-fourth of the pre-secession level in the absence of crude oil exports that previously accounted for 95 percent of total exports. Over the last two years, gold exports have increased significantly, though from a low base, and while their share of exports reached 69 percent, they fall significantly short of replacing lost oil revenues. Excessive reliance on gold exports is unlikely to provide a sustainable economic strategy for the government.

Figure 2: Sudan Real GDP growth rate

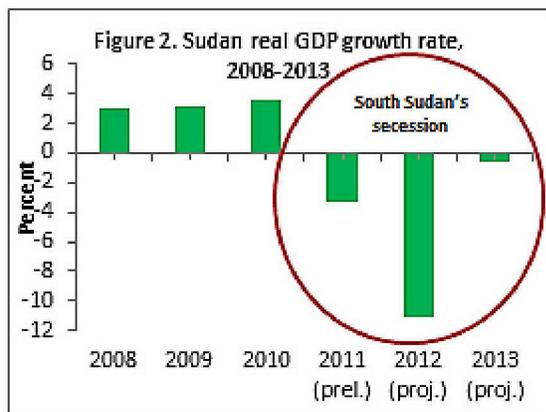
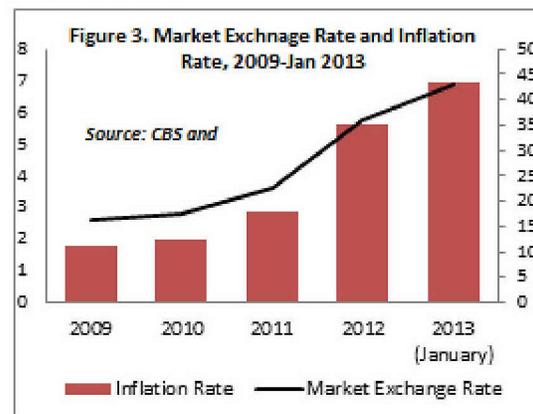


Figure 3: Market Exchange Rate and Inflation Rate



Source: World Bank: Sudan Economic Brief, May 2013 for Figure 2 and Figure 3

24. **During the oil-boom decade Sudan failed to broadly diversify its economy or promote its private sector.** Instead, Sudan expanded its public sector (especially public sector wage employment) in unsustainable ways and crowded out the private sector. Prior to the secession, the 2010 World Bank Country Economic Memorandum (CEM) noted that the sustainability of Sudan’s oil-led growth was under threat from a number of economic and

political factors and flagged the need for structural balance and strengthening of non-oil sectors as essential for sustainable growth. The policy framework and incentives for the private sector have not been conducive to investment. Sudan's private sector perceives political instability, corruption and economic uncertainty as the main reasons for holding back investment and business development (2010 ICA). Other constraints include inadequate infrastructure services (e.g. transport and electricity), access to finance and taxation policies. (See Figures 4 and 5).

Figure 4: Major Constraints Perceived by Private Sector

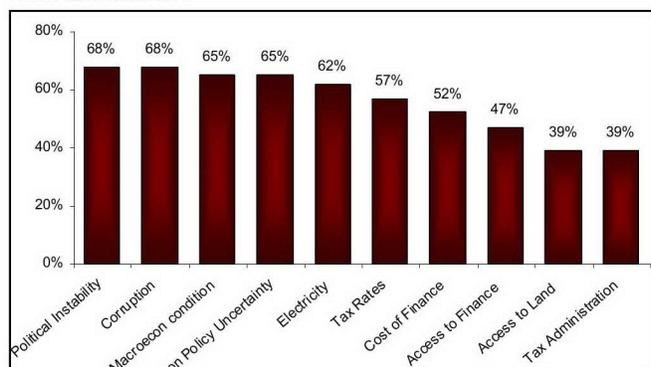
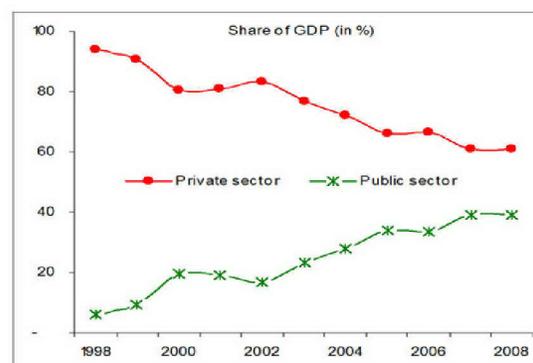


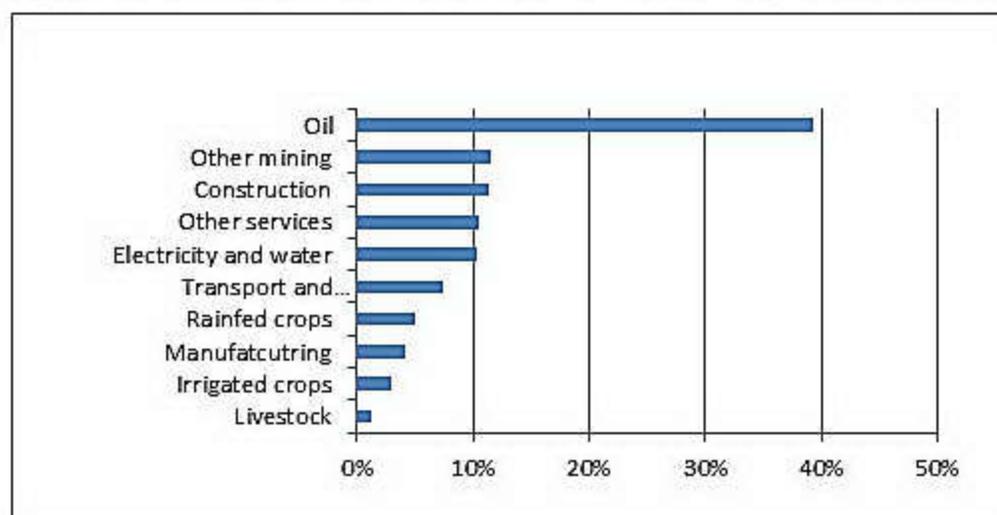
Figure 5: Private Sector Share of GDP (%)



Source: World Bank 2010: Investment Climate Assessment

25. **Agriculture and livestock play important roles in food security and employment opportunities that directly contribute to poverty alleviation and social development.** It is estimated that agriculture contributes 35-40 percent of GDP (with livestock accounting for 50 percent of the production). Over one million heads of sheep are officially exported every year, mainly to Gulf States, generating foreign currency for the country. Livestock is also a key asset for some of the poorest pastoral and agro-pastoral households. Productive investments in agriculture and livestock development provide a reliable pathway to building confidence of rural communities in both central and decentralized institutions in a conflict-prone environment. Under the I-PRSP and the emergency economic recovery program, the government has identified the agriculture and livestock sector as a priority and has committed to spending 20 percent of public expenditure on agriculture and livestock infrastructure and technical innovations.

Figure 6: Growth Rates of Selected Sectors of Sudan – Average over 2000 - 2008



Source: World Bank, World Development Indicators 2011

26. **After fourteen successive IMF Staff Monitored Programs (SMP), the Government and the IMF have not been able to conclude a successor SMP since December 2010.** Sudan has implemented successive SMPs for over 14 years (1997-2010) and performance under these programs has been broadly satisfactory. Notable achievements under previous SMPs include the credible maintenance of macroeconomic stability, and the implementation of a comprehensive reform agenda to improve capacity in economic management. However, some problems persist, including (i) weak build-up of international reserves due in part to an insufficiently flexible exchange rate; (ii) rising expenditure pressures, particularly in the implementation of the CPA; and (iii) slow implementation of reforms in the area of domestic financing and arrears clearance, as well as public financial management.

27. **Discussions on the policy framework that could be supported under a successor SMP took place from 2011 to 2013, but as of August 2013 an agreement had not yet been finalized.** An Article IV consultation that was finalized in September 2012 recognized the important, albeit delayed, steps the government took to restore macro-economic stability by implementing fiscal and exchange rate adjustments in the second half of 2012. However, reaching fiscal sustainability and enhancing growth potential will require a determined continuation of the reform momentum. Negotiation and strong implementation of a new SMP would be an important anchor for macro-economic stability, a positive signal for donors and investors, and would help consolidate Sudan's past macroeconomic track-record for possible future debt relief.

28. **Sudan is a highly indebted country and is potentially eligible for debt relief under the HIPC Initiative.** It has accumulated sizeable external arrears to a wide range of multilateral and bilateral creditors, and has been in non-accrual status with the World Bank since 1994. At the end of 2012, Sudan's external debt stock stood at US\$41.6 billion in nominal terms, about 87.5 percent of which was in arrears. The bulk of Sudan's external debt is public and publicly-guaranteed and is inherited from the time when it was unified with South Sudan. Sudan's creditors include multilateral institutions (13 percent); Paris Club (37 percent); non-Paris Club

(36 percent); and private creditors (14 percent) (see Table 1 for details). As part of the secession agreement and follow-up agreements sponsored by the African Union High-Level Implementation Panel (AUHIP), Sudan will take over all of the pre-secession debt provided Sudan commences the HIPC debt relief process by September 2014, with support from South Sudan. If this fails, negotiations to apportion the debt would ensue.

29. **A strong commitment on the part of Sudan, South Sudan and Sudan's main creditors is key to resolving Sudan's arrears situation.** The government is committed to begin outreach efforts in collaboration with South Sudan and the African Union to advocate for debt relief. This includes action to reach out to principal creditors and seek political support from key governments. In addition, a resumption of a SMP with the Fund, along with the implementation of its I-PRSP would strengthen Sudan's case for debt relief. Application of traditional debt relief mechanisms under the HIPC framework would, according to Bank estimates, reduce Sudan's debt burden by 48 percent to about US\$23.5 billion in PV terms. The debt burden would be further reduced to US\$9.3 billion after HIPC debt relief which would also include the simultaneous clearance of arrears with International Financial Institutions and allow Sudan to access its share of concessional financing. This would provide significant new resources for development, and potentially boost poverty reduction efforts in Sudan.

Table 1: Sudan: External Public and Publicly Guaranteed Debt Stock as at end 2012 (in millions of US\$)

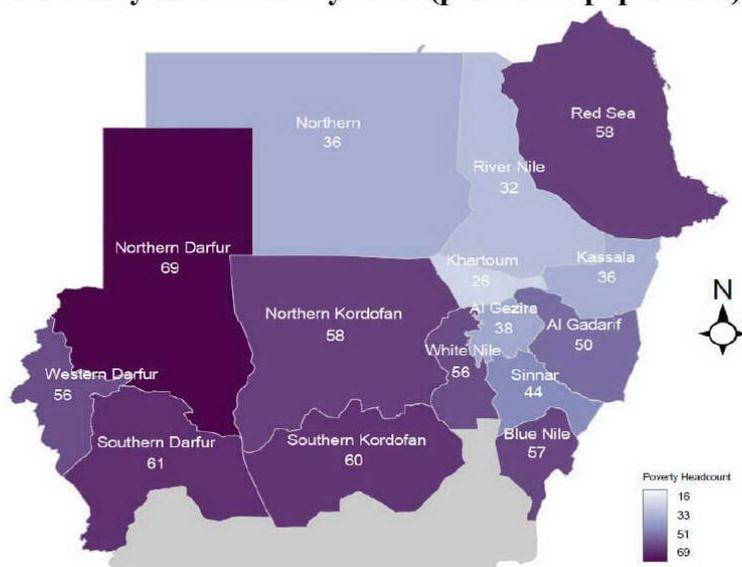
Creditor	Nominal (Incl. Arrears)	In Percent of Total Debt Outstanding	Arrears (Principal and Interest)	Arrears in Percent of Total Outstanding
Total	41,585.1	100.0%	36,397.6	87.5%
Multilateral	5,417.6	13.0%	2,995.8	55.3%
IDA	1,472.4	3.5%	715.7	48.6%
IMF	1,512.9	3.6%	1,512.9	100.0%
AfDB Group	498.4	1.2%	309.3	62.1%
Others	1,934.0	4.7%	457.9	23.7%
Bilateral	30,556.7	73.5%	27,791.0	90.9%
Paris Club	15,439.8	37.1%	15,279.6	99.0%
France	3,517.3	8.5%	3,517.3	100.0%
United States	2,474.0	5.9%	2,313.8	93.5%
Austria	2,325.0	5.6%	2,325.0	100.0%
Japan	1,330.6	3.2%	1,330.6	100.0%
Italy	1,244.8	3.0%	1,244.8	100.0%
United Kingdom	1,207.0	2.9%	1,207.0	100.0%
Belgium	1,097.4	2.6%	1,097.4	100.0%
Others	2,243.8	5.4%	2,243.8	100.0%
Non-Paris Club	15,116.9	36.4%	12,511.4	82.8%
Kuwait	7,126.3	17.1%	6,771.1	95.0%
Saudi Arabia	3,273.1	7.9%	2,963.5	90.5%
China	1,970.9	4.7%	824.9	41.9%
Others	2,746.7	6.6%	1,951.8	71.1%
Commercial Creditors	5,610.8	13.5%	5,610.8	100.0%
London Club	4,355.5	10.5%	4,355.5	100.0%
Other	1,255.3	3.0%	1,255.3	100.0%
<i>Revenues and Grants</i>	22,305	186.4%		
<i>Exports</i>	5,593	743.5%		
<i>GDP</i>	60,470	68.8%		

D. Poverty and Social Developments

30. **Even after ten years of an oil boom, Sudan continues to suffer wide and deep swaths of poverty and stark inequality between regions.** Poverty estimates set the average rate of poverty incidence at 46.5 percent (2009 National Baseline Household Survey), indicating that some 15 million people are poor. The poverty rate is significantly higher in rural areas (58 percent) than in urban areas (26 percent), and varies markedly across states, from 26 percent in Khartoum state to above 60 percent in peripheral states such as North Darfur, South Kordofan, and Red Sea. In the absence of regular Household Surveys, it is not possible to determine poverty trends in Sudan.

31. Human development indicators remain low and Sudan ranks at 171 out of 187 countries in the 2013 UNDP Human Development Index. Prospects for Sudan meeting MDGs by 2015 are also bleak and its progress compared to that achieved by its neighbors and Sub-Saharan Africa average lags behind on many fronts (Annex 2). For example, access to basic health services remains low, covering 40 to 50 percent of the population and regional disparities are particularly acute as health facilities are unevenly distributed. Mortality rates vary significantly across states and are markedly high in peripheral states. The child mortality rate (deaths per 1,000 births) is highest in Darfur (170), and lowest in Gezira state (63), while the national average is 111. The maternal mortality rate per 100,000 ranges from 106 in Sinnar State to 335 in South Darfur (2010 Sudan Household Health Survey). Other services mirror this disparity. For example, access to safe drinking water remains low (44 percent in urban areas, 41 percent in rural areas), with many Sudanese relying on rivers, lakes, ponds, and wells due to the absence of piped drinking water.

Figure 7: Poverty Headcount by State (percent of population)



Source: World Bank analysis of NBHS 2009.

Note: The boundaries shown do not imply any judgment on the part of the World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

32. **The main determinants of poverty in Sudan include** (a) sustained and multiple conflicts, which undermine opportunities for economic and social development, which in turn

feeds back into grievance driving fresh conflict; (b) a lack of economic diversification as reflected in the over-dependence on the extractive sector, which has resulted in a neglect of agriculture and livestock sectors, from where the poorest 40 percent of the population derive their livelihoods, but that are marred by low productivity and vulnerability; (c) unequal distribution of fiscal resources and unequal access to natural resources, especially between the centre and the periphery, which exacerbate inequality across regions; (d) governance failures as reflected in an inadequate policy framework and incentives for private sector investment. The conflict environment, political instability, and perceived corruption hold back investment and business development due to excessive risk. Given these factors, government action toward sustainable poverty reduction and equity in the long-term remains inadequate. For example, public spending on education accounts for only about 2.7 percent of GDP. Poorer neighbouring countries such as Chad and Ethiopia and other lower middle-income countries in North Africa such as Morocco and Tunisia, which have attained or are likely to attain the goal of universal education before 2015, spend between 3 and 7 percent of their GDP on education.

33. **Gender disparities remain persistent in Sudan.** Women comprise only 23 percent of the formal economy, but 70 percent of the informal economy, with a majority of them engaged in agricultural production. Despite relative parity in enrolment and retention rates in primary education, significant variations exist across states, rural/urban environments and categories of vulnerability. The 2012 Education Status Report notes the compounding negative impact of poverty, rurality, and gender, highlighting in particular that poor girls living in rural areas are among the least likely to access educational opportunities. Indicators for nomadic and displaced populations are also poor. Barriers to health care include lack of access to adequate health facilities and trained staff, as well as high costs for services and medicine. Socio-cultural factors also play a role in the health status of women. Decisions regarding health-seeking behavior or family planning (e.g. contraceptive use) often reside with the husband, especially in rural areas, while high fertility rates (5.6 children per family), early marriage and the prevalence of female genital mutilation/cutting increase risks associated with maternal mortality (MDTF-N Gender Review 2013).

E. Statistics

34. **Statistical capacity needed to deliver quality statistical products in Sudan in a sustainable basis at the various levels is weak.** The national, sub-national, and sectoral statistical systems are characterized by gaps in data provision, fragmented and out-of-date data, absence of time series data, lack of standards in data production, and lack of uniform development across the various statistical systems. This situation adversely impacts development planning and impedes the rise of results-focused execution of public policy and service delivery. The latest Household Survey was carried out in 2009, and a new one is scheduled for 2014. The Bank regularly collaborates with the IMF on economic monitoring data and will continue to partner with other development partners such as the AfDB to update economic and social indicators (see Annex 4 for statistical capacity profile and planned statistical work).

III. Government Strategy

35. **In response to the recent developments, the government has articulated a vision for economic recovery in the short term, for diversifying the economy in the medium term, and for providing more equitable opportunities to all Sudanese.** The government has formulated a three-year emergency economic recovery program, the Salvation Economic Program (2012-2014), to address current challenges emerging from the post-secession economic transition, and an Interim Poverty Reduction Strategy Paper (I-PRSP) that supports the Salvation Economic Program and provides the basis for the full PRSP under preparation. The emergency economic recovery plan sets forth an ambitious goal of self-sufficiency by 2014 for a number of food products such as wheat, sugar, and cooking oil. It also aims to increase exports of cotton, processed meat, gum Arabic, and gold. Reducing subsidies on sugar, wheat, and fuel, which accounted for 10 percent of government expenditure in 2012, and holding wages constant is central to government strategy to contain public expenditure. To increase revenue, the government austerity program has also sought new sources, especially in export earnings.

36. **Reduction of poverty through rapid, sustainable, and shared economic growth is a key objective of the government's I-PRSP.** 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. The key actions and results areas include establishing a capable state with good governance and capacity for effective public actions; reversing the marginalization of ethnically different peripheral communities; stabilizing the populations and communities destabilized by conflicts; building human resources as the foundation for development; and providing an enabling environment for rapid and sustainable economic growth. The I-PRSP 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. These are ambitious goals, especially in the context of the fiscal shock and several challenges will have to be boldly tackled.

37. **Credible action and sustained political commitment to implement and monitor the emergency program and the I-PRSP will be critical to consolidate the necessary track record for HIPC debt relief.** For instance, a review of public expenditures undertaken for the period 2005-2008 suggests that budget planning and budget execution were only weakly correlated. If the emergency program and the I-PRSP are to deliver maximum returns, the declared priorities will need to be adopted and fully executed in the 2013 and 2014 budgets. At present, wages and salaries account for an unsustainably high proportion of public expenditures, about 42 percent in 2012, with little going towards investments and services.

38. **Further, the incentive framework for more active engagement of the private sector will be critical to achieving rapid growth, and especially to diversifying the economy.** Policy reform and public expenditures will have to be directed at productive public goods and investments that expand economic opportunities (e.g. agriculture), enhance capacities of economic actors (e.g. skills building), and activate jobs-generating sectors (e.g. agro-industry). Barriers such as over-regulation and perceptions of corruption (e.g. the 2012 Corruption Perception Index by Transparency International ranked Sudan 173rd out of the 176 countries surveyed) need to be addressed by the government.

IV. Bank and Donor Support to Sudan

A. Implementation of the 2008 Interim Strategy

39. **The last Interim Strategy Note for Sudan was discussed by the Board on March 20, 2008 and was intended to cover the World Bank's engagement through the end of 2009².** Its overall objective was to support the economic and social provisions of Sudan's CPA. This translated into a three-pronged approach focusing on (i) increasing access to basic human services; (ii) improving governance and capacity building for the public sector; and (iii) promoting rural development. The main instruments to achieve these objectives were (a) administering the MDTF-NS program; (b) providing analytical and advisory activities (AAA); and (c) donor coordination. The essential framework that the ISN laid out remained valid up to the end of the CPA period in July 2011 and Bank management provided Executive Directors with periodic updates.

40. **In the absence of Bank lending, the MDTF-NS was the main financial instrument supporting the implementation of the ISN.** Set up in 2006 and funded by nine bilateral donors and the World Bank. The MDTF-NS program design helped harmonize the external flow of funds, thus reducing transaction costs and inefficiency in implementation. As of July 31, 2013, total funds made available to projects amounted to US\$590 million, of which over 90 percent had been disbursed. This reflected US\$240 million provided by the MDTF-NS donors and US\$350 million in counterpart funds provided by the Government of Sudan. At nearly 60 percent, government counterpart contribution has been sizeable even by international comparison and reflects the government's commitment to the objectives of the MDTF-NS. The MDTF-NS is expected to close on December 30, 2013.

41. **During the last ISN period, the Bank provided substantive analytical inputs, and strongly re-engaged on policy dialogue in key areas.** A Country Economic Memorandum (CEM) in 2009, a Country Integrated Fiduciary Assessment (CIFA) in 2010, and a Public Expenditure Tracking Survey (PETS) in 2011 were some of the key knowledge products delivered by the Bank, and provided important platforms for intensive policy dialogue with the government on fiscal and PFM issues, and on the shared growth agenda. The Bank also co-chaired, with the IMF, the technical group on debt relief, and provided more informal analytical and TA piece, such as one on the poverty incidence of food and energy subsidies, which supported the government efforts in this area. The Bank knowledge products were disseminated to both central and sub-national government officials, and an effort was made to outreach to broader academic and civil society through conferences, and open seminars, particularly with the University of Khartoum.

42. **Continuous efforts to improve and accelerate the implementation of the MDTF-NS portfolio in the face of the challenging environment have paid off in quality of delivery and robust results.** Following an in-depth review of procurement and contract management activities by the Bank staff in close collaboration with the Monitoring Agent, regular reviews of progress on implementation have been conducted, including internal project restructuring and re-allocating resources from insecure to secure areas in response to conflict. The results-focus of the

² Report No. 43036-SD of March 20, 2008.

program monitoring has improved substantially and mechanisms are in place to ensure close attention to potential problem projects or activities. Compliance with safeguards policies has also improved significantly as a 2012 safeguard review indicated. Good progress has also been made in mainstreaming gender particularly in the implementation of MDTF-NS projects, reducing gender disparities and enhancing effectiveness and sustainability.

43. **The IFC and MIGA remain inactive in Sudan. Although the International Finance Corporation (IFC) previously had an active advisory service program, including a public-private sector dialogue program, these activities have since closed.** The private sector development work is limited to World Bank support to micro-finance and the follow up dialogue on the Investment Climate Assessment (ICA). The Multi-lateral Investment Guarantee Agency (MIGA) does not have any activities in Sudan at present. Sudan's arrears to IDA remain the key obstacle to engagement by IFC and MIGA. The World Bank Group will continue to explore opportunities to work across the competencies of its constituent units, especially in anticipation of eventual IDA reengagement.

44. **According to the client survey, stakeholders believe strongly that the Bank should continue to play a significant role in Sudan in the near future.** While financial resources were identified as a top value of the Bank's contribution, stakeholders also indicated they valued the Bank's knowledge, training and capacity building. Moreover, stakeholders view political commitment to reform, inefficiency of government, inadequate levels of citizen participation and conflict as the biggest challenges to successful reform in Sudan. These concerns are key considerations in the proposed strategy as further endorsed by stakeholders in consultations. (See Annex 12 and Annex 13).

45. **Sudan continues to receive support from other development partners with an interest in poverty reduction and humanitarian assistance, which accounts for the largest proportion of aid to Sudan.** Since the secession of the south, several bilateral donors have shifted their focus to South Sudan and are re-examining their development assistance to Sudan while continuing to support humanitarian aid. Pooled funding mechanisms (such as the Bank-managed MDTF-NS) have been the preferred instruments among OECD donors in Sudan in order to manage risks and coordinate priorities to assure better results. While non-OECD donors have recently become more prominent in development and humanitarian assistance as well as in offering favorable commercial exchanges, they have tended not to participate in pooling mechanisms. However, all donors continue to express strong support for recovery and poverty reduction in Sudan, especially for areas emerging from conflict, including Darfur.

B. Key Results

46. **The MDTF-NS, which was the main vehicle for implementing Bank operations under the ISN, has achieved robust results in many areas as documented by an independent evaluation completed in 2012 and as recorded by government and donors.** For example, the MDTF-NS education project has been instrumental in improving schooling conditions for nearly half a million pupils (49 percent females) following the construction or rehabilitation of over 519 schools and the training of more than 11,000 teachers. In addition, the MDTF-NS-funded Status of the Education Sector Report together with targeted school surveys

in 7 states in Sudan informed the government's interim Basic Education Strategy (2012-2014) and in so doing, helped leverage, in close collaboration with other development partners (e.g. UNICEF and DFID), government's access to new resources from the Global Partnership for Education Fund (GPEF). As a result, Sudan was awarded a US\$76.5 million grant for a Basic Education Recovery project in June 2013.

47. **MDTF-NS projects have also advanced critical policy dialogue and reform as well as contributed to institution building.** In policy reform, for example, the MDTF-NS gum Arabic project supported reforms leading to the removal of market barriers in the gum Arabic sector. This included abolishing 13 out of 18 taxes and removing the monopoly concession entrusted to the Gum Arabic Council on trading and export of raw gum. MDTF-NS activities also focused on increasing transparency and public sector accountability and addressing capacity gaps in key economic governance functions. Key outputs included: 3,524 government officers trained on fiduciary, planning and related management courses; 327 senior government officers trained on intergovernmental fiscal relations, procurement, public finance and project management, monitoring and evaluation. A new public procurement regime is now in place, and Standard Bidding Documents (SDBs) for goods, works and consultants and a Public Procurement manual with international standards have been adopted and necessary training is underway.

48. For a more detailed review of the results achieved under the MDTF-NS see Annex 7 (Highlights of MDTF-NS Results), Annex 8 (Funding Status of the MDTF-NS Portfolio), Annex 9 (Sample Results in Early Recovery and Peace-Building) and Annex 10 (Independent Evaluation of the MDTF-NS Results and Lessons Learned).

C. Lessons Learned from the MDTF-NS Implementation

49. **The independent evaluation completed in February 2013 and strongly endorsed by both donors and government gave the Bank's implementation of MDTF-NS a very positive evaluation.** From the independent evaluation and the Bank's own continuous review of program implementation, including a gender review of the MDTF-NS portfolio, four key lessons are relevant and integrated into the new strategy.

50. **Partnership and close donor coordination are critical to maximize development impact.** The Bank's experience in Sudan has demonstrated several examples of fruitful donor coordination (e.g., with bilateral donors on assistance to government on the development of the I-PRSP; with UNICEF on education; with WHO/ UNFPA on health; with UNHCR/UNDP on addressing issues of IDPs and long-term refugees in Eastern Sudan; and with AfDB on work on poverty analyses). This collaboration allows the Bank to do developmental work in areas where initial or accompanying work by others on security and peace-making is critical for success. Moreover, since the international political economy does not allow close contact or direct funding for Sudan by some development partners, the Bank's role as an independent, apolitical actor is critical to ensuring the poor have some access to development resources and some improvement in their economic situation.

51. **Engaging more with sub-national governments including state governors and with sector ministries is critical to generating and sustaining results.** Since the responsibility for

basic service delivery has devolved to the state and locality levels as part of the decentralization policy, the MDTF-NS program has targeted the weakest states and localities in terms of access to basic services. This has produced direct benefits for citizens and strengthened sub-national governments. Going forward, the Bank should prioritize facilitating central government engagement with local authorities in order to avail adequate budgetary resources to cover running expenses and provide adequate staff, equipment, supplies and other resources to ensure sustainable results. Direct support to subnational authorities (especially in capacity building and citizen participation in decision-making) will be critical to delivering results, strengthening institutions, and promoting accountability.

52. Identifying mechanisms for effective gender mainstreaming in analytical and operational activities is critical to ensuring equitable access to and benefit from project interventions. Every intervention offers an opportunity to address specific needs and constraints of both male and female beneficiaries, and future projects should ensure that benefits and resources are equitably and effectively targeted to both men and women. Initiatives should also endeavour to anticipate and avoid any negative potential impacts on women and men and on gender relations generally. In addition to project design, gender should feature prominently in supervision and implementation support, monitoring and evaluation and in policy dialogue with government, civil society and the private sector.

53. Finally, flexibility in strategy and programming is critical to pursuing and delivering the most relevant results at the right speed. The MDTF-NS demonstrated a high degree of flexibility (e.g. in responding to risks (conflict) and opportunities (peace agreements) through restructuring projects and the reallocation of portfolio resources). The ability to learn from on-going experience and to adjust to meet emerging realities is vital, especially in situations that are, by definition, volatile. This is especially so considering the very constrained fiscal space the government has and the expectations in peace agreements.

V. World Bank Program

A. Overall Objectives

54. The overarching goal of this ISN is to support extreme poverty reduction and enhance shared prosperity in Sudan. The Bank strategy responds to Sudan's poverty profile, barriers to poverty reduction, and is aligned with the government's own strategy as expressed in the I-PRSP. Recognizing that widespread conflict and the social and economic crises has deepened poverty in Sudan, addressing the key underlying stresses that have contributed to widespread conflict and the current social and economic crisis will shape the Bank's strategic engagement under this ISN. This is also in line with the recommendations of the WDR 2011. As discussed in the previous sections, among the key issues underpinning Sudan's fragility is the lack of inclusive institutions allowing transparent and equitable allocation and management of fiscal and natural resources. As such, effective governance and efforts for better management and allocation of public and natural resources represent an essential requirement for political stability, social cohesion and equitable economic growth. At the same time, the country needs to weather the economic shock generated by the secession of the South, and put the economy on a sustainable path of inclusive growth. Ensuring reforms foster greater public engagement and

debate to promote greater accountability of public institutions and foster action to mitigate corruption and political patronage is critical for both long-term reduction of conflict and for sustainability of shared growth.

55. The Bank strategy, structured around two pillars: (i) Manage the Economic Transition; and (ii) Address Socio-economic Roots of Conflict, with a cross-cutting focus on governance and gender contributes directly to the objectives of reducing extreme poverty and increasing shared prosperity in Sudan. The proposed program directly addresses several of the key determinants of poverty identified earlier (paragraph 32). By successfully managing the economic transition induced by the secession of the South and by building the basis for diversified and sustainable economic growth outside of the oil and mineral sectors, the country will create the foundation for shared growth and poverty reduction. A more equitable management of public resources, and sectoral reforms to open up economic activity and create jobs, would allow for a better distribution of income. The proposed program will also lay the groundwork for a future strategy that will effectively target poverty reduction and enhanced prosperity in a sustainable manner once Sudan gains access to IDA funding and other concessional financing -- when it has cleared its arrears and has a sustainable debt service burden. While the short time frame of the ISN would not allow monitoring poverty outcomes over its life span, the World Bank together with the African Development Bank, will support the Government to ensure the production of a new round of poverty data in 2014, which would provide the basis for the full Poverty Reduction Strategy (PRSP), recently initiated by the government.

56. Given the current lack of access to IDA funding, the Bank program over the next two years will be resourced through trust funds and partnerships – currently at a level of at least US\$120 million – and will have a primary focus on knowledge and technical assistance. The selectivity of Bank intervention will be driven by the following three principles: (i) alignment with the pillars of this strategy; (ii) clearly identified areas where political will and implementation capacity exist to build on past successes and respond to new opportunities that may emerge; (iii) availability of resources through partnership mechanisms. Given the economic and governance transition, knowledge will be key to helping Sudan identify pathways towards inclusive and shared growth. Therefore, Bank engagement will have a strong emphasis on knowledge across the program, with particular attention to dissemination to government and non-government stakeholders in Sudan.

B. Components of the Interim Strategy

Pillar 1: Manage the Economic Transition

Table 2: Summary of Specific Activities under Pillar 1

Pillar I: Manage the Economic Transition			
Focus Areas	Knowledge Activities	Project Activities	Partnerships
Macroeconomic policies and poverty analysis	<p>AAA on macro-economic framework and I-PRSP, debt issues and HIPC preparation [Policy Dialogue]</p> <p>Subsidy incidence and reform study, including gender and governance aspects [Policy Dialogue]</p> <p>Poverty Assessment [Policy Dialogue] (on-going)</p>	TA Macroeconomic Management (\$2 M, SPF) Statistical Capacity Building TA	IMF, AfDB, DFID TFSCB/SFR-CF
Economic diversification	<p>ICA focused on agriculture sector, including value chains for key exports [Policy Dialogue]</p> <p>Diagnostic Trade Integration Study update [Diagnostic]</p> <p>AAA on the electricity sector, focusing on increasing efficiency and reliability [Policy Dialogue] (on-going)</p>	Gum Arabic marketing support project (\$2 million IFAD additional financing)	IFAD, GEF, Finland
Pro-poor economic and local governance	State Public Expenditure Review [Policy Dialogue] (on-going)	TA for Governance, including state-level PFM and procurement reforms (\$1.7 million, SPF), includes citizen-centered activities/accountability	AfDB

57. Accelerated growth is a prerequisite to poverty reduction and therefore supporting the government to manage the current economic and fiscal recovery with benefits for the poor is essential to achieving the twin goals of poverty reduction and shared prosperity. Under this pillar, Bank support to government will focus on (a) economic management to support policy and institutional reforms at the national level to achieve fiscal adjustment, proper debt management and technical readiness for debt relief; (b) policy reform to promote new sources of growth and to accelerate growth that empowers citizens, with a special focus on agriculture; and (c) institutional reforms that ensure pro-poor and equitable distribution of fiscal resources across regions and accountability at local levels.

a) Macro-economic policies and poverty analysis

58. The Bank, in close collaboration with the IMF, will engage in a continuous dialogue with the government to help devise and implement a consistent mix of macro-economic

policies that can help Sudan weather the adjustment, while protecting the poor and laying the foundation for sustained shared growth and economic diversification. The Bank will build on its strong relationship with the government to support the capacity and efficiency of the Ministry of Finance in budgeting in order to allocate more resources to poverty reduction programs. The Bank will also support the improvement of the country's key public financial management institutions to strengthen budget planning, execution and monitoring, and to enhance participation, transparency, and accountability of budget decisions and implementation. Complementing the macro-economic program, the Bank will continue to work on poverty analysis, and look at some key distributional issues, such as the benefit incidence of subsidies. This is essential to provide a strong evidence base for shifting resources to favor the poor (e.g., subsidy reforms). Partnerships that align other donor action to the goals of poverty reduction and shared prosperity will be key to ensuring broader results. In this regard, the Bank will work closely with the AfDB that is taking the lead in supporting the government with the next Household Survey which will allow the tracking of poverty levels.

59. Working closely with the IMF and other partners, the Bank will provide support to Sudan on debt relief issues, and on establishing capacity for debt management. Resolving Sudan's debt is critical to enabling the government to access concessional development financing to accelerate anti-poverty action and support policy reforms that favour shared prosperity. Over the last few years Sudan has made important steps to meet the technical pre-requisites for HIPC: (i) it has established a long track record of macro-economic stability with IMF SMPs, which was interrupted in 2010; (ii) it has prepared an I-PRSP in 2012; (iii) with support from the Bank and the IMF, it has carried out most of the technical debt reconciliation work. If consensus among creditor countries were to be reached on initiating HIPC debt relief, moving ahead with the process would require, on the part of the government, progress on the finalization of a new IMF SMP and implementation of the I-PRSP through the budget. The Bank can support the government on macro-fiscal adjustment, through evaluations of the social impact of adjustment policies, and with advisory services on the implementation of sectoral policies consistent with the I-PRSP. Building on a recent Debt Management Strategy report prepared by the Bank, further debt management capacity building will also be carried out.

60. The Bank will support the implementation of a National Strategy for the Development of Statistics (NSDS) designed by Sudan's Central Bureau of Statistics. A robust statistical system is necessary to track progress in poverty reduction and allow for evidence based allocations of public resources and policy direction that promotes shared prosperity, especially across regions in Sudan. The NSDS is expected to cover the period 2013-2016 and is focused on issues such as statistical advocacy, institutional development, infrastructure development (software and hardware) as well as data dissemination. While the NSDS has a detailed implementation plan, actual implementation is slow and implementation efforts need to be better focused on key issues to achieve impact. The World Bank will apply to the Trust Fund for Statistical Capacity Building (TFSCB) to help CBS fine-tune overall implementation and support a few concrete projects under the NSDS. Additionally, in a follow-up phase, support from the Statistics for Result Facility (SRF) – Catalytic Fund, which was established to support NSDS implementation in client countries, will be sought.

b) Economic diversification

61. **The Bank will provide knowledge intensive services to the government to delineate a vision of inclusive economic growth, based on macro and structural policies supporting the diversification of the economy out of the oil and the mineral resources sector.** Desired rapid growth that reaches the poor will require incentives for private sector driven growth, especially in support of export trade. Following a government request, the Bank is currently supporting the preparation of an action plan to address previously identified constraints, especially in agriculture, which is the main economic activity of the poorest 40 percent of the population. Technical assistance in this area is anticipated and will help Government focus on improving business regulations to permit more private sector investments in commercial agriculture, export, and finance, including micro-finance to expand small and medium enterprise sector. Since energy is a major challenge, a study on energy efficiency has been launched that will inform reforms and investment to commercialize state energy entities, reduce physical and revenue leakages, and provide low-cost (and renewable) energy to investors, especially in agriculture. In order to help the government support trade and growth of exports, a Diagnostic Trade Integration Study update is being undertaken in a way that integrates sectors such as transport, finance and agriculture that are key avenues for accelerating economic diversification.

62. **Agriculture, including livestock, holds the highest potential for broadly-shared growth and poverty reduction in Sudan.** Through the I-PRSP the government has placed a strong emphasis on transforming agriculture from subsistence production to a modern sector responsive to market signals in order to rapidly lift the majority of Sudanese out of poverty. The government and the Bank have launched a dialogue on agricultural development and expect to agree on concrete follow-up steps in 2013. An Investment Climate Assessment (ICA) focused on agriculture and livestock value chains will be undertaken to support a dialogue on policy reform with a view to encouraging investments in the sector and export revenues. The goal is to provide a policy and legal environment conducive to investment so as to increase food self-sufficiency and expand agriculture exports, which would increase farmer incomes and diversify sources of export revenues. For example, improvements in the livestock sector value chain and export would have a direct effect on household incomes of the vast majority of households in rural Sudan, including in areas severely affected by conflict, such as Darfur and South Kordofan. In response to government requests, Bank support would encourage the adoption of climate-smart agriculture (especially for pastoralists and dry-land farmers) through knowledge transfer and policy support. Gender considerations will play an integral role in agricultural initiatives as 80 percent of rural women are engaged in agricultural production activities at the subsistence level. The Bank will also support the extension of a successful MDTF-NS Gum Arabic sector project with additional financing from IFAD.

c) Pro-poor economic and local governance

63. **Making intergovernmental transfers more predictable and more focused on investments that serve the poor, as well as ensuring probity, will be critical to achieving poverty reduction and reducing regional inequality that drives conflict.** The Bank will provide technical assistance to strengthen intergovernmental financial and administrative mechanisms to have a more transparent and formula-driven allocation across states and

responsive to inequality. This work will build on analytical findings from the Country Integrated Fiduciary Assessment (CIFA), subnational public expenditure reviews (PER), public expenditure tracking surveys (PETS), and the public sector reform project under MDTF-NS. Finally, since responsibility for basic services is devolved to states and localities, the Bank is undertaking state-level Public Expenditure Reviews (PER) in order to identify challenges for financing and functioning of basic service delivery systems and revenue mobilization at state level. PERs will underpin national dialogue leading to changes in state expenditure allocations so as to direct more resources at services used by the poor, reduce waste, and increase accountability. Support to state and local governments will entail working closely with demand-side actors in order to ensure voice and participation of citizens in determining priorities and assuring accountability.

Pillar 2: Address Socio-economic Roots of Conflict

Table 3 Summary of Specific Activities under Pillar II

Pillar II: Address Socio-economic Roots of Conflict			
Focus Areas	Knowledge Activities	Project Activities	Partnerships
Equitable service delivery in education and health	Higher Education Sector Study [Diagnostic] AAA on expansion of national health insurance to rural areas [Diagnostic]	GPEF-Basic Education Recovery Project (\$76.5 million) Advisory work on healthcare baseline survey in Darfur	GPEF, UNICEF, DFID
Social protection	A comprehensive analysis of social protection and reform dialogue, including gender aspects and governance arrangements [Policy Dialogue] (on-going)	TA on for Reforms in Social Protection System	DFID
Natural resource management	Land governance study (on-going) [Diagnostic] Environment Assessment in Darfur [Diagnostic]	Sustainable NRM Project (\$7.73 million, GEF) Community Watershed Project (\$11.52 M) (on-going)	GEF
Peace-building	Darfur social cohesion, gender and local institution building analysis [Diagnostic] (on-going) AAA on Cross-border Trade and Leadership Dialogues (on-going) [Policy Dialogue]	Darfur Peace-building for Dev. Project, including participation of women and youth (\$5M SPF) Sudan-South Sudan border states development project (\$2M SPF) Eastern Sudan IDP/TSI Project with UN (\$3M SPF)	UNDP, UNHCR, DFID

NB: The Partnership Trust Fund under discussion with MDTF-NS donors will be integrated under these focus areas.

64. **Resolving the key drivers of conflict and institutional weakness is critical to improving the services the poor receive and to assuring equity in access to natural resources and to public services so as to reduce the exclusion of the poor from public benefits.** Under this pillar, the Bank will focus on the following priorities: (a) support to national and local service delivery programs focusing on key human development outcomes; (b) support to social protection mechanisms to minimize the impact of the fiscal shock transmitted to households through cutbacks in services or through inflation; (c) support to sustainable natural resources management; and (d) support to building or re-building service delivery and accountability systems in areas emerging from conflict. Where possible, the strategy will utilize the community-driven development approach to ensure citizen-driven investments and target key vulnerable groups such as displaced populations, women and girls.

a) Equitable service delivery in education and health

65. **An investment program funded by a US\$76.5 million grant from the Global Partnership for Education Fund (GPEF) builds on analytical and project work previously funded by the MDTF-NS.** The Basic Education Recovery Project (BERP) is in line with the government's interim Basic Education Strategy (iBES 2012-2014) and aims to upgrade the learning environment in all 17 states. This project contributes to long-term poverty reduction and equity by investing in improving education outcomes across the country, including areas under conflict. The project will support the construction of 2,000 classrooms (benefiting 108,300 students); provision of teaching and learning materials for all students in basic education (estimated at 5 million); and strengthening capacities at the federal and state ministries of education to effectively monitor and manage the education system. Launched in June 2013, the BERP will be supervised by the Bank and implemented by the Ministry of Education. In higher education, the Bank will continue recently started analytical work to help the government establish a strategy to improve quality of education and job-readiness of graduates. Sudan's higher education sub-sector is one of the largest in Africa³.

66. **In the health sector, the Bank will continue on-going policy dialogue and technical assistance based on the Bank-supported Health Status Report (2012).** The government's health sector programs have relied heavily on the Bank's analytical work to steer reforms that favour the poor and seek to assure equitable access. Bank analytical work on a health sector PETS (completed), and technical assistance to expand the pilot national health insurance to rural areas, and free health care for pregnant women and children under 5 (on-going), will provide lessons for government to improve service delivery and ensure greater access and benefits for the poor and vulnerable groups across the country. In addition, the Bank will provide technical assistance to conduct surveys on health infrastructure, human resources, and pharmaceuticals in the Darfur states in order to identify needs and develop recovery strategies, operational plans and implementation modalities. Government implementation of these strategies is expected to expand access to community-level, primary health care and first referral services to underserved populations in select states, including Darfur.

b) Social protection

67. **A national policy on social protection to minimize the social cost of fiscal adjustment is a critical need identified in the I-PRSP and by the Bank's analysis of the distributional impact of reduction of subsidies.** Effective, efficient and accountable social protection is a key instrument for alleviating the effects of poverty and promoting equity as well social cohesion. Sudan's social protection system is inadequate in the current context of economic and fiscal adjustment. In particular, the current system has several overlapping programs whose rules are vague or non-transparent and whose targeting is weak and results in the exclusion of many deserving families. Consideration will also be given to expanding social protection given the endemic poverty and vulnerability in the country. The fiscal implication of this requires the government to redouble its efforts for efficiency and probity in public expenditure and to promote shared prosperity, including by allocating proceeds of natural resources to citizen

³ Coverage of higher education in Sudan, at 1,500 students per 100,000 inhabitants, is higher than that for most of its neighbouring countries (except Egypt) and higher than that for the lower-middle-income countries of Sub-Saharan Africa.

services. The government has requested the Bank's guidance on policy options for reforming the system and for cushioning the impact of the current economic challenges on the poor. As a result, the Bank and the government are presently conducting the first ever comprehensive analysis of social protection in Sudan to understand the strengths and weaknesses of current programs and to make informed decisions in social protection programming. Reform of the system to integrate disparate programs, improve efficiency, targeting, and graduation is required. Following the analysis, close collaboration is foreseen with DFID, especially for an investment and policy reform program. The Bank will also approach other partners, especially non-OECD donors that fund service and emergency aid NGOs in Sudan, to support policy reforms and provide financial assistance to establish a durable and comprehensive safety net program with appropriate targeting.

c) Natural resource management

68. **Based on lessons from on-going project implementation (e.g., the Community Watershed Management Project), the Bank will further deepen its support for integrated sustainable natural resources management practices.** The government has recognized that access to land, water, and other natural resources are not only sources of conflict among communities but also the lack of clear policy is an inhibitor of growth that can lift rural populations out of poverty through productive use, especially agriculture and livestock. A new project under preparation (the Sustainable Natural Resources Management Project), funded by the GEF as part of a regional project, will focus on community action against desertification through integrated approaches to forest, biodiversity, land and water conservation. This will also be supported by analytical work on land policy and institutions to manage land and other natural resources as well as an Environment Assessment in Darfur.

d) Peace-building

69. **A key lesson of the WDR 2011 is that rapid support for areas emerging from conflict is important in order to ensure that desperately poor populations do not slip back into conflict.** As noted earlier, the poverty incidence in areas under conflict and other marginal areas are the highest. Therefore, investment to improve service delivery to the poor in these areas and to strengthen institutions to enhance participation, accountability and equity is key to long-term poverty reduction and shared prosperity. The Bank strategy will therefore focus on (a) knowledge generation to facilitate planning, design and execution of development interventions in key results areas; (b) support to development dialogue, design of area development strategies, and fund-raising from the international community in order to establish multi-sectoral interventions in early recovery, basic service provision, and peace-building; and (c) deploying technical assistance to establish or recover institutional functions so that local authorities or communities can effectively undertake development work with rapid results and support local-level institution-building, including participatory systems, public financial management, and sector management. Programming will necessarily be opportunistic and multi-sectoral but unified by a focus on enhancing economic opportunities while lowering conflict triggers⁴.

⁴ For example, stock-route mapping, development of markets, provision of basic services (e.g. community schools and clinics), and capacity building, such as (re-)building fiduciary systems, planning and execution capacity for state and local governments.

70. **Given the uncertainties in conflict-affected areas, the Bank will take advantage of opportunities that arise with the implementation of peace agreements in areas emerging from conflict.** As conditions permit, the Bank will prioritize support for early recovery initiatives in three regions emerging from conflict: (i) the Sudan-South Sudan Border states; (ii) Darfur; and (iii) Eastern Sudan. (See Annex 6). In all three, the Bank is either undertaking agenda-setting analytical work and/or involved in coordinated donor efforts to establish joint strategy or fund-raising for early recovery work. These areas have significant economic potential (e.g., agriculture and livestock in Darfur, or cross-border trade for the Sudan-South Sudan Border States), and immense development challenges arising from years of conflict. The Bank will promote strong citizen participation and government accountability in order to address the key governance constraints identified earlier.

Cross-Cutting Themes: Governance and Gender

71. **To enhance service delivery, and respond to long-term fragility and conflict, the Bank will focus on supporting institutional and governance reforms that** (a) enhance accountability and reduce corruption at national and sub-national levels; and (b) enhance participation, transparency and voice, especially for marginalized groups, such as women, youth, and conflict-affected populations.

72. **Improve oversight institutions: Corruption is a key barrier to investment and growth in Sudan.** The Bank will support efforts to improve corruption prevention and oversight systems. The Bank also plans to support the national anti-corruption body and work with other development partners to strengthen investigation and prosecution, as well as support public education about corruption. Further, the Bank will support a re-emerging public accountants' professional body to improve professional standards and codes of ethics. Further technical assistance will be provided to enhance capacity for public procurement and accountability at federal and sub-national levels (including in Darfur where fiduciary systems remain rudimentary) with the objective of improving competitiveness and transparency in public procurement. Results will include, for instance, separation of procurement functions such as the implementation of procurement activities, regulation, control, audit and settlement of complaints and procurement conflict; implementation of already adopted standard bidding documents and procedures to international standards; and greater participation and confidence of the private sector and civil society in procurement regulation.

73. **Improve demand-side governance: transparency and participation:** Concomitant to strengthening supply-side public accountability institutions is supporting demand-side actors to be more effective. The Bank will work with civil society groups to enhance demand for participation, accountability and transparency in the use of public resources. The Bank has previously supported capacity building of Sudanese media (on economic analyses), working with state and non-state actors. The Bank proposes to continue working with non-state actors to further enhance governance and accountability by supporting initiatives to improve the public's access to information, independent analyses, and dialogue platforms on public policy, including the possibility of regular policy forums or round-tables with key actors and resource persons. This is expected to result in more-informed public discussions of key policy reforms issues, and evidence-based demands for accountability, especially around public finance and equity issues.

74. **Mainstream gender to improve women’s access to public resources and opportunities.** The I-PRSP explicitly recognizes the importance of the social, political and economic empowerment of women in Sudan and the need to address key gender disparities across multiple sectors. The I-PRSP proposes measures to address pervasive gender inequalities, particularly with respect to educational attainment and employment, and highlights key institutional reforms such as gender-based budgeting and tracking of relevant indicators disaggregated by sex. In line with the I-PRSP, World Bank initiatives will ensure that future operations and analytical work are gender-informed, addressing the differentiated needs of men, women, boys and girls, and mainstream gender-sensitive approaches across project design, implementation, supervision, and monitoring. Relevant approaches include: gender-sensitive participatory methods in poverty diagnosis; formulation of responsive, gender-based policy interventions including in budget processes; participatory monitoring of indicators; and the tracking of gender-differentiated impacts. A recently completed gender review of the MDTF-NS portfolio will feed into the design of analytical and programmatic activities under the new ISN. Expected results include improved access to economic and social benefits for women and girls and enhanced security among vulnerable populations through government policy on displacement and reconstruction in early recovery areas. Finally, the Learning on Gender and Conflict (LoGiCA) MDTF will provide resources for analytical work related to gender and conflict in Sudan, including Darfur.

C. Partnership and Donor Coordination

75. **Concurrent to the development of this ISN the Bank is consulting with development partners to establish a Partnership Trust Fund as a successor to the MDTF-NS.** Given Sudan’s limited access to development finance, the proposed strategy is strongly anchored in partnership as a cross-cutting value and as a financing strategy. The Bank stands ready to advocate for, design and manage trust funds on behalf of donors wishing to support development work in Sudan. Partnership will also extend to undertaking joint work in critical areas. Cognizant of synergies with other partners (such as AfDB, IsDB, UNDP, and DFID) the Bank will sequence, share, or divide up activities with others to maximize comparative advantage. This is already happening in debt management and debt relief (with AfDB), in economic governance and public accountability work (with AfDB and UNDP), in agriculture and private sector (with IsDB), and in social protection and education (with DFID and UNICEF). For example, the MDTF-NS gum Arabic and livestock projects have already attracted interest from other donors and leveraged funds to replicate and scale up the projects. IFAD is already co-funding the gum Arabic project with a US\$3 million grant⁵.

76. **Sudan has a deep history of geopolitical, cultural and commercial ties with Middle Eastern countries and financial institutions as well as a history of development actions by these partners in Sudan. The Bank will pay particular attention to cultivating these partnerships with Middle Eastern countries and financial institutions to support Sudan’s development.** For instance, Sudan has had a strong development relationship with Qatar which has been active in Sudan through its NGOs and led the successful Donors Conference on Darfur

⁵ The IsDB, AfDB, and the French Agency for Development are actively engaged with the government and the Bank with a view to collaboration or co-financing projects in the livestock and gum Arabic sectors.

held in Doha in April 2013 at which over US\$1 billion was pledged by donors for development activities in Darfur. Previously, in 2006, Kuwait led the donor conference on Eastern Sudan at which another US\$1.5 billion was pledged. Turkey and Saudi Arabia are involved in several other aid and commercial investments as well as diplomatic and mediation activities. Sudan has prioritized partnership with major non-OECD donors such as Brazil and China with whom it has substantial commercial and investment ties (e.g., Brazil in large scale cotton growing; and China in mineral and oil as well as agricultural development). In line with the government's preferences, Bank Group partnership with these countries will focus on three goals: providing Sudan with diplomatic outreach and support for debt relief initiatives; robust contribution to the Partnership Trust Fund in order to provide coordinated support to Sudan's immediate development needs; and, support for policy reforms through technical partnerships, especially those related to the investment climate, trade and agriculture, given their economic relations with Sudan. With regard to China, the Bank will work closely with the Africa Region's initiatives on China, in particular on agriculture technology and knowledge transfer, which the government has expressed a keen interest in as a way to improve productivity.

77. Partnership with UN agencies will be critical to successful Bank engagement in early recovery and development activities in regions emerging from conflict. In line with the lessons of the World Development Report 2011 on Conflict, Security, and Development, the Bank will pursue recovery activities in areas where recent peace agreements allow a transition from humanitarian work to development. In several of these areas the UN has established operational systems for humanitarian work and these can be reliable platforms for starting development engagements. For example, the UNDP would be a key partner in developing strategies, designing programs, and delivering results (e.g. in Darfur, Eastern Sudan, and possibly in the cross-border work with South Sudan). In turn, the Bank's knowledge contributions would allow development partners to design activities from relevant baselines and with realistic results objectives. Where insecurity remains an issue, the UN security information and infrastructure will assist Bank teams to make informed decisions on operational risks.

78. Finally, the Bank is committed to its role in donor coordination through the PRSP process, the Technical Working Group on external debt (TWG), and administering projects from multi-donor, regional and global funds (e.g. GPEF and GEF). With the adoption of the I-PRSP, the Bank is collaborating with other donors to support government implementation of the I-PRSP as well as the elaboration of the full PRSP. This Bank is also working with other development partners to support Sudan's technical preparations for debt relief (e.g., debt reconciliation, debt management advice, and technical consultations with major official creditors within the TWG). Building on the successful implementation of the MDTF-NS, the Bank has obtained agreement from most MDTF-NS donors to establish and manage a successor multi-donor trust fund (the Partnership Trust Fund) to leverage donor funds for coordinated activities and policy dialogue. Moreover, China, India, Turkey, Qatar, and other Gulf countries that have emerged as major development donors or creditors to Sudan are being invited to participate in the PTF. Partnerships with these 'new' actors will significantly enhance the success of Bank operations in the coming period.

VI. Critical Risks and Mitigation

79. **Political and conflict risks.** Post-secession negotiations over outstanding issues between Sudan and South Sudan have taken longer than expected. Although an agreement was reached in September 2012 its implementation was delayed until a follow-up matrix was signed in March 2013. Given previous armed confrontation between the two countries, the potential for severe disruption of economic activities remains high. Such conflict may have severe fiscal impact as was seen when South Sudan suspended oil exports through Sudan for nearly a year⁶. It is also possible that conflict will recur in areas that have faced recent violence or where peace agreements have recently been signed (e.g. Darfur) or where government action to reverse the exclusion of marginalized groups is inconsistent. If the security situation were to deteriorate in places where operations are planned, the Bank will reallocate funds to activities away from conflict areas as it has previously done. This flexibility in programming will be triggered as a last resort since it is disruptive for citizens seeking development benefits.

80. **Economic policy risks.** The government has set an ambitious agenda for reforms and fiscal adjustment in a very challenging environment. However, more is needed to counter the effects of an inadequate response to the transitional challenges so far, as evidenced by the rising rate of inflation and the falling exchange rate. Experience of previous reform attempts and recent partial reversals (e.g., on freezing public sector wages) suggest that there is a risk of slippage. The lack of stability-oriented policies which could be supported by an SMP with the IMF threatens macro-economic stability. Should the government commitment to reforms identified in the I-PRSP and in the emergency program wane, the Bank will limit its role to undertaking analytical work that highlights needed reforms and implications of government actions for the poor and for provision of basic services.

81. **Progress on debt relief.** Lack of progress on debt relief is a handicap to scaled-up engagement. The Bank, in close collaboration with the IMF and others, is providing guidance on technical issues related to debt relief. However, political issues such as delays in implementing the September 2012 agreements with South Sudan, international isolation, and political instability appear to limit the willingness of the major creditors to proceed toward debt relief. The ISN assumes that these challenges will take time to resolve and that normalization of IDA relations may not be immediately available. Therefore, the Bank proposes a program based on trust fund resources but with room to expand as new resources become available.

82. **Weak and uneven capacity.** Technical and implementation capacity is uneven across sectors and levels of government and presents a problem in the formulation of critical policy and implementation of projects and reform efforts. Low capacity is a major problem in areas emerging from long-term conflict. The Bank's experience implementing projects and supporting policy reforms under the MDTF-NS has produced lessons on how to build and retain capacity and how to design supplemental capacity programs to support implementation, especially at

⁶ On March 12, 2013 an agreement on the implementation matrix of the post-secession cooperation agreements (signed in September 2012) was signed between Sudan and South Sudan. This established a schedule and benchmarks for key items including the withdrawal of troops from disputed areas, opening of border, and, crucially, the restart of oil flow. As of May 15, 2013, these actions had been completed and high level visits were planned to cement the normalization initiatives.

subnational levels. These will be integrated in program design in the ISN period. In particular, the Bank anticipates relying on the operational flexibility granted by Bank operational policies (e.g. OP10.00) to accelerate implementation support in this context.

83. **Weak governance and corruption risk.** As outlined earlier, weak governance and corruption are major barriers to investment and to equitable growth that could provide opportunities for citizens. This is likely to be exacerbated in weak capacity environments (e.g., Darfur) and in the midst of political reforms such as those being demanded recently. The Bank's strategy will focus on supporting systemic improvements in public expenditures at both national and state-level as political will permits, increasing voice through enhancing the public's participation in reviewing government performance, and support to oversight committees within the legislatures at the national, state and local levels.

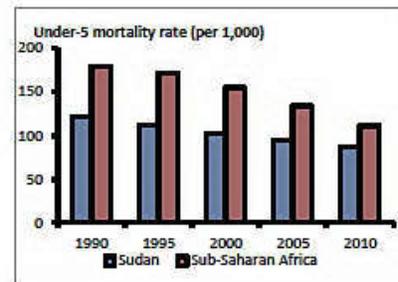
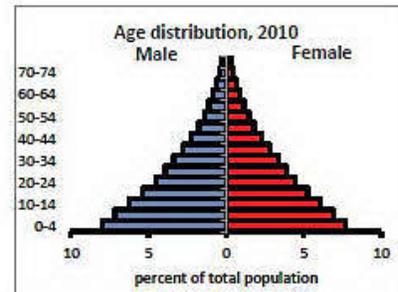
84. **Climate change and disaster risks.** Given the country's vulnerability to climate change and the potential impacts of disasters (droughts and floods in particular) on the country's economy, the Bank will continue to prioritize regional action such as the Nile Basin Initiative and regional approaches to desertification control as well as promoting climate-smart agriculture and food security initiatives in partnership with other agencies. As the Bank's financial resources may continue to be a major constraint, working in partnership with regional and global bodies will be a key element in managing this risk.

Table 4: Sudan ISN Tracking Framework

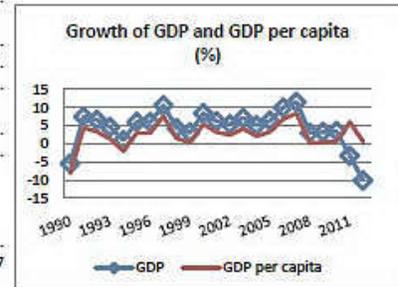
Pillar 1: Manage Economic Transition			
<i>ISN Focus Areas</i>	<i>Milestones: June 2014</i>	<i>Milestones: June 2015</i>	<i>Relevant Country Results</i>
Macroeconomic policies	<ul style="list-style-type: none"> Budget allocation and execution in line with pro-poor priorities in I-PRSP. Full PRSP Completed and shared with partners. Debt Management Action Plan adopted, by Government 	<ul style="list-style-type: none"> FY2015 Federal Budget in-line with full PRSP. Action plan to clear arrears /HIPC developed (in collaboration with AfDB, IMF & others) 	<ul style="list-style-type: none"> Improved macroeconomic policies Strengthen government capacity to implement I-PRSP Establish capacity for debt management in collaboration with IMF
Economic diversification	<ul style="list-style-type: none"> Study on efficiency and loss control in the electricity sector completed and Action plan adopted by Government 	<ul style="list-style-type: none"> Business climate improvement Action Plan (based on ICA) implemented by the Higher Council for Investment Reforms in Tariff structure, Collections, and Investment 	<ul style="list-style-type: none"> Formulation of a diversification strategy with more private sector participation, especially in agriculture Inform policies/ reforms to improve efficiency and reliability of the electricity sector
Pro-poor economic and local governance	<ul style="list-style-type: none"> Action Plan for reforms in State-level Public Expenditure Management adopted and launched in four states Intergovernmental fiscal allocation formula revised to allow more resources to poorer regions 	<ul style="list-style-type: none"> State-level PER analyzing expenditure systems in four states finalized and action plans implemented by state governments 	<ul style="list-style-type: none"> Increased pro-poor public expenditures Strengthen accountability at different levels of government for pro-poor services
Pillar 2: Address Socio-economic Roots of Conflict			
Equitable service delivery in education and health	<ul style="list-style-type: none"> Pilot expansion of national health insurance to rural areas (based on Bank guidance) launched 	<ul style="list-style-type: none"> GPEF-Basic Education Recovery Project implementation mid-term review undertaken 	<ul style="list-style-type: none"> Contribute to improved access to quality basic education Advance policy dialogue to expand the pilot o national health insurance to targeted rural population
Social protection	<ul style="list-style-type: none"> Reform Action Plan based on WB Social Protect Study adopted by Federal Government 	<ul style="list-style-type: none"> Overhaul of Social Protection sector launched; including legal and policy reforms recommended in Action Plan 	<ul style="list-style-type: none"> Help fill knowledge gaps on improving social safety net targeting
Natural resource management	<ul style="list-style-type: none"> Land governance study finalized and Action Plan adopted by government and stakeholders GEF Sustainable Natural Resources Management Project effective 	<ul style="list-style-type: none"> Community Watershed Management Project implemented 	<ul style="list-style-type: none"> Strengthen government capacity to manage land and water resources Expand opportunities for community/citizen voice and participation
Peace-building	<ul style="list-style-type: none"> Sudan-South Sudan cross border diagnostic completed & governors dialogue launched Local institution-building strategy adopted by 3 of 5 Darfur state governments Gender Action Plan and proactive mainstreaming of gender concerns by local administrations in local projects (based on Gender Assessment) 	<ul style="list-style-type: none"> Sudan-South Sudan border states pilot cross-border trade policy forum launched Livestock route demarcation completed in two of five Darfur states Eastern Sudan Displacement Project with UN piloted. 	<ul style="list-style-type: none"> Increased livelihoods/income generating activities for conflict-affected communities in Darfur and Eastern Sudan Enhanced participation of citizens, especially women, in economic activities and in public policy decisions, especially in conflict-affected areas

Annex 1: Sudan at a Glance

Key Development Indicators (2012)	Sudan	Sub-	Lower
		Saharan	middle
		Africa	income
Population, mid-year (millions)	37.2	910	2,507
Surface area (thousand sq. km)	1,861	24,244	20,722
Population growth (%)	2	3	1
Urban population (% of total population)	33	37	39
GNI (Atlas method, US\$ billions)	53.8	1,225	4,706
GNI per capita (Atlas method, US\$)	1,450	1,345	1,877
GNI per capita (PPP, international \$)	2,030	2,249	3,912
GDP growth	-10.1	4.3	4.0
GDP per capita growth (%)	0.6	1.5	2.5
(most recent estimate, 2006-11)			
Poverty headcount ratio at \$1.25 a day (PPP, %)	20	48	27
Poverty headcount ratio at \$2.00 a day (PPP, %)	44	70	56
Life expectancy at birth (years)	61	55	66
Infant mortality (per 1,000 live births)	57	69	47
Child malnutrition (% of children under 5)	32	21	24
Adult literacy, male (% of ages 15 and older)	80	69	80
Adult literacy, female (% of ages 15 and older)	62	51	62
Gross primary enrollment, male (% of age group)	76	104	107
Gross primary enrollment, female (% of age group)	69	96	104
Access to an improved water source (% of population)	55	63	87
Access to improved sanitation facilities (% of population)	24	30	47



Net Aid Flows	1980	1990	2000	2010	2012
(US\$ millions)					
Net ODA and official aid	672	848	225	2,076	...
<i>Top 3 donors (in 2010):</i>					
United States	60	143	5	410	...
European Union Institutions	56	88	14	119	...
Japan	11	39	1	102	...
Aid (% of GNI)	8.9	7.4	2.0	16.0	...
Aid per capita	33	32	7	136.2	...
Long-Term Economic Trends					
Consumer prices (annual % change)	25.4	65.2	8.0	13.0	...
GDP implicit deflator (annual % change)	22.0	66.2	7.8	19.2	36.7
Exchange rate (annual average, local per US\$)	0.0	0.0	2.6	2.3	3.6
Terms of trade index (2000=100)	50.9	90.2	100.0	...	...
Population, mid-year (millions)	14.4	20.0	27.7	35.7	37.2
GDP (US\$ billions)	7617	12409	12257	64792	58769
(% of GDP)					
Agriculture	32.9	40.6	42.2	24.9	27.7
Industry	14.6	15.3	20.8	28.3	31.2
Manufacturing	7.5	8.7	8.6	6.0	6.1
Services	53.0	44.2	37.0	46.8	41.1
Household final consumption expenditure	81.9	86.1	63.5	63.5	65.4
General gov't final consumption expenditure	16.0	5.8	9.1	10.8	11.8
Gross capital formation	14.7	11.2	24.9	23.2	24.1
Exports of goods and services	10.6	4.0	16.0	20.0	18.8
Imports of goods and services	23.1	7.1	13.4	17.5	20.1
Gross savings	4.5	1.2	23.5	20.9	...



1980-90	1990-2000	2000-10
(average annual growth %)		
3.3	3.3	2.5
2.6	4.8	6.3

	1980-90	1990-2000	2000-10
Agriculture	2.8	4.4	2.6
Industry	4.4	9.9	13.1
Manufacturing	5.4	6.4	4.2
Services	4.1	2.9	8.3
Household final consumption expenditure	2.2	3.8	4.5
General gov't final consumption expenditure	-1.4	6.3	11.8
Gross capital formation	3.6	23.3	14.5
Exports of goods and services	-5.3	16.7	25.0
Imports of goods and services	-0.5	10.5	11.7
Gross savings	...	...	...

	1981	1991	2001	2011	1982	1992	2002	2012
Consumer prices (annual % change)	24.6	123.6	4.9 ..		25.7	117.6	8.3 ..	
GDP implicit deflator (annual % change)	25.0	88.8	1.9	18.2	30.6	109.2	8.5 ..	36.7
Exchange rate (annual average, local per US\$)	0.0	0.0	2.6	2.7	0.0	0.1	2.6	3.6
Terms of trade index (2000=100)	59.3	50.8	104.1 ..		64.3	54.5	85.3 ..	
Population, mid-year (millions)	14.9	20.8	28.4	36.4	15.5	21.8	29.2	37.2
GDP (US\$ billions)	9538	11379	13183	64053	9254	7032	14803	58769
(% of GDP)								
Agriculture	36.4	41.8	42.9	24.5	36.9	40.3	41.9	27.7
Industry	..	12.6	18.7	28.1	14.6	12.2	20.5	31.2
Manufacturing	7.4	6.5	8.0	6.9	7.1	6.0	8.2	6.1
Services	49.3	45.6	38.4	47.4	48.5	47.5	37.6	41.1
Household final consumption expenditure	81.8	83.6	66.6	65.1	85.8	82.9	66.6	65.4
General gov't final consumption expenditure	12.9	8.7	10.4	10.9	9.9	7.3	10.4	11.8
Gross capital formation	19.3	16.1	24.5	21.9	18.9	19.0	26.4	24.1
Exports of goods and services	9.6	3.3	11.4	18.5	9.9	5.2	14.0	18.8
Imports of goods and services	23.7	11.7	12.8	16.3	24.4	14.4	17.4	20.1
Gross savings	5.1	-5.2	21.4	17.0	3.8	1.2	22.6 ..	

Source: World Development Indicators

Annex 2: Sudan: Progress on MDGs in Comparison

Goals and Targets	Indicators	Sudan		Level	SSA		Neighbors	
		Latest Value	Latest Year		Latest Value	Latest Year	Average	By pop.
Goal 1: Eradicate Extreme Poverty and Hunger								
Reduce extreme poverty by half	Proportion of population living below \$1.25 (PPP) per day (%)	19.8	2009	high poverty	47.5	2008 ↑	41.4 ↑	24.2 ↑
Reduce hunger by half	Proportion of population below minimum level of dietary energy consumption (%)	39.4	2011	very high hunger	27	2008 ↓	29.8 ↓	24.2 ↓
Goal 2: Achieve Universal Primary Education								
Universal primary schooling	Net enrolment ratio in primary education (enrolees per 100 children)				76.2	2010	69.0	85.5
Goal 3: Promote Gender Equality and Empower Women								
Equal girls' enrolment in primary school	Ratio of girls to boys in primary education				0.92	2010 ↑	0.9 ↑	0.9 ↑
Women's share of paid employment	Share of women in wage employment in the non-agricultural sector (%)	20.1	1992	low share	32.5	2010 ↑	25.6 ↑	28.4 ↑
Women's equal representation in national parliaments	Proportion of seats held by women in national parliament (single or lower house only - %)	24.6	2012	moderate representation	20	2012 ↓	14.1 ↓	14.8 ↓
Goal 4: Reduce child mortality								
Reduce mortality of under-five-year-old by two thirds	Under-five mortality rate (deaths of children per 1,000 births)	86	2011	high mortality	121	↑	85.8 →	58.5 ↓
Goal 5: Improve maternal health								
Reduce maternal mortality by three quarters	Maternal mortality ratio (maternal deaths per 100,000 live births)	730	2010	very high mortality	500	2010 ↓	450.7 ↓	273.9 ↓
Access to universal reproductive health	Contraceptive prevalence rate (percentage of women aged 15-49, married or in union, using contraception)	9	2010	low access	24.6	2010 ↑	23.7 ↑	40.1 ↑
Access to universal reproductive health	Unmet need for family planning (percentage of women aged 15-49, married or in union, with unmet need for family planning)	28.9	2010	low access	25.4	2010 ↓	21.5 ↓	19.0 ↓
Goal 6: Combat HIV/AIDS, malaria and other diseases								
Halt and begin to reverse the spread of HIV/AIDS	HIV incidence rate (number of new HIV infections per year per 100 people aged 15-49)				4.8	2010 ↑	0.1 ↑	0.1 ↑
Halt and reverse spread of tuberculosis	Incidence rate associated with tuberculosis (per 100,000)	119	2010	low mortality	276	2010 ↑	169.3 ↑	148.8 ↑
Halt and reverse spread of tuberculosis	Death rate associated with tuberculosis (per 100,000)	19	2010	low mortality	30	2010 ↑	22.1 ↑	19.6 →
Goal 7: Ensure environmental sustainability								
Reverse loss of forests	Proportion of land area covered by forest (%)	29.4	2010	medium forest coverage	28.1	2010 →	12.0 ↓	6.7 ↓
Halve proportion without improved drinking water	Proportion of population using an improved drinking water source (%)	58	2010	low coverage	61	2010 →	62.7 →	69.0 ↑
Halve proportion without sanitation	Proportion of population using improved sanitation facility (%)	26	2010	very low coverage	30	2010 ↑	45.7 ↑	54.4 ↑
Improve the lives of slum-dwellers	Proportion of urban population living in slums (%)				61.7	2012 ↑	68.7 ↑	49.2 ↑
Goal 8: Develop a global partnership for development								
Internet users	Internet users per 100 inhabitants	19	2011	high usage	12.6	2011 ↓	10.7 ↓	16.4 ↓

Annex 3: Sudan Selected Economic Indicators, 2008 – 2013

	2008	2009	2010	2011	2012	2013
				Prel.	Proj.	Proj.
Output and prices	(Annual changes in percentage)					
Real GDP (at factor costs) 1/	3	3.2	3.5	-3.3	-11.1	-0.6
Oil GDP 1/	-4.5	3	-3.9	-36	-58.2	14.5
Nonoil GDP 1/	4.8	3.3	5.1	3.4	-5.1	-1.4
Agriculture	3.3	-0.8	-1.2	-0.9	-3.9	1.3
Other	5.6	5.2	8	5.1	-5.6	-2.5
Consumer prices (period average)	14.3	11.2	13.1	18.3	28.6	17
Food	29.1	12.2	15.8	20.4	...	...
Core CPI	8	10.1	9.9	16	...	...
Nonoil GDP deflator	12.4	16.2	14	14.9	27.8	19.2
Oil GDP deflator	53.2	-42.1	60.9	62	27.4	22.5
Investment and saving	(In percent of GDP, unless otherwise specified)					
Gross disposable income	93.4	94.1	95.3	97.4	98.5	98.2
Gross domestic expenditure	94.6	103.7	97.4	97.9	105.8	104.6
Final consumption	76.3	85.1	81.4	82.2	90.7	89
Gross capital formation	18.3	18.6	16	15.7	15.1	15.6
Gross Savings	16.4	8.6	13.9	15.2	7.8	9.2
Government operations						
Revenue and Grants	24	16.5	19.3	18.7	12.9	14.1
Revenues	24	16.5	18.6	17.9	11.5	12.7
Of which: Oil revenues	16.4	8.7	11.3	10.3	3.5	4.4
Tax revenue	6.8	7.1	6.7	6.7	6.9	7.1
Total expenditure	24.1	20.7	19.6	20	16.6	17.3
Current expenditure	20.7	17.8	17	18.2	15.3	15.9
Wage bill	5.3	5.6	5	5.7	5.9	5.9
Subsidies	1.4	0.2	0.9	2.9	2.9	2.4
Transfers	10.2	8.1	7.8	6.5	3.6	3.6
Capital expenditure	3.4	2.9	2.6	1.8	1.3	1.4
Overall balance	-0.1	-4.2	-0.4	-1.3	-3.7	-3.2
Nonoil primary balance	-5.5	-5.5	-4.1	-5.3	-5.9	-5.8
In percent of nonoil GDP	-7.1	-6.4	-4.9	-6.1	-6.2	-6.2
Monetary sector	(Annual changes in percentage, unless otherwise specified)					
Broad money	16.4	24.1	24.9	17.7	38.4	17.4
Reserve money	22.2	28.1	17.2	27.8	39.5	20.3
Credit to the economy	15.6	20.2	16.4	8	18.1	15
Velocity (Non-oil GDP/M2 ratio, eop)	3.8	3.7	3.6	3.6	3.1	3.1
Net claims on government as a ratio to Nonoil GDP	8	9.6	11	12.3	14.7	15.1
Credit to the economy as a ratio to Nonoil GDP	17.5	17.6	17	15.5	15.2	14.8

External sector	(In percent of GDP)					
Exports of goods (in US\$, annual change in percent)	30.9	-36	57	-12.9	-55.4	9.4
Exports of oil	21.8	12.9	16.5	13.1	3	3.9
Imports of goods (in US\$, annual percent change)	6.6	3.6	3.1	-7.5	-17.6	-3.6
Merchandise trade balance	7.8	-1.2	5.7	4.3	-3.7	-2.5
Current account balance	-2	-10	-2.1	-0.5	-7.4	-6.5
Ext. debt service (in percent of exp. of G&S.)						
Commitment basis	20.1	34.1	22.7	24.4	50.4	45.7
Cash basis	3	5.3	3	2.4	9.7	8.5
Total external debt	60.2	66	60.9	64.8	84.9	96.7
Total external debt (in US\$ billion)	32.6	34.9	39.5	41.4	43.7	45.6
Gross international reserves (in millions of U.S. dollars)	1,816	1,370	1,566	1,325	1,074	1,155
In months of next year's imports of goods and services	2.1	1.5	1.8	1.8	1.5	1.6
Memorandum items:						
Nominal GDP (in millions of SDGs)	113,041	121,613	149,544	170,656	190,408	228,535
Nominal nonoil GDP (in millions of SDGs)	87,986	105,416	126,435	149,758	180,578	212,880
Nominal GDP (in \$US million)	54,082	52,840	64,850	63,997	51,549	47,130
Exchange rate: SDGs per U.S. dollar						
End of period	2.18	2.24	2.48	2.68	...	...
Period average	2.09	2.3	2.31	2.67	...	...
	2.09	2.30	2.31	2.67	3.69	4.85
(percent change)						
NEER (2007=100, pa)	-6.7	-5.4	-1.3	-16	...	...
REER (2007=100, pa)	0.1	3.1	7.7	-4.9	...	...

Sources: Sudanese authorities; and staff estimates and projections.

1/ Growth rates for 2011 compare the 2011 Sudan (which excludes South Sudan after July 9) with 2010 unified Sudan. The growth rates for 2012 compare today's Sudan with 2011 Sudan described before.

Annex 4: Sudan Statistical Capacity

The Statistics Act of 2003 assigns to the Central Bureau of Statistics (CBS) the responsibility to provide national statistics. The Semi-autonomous CBS has branch offices in all the states of Sudan. The lower levels of government are also tasked to produce their own statistics to support their developmental efforts. The CBS is expected to give technical guidance including the coordination of statistical work at these levels. Competencies and unique capabilities are available in institutions within the national statistical system. This allows them to carry out multiple statistical tasks, e.g., large-scale surveys and censuses by the CBS (see table 1), school censuses under EMIS by the Ministries of Education at both federal and state levels, and compiling indicators from hospital statistics by the Ministries of Health at both federal and state levels. An up-to-date frame of geographic enumeration areas is available for use by all stakeholders as a framework for conducting all Household Surveys in Sudan. A Statistical Training Centre for government statistical personnel and the private sector personnel is operational.

Table 1: Main Statistical Surveys carried out in Sudan since 2000

Survey Name	Date
Multiple-Indicator Cluster Survey	2000
Social Services Survey	2003
Comprehensive Industrial Survey	2003
Household Health Survey	2006 and 2010
Quick Household Consumption Survey	2007
The National Baseline Household Survey	2009
Household Health Utilization and Expenditure Survey	2009
Labor Force Survey	2011

Table 2: Planned Censuses and Surveys, 2012-2016

Survey / Census name	Date
Comprehensive Agricultural Census (including Livestock and Crops)	2012 - 2014
Household Survey	2013- 2014
Core welfare Indicator Questionnaire	2014 -2015
Census of Economic Establishment	2014 – 2015
Informal sector survey	2014-1015
Industrial Survey	2016
Population and Housing Census	2016

The CBS has been confronted with serious challenges in effectively overseeing the creation of an operating National Statistical System. A main problem is the weak coordination within agencies (MDAs, states, and the CBS) and across the broader statistical system, resulting in poor outputs in terms of statistical products and services. This has been compounded by inadequate capacities at both the sectoral (MDAs) and state levels to run effective statistical sub-systems that could deliver, in a sustainable manner, statistical products and services to all categories of users. Poor funding for statistical activities has led to a heavy reliance on donor funding and therefore to low sustainability. This has resulted in poor infrastructural facilities for statistics production. The system is further hampered by the lack of a dissemination policy and plan, and poor facilities and infrastructure for effective dissemination of statistical products in an impartial manner. Institutionally, the Statistics Act is inadequate and some provisions within the Act have not been implemented.

A National Statistical Development Strategy (NSDS) has been developed in 2012 as a framework for strengthening statistical capacity. The NSDS covers the entire national statistical system, such that each of the sub-systems will be empowered to manage results and outcomes of development. In particular the NSDS aims to: (a) Strengthen the production of quality and timely statistics in line with the Fundamental Principles of Official Statistics and based on international best practices and guidelines to support national development initiatives and programs; (b) Improve coordination and promote integration and collaboration among and between data producers and users; (c) Strengthen national capacity to produce, analyze and use reliable statistics generated by an integrated NSS and (d) Ensure long-term sustainability of the NSS by securing funding for priority data production, analysis, and dissemination. To reach these overall goals, the NSDS is organized in 10 strategic objectives.

Activities will be focused around four main pillars:

- Technical assistance to strengthen the institutional capacities of the National Statistical System and especially the CBS. This would include work for various manuals as mentioned in the NSDS.

The Bank will support the implementation of the NSDS through a grant from the Trust Fund for Statistical Capacity Building. The objective of the Bank support is to strengthen key statistics in Sudan through the establishment of a budgeted and time-bound detailed implementation plan for the NSDS and a few targeted interventions to implement existing NSDS priorities.

Activities will be focused around four main pillars:

- Technical assistance to strengthen the institutional capacities of the National Statistical System and especially the CBS. This would include work for various manuals as mentioned in the NSDS.
- Capacity building on data collection at state level. As a vast country Sudan needs to rely much on the state level to gather statistics. This activity focuses on strengthening existing capacity and building new ones, for instance in compiling state GDP data.
- TA to prepare a poverty map to be used to identify where the poor are and social support programs design
- TA to transform the National Statics Strategy into a detailed action plan.

Annex 5: Drivers of Fragility and Conflict

On-going conflict and fragility drivers in Sudan fall under four broad categories: governance and political institutions; economic structures and public sector performance; ethnicity, diversity and religion; and the environment and natural resources. Existing political, economic and social institutions are unable to manage contests arising in these arenas. This often leads to violent conflict among groups, between citizens and the state and between the state and neighbors.

Governance and political institutions: Political instability is overwhelmingly fuelled by the inability of elites to resolve competition amongst themselves and between an ethnically, culturally and to some extent religiously divergent populace. Manifestations of competition range from internal debates over policy and political structures to regional balance, as well as how to respond to groups that feel excluded. This competition is exemplified by on-going conflicts in Blue Nile State and South Kordofan as well as by recent outbreaks of attacks between Sudan and South Sudan, North Kordofan, and the long conflict in Darfur. Similarly, due to a lack of political institutions able to manage the shared but often conflicting interests with South Sudan, political and economic instability has continued following secession. Despite efforts made by the international community to exert pressure on Sudan and South Sudan to reach peace agreements, continued lack of implementation of previous agreements has accentuated suspicions between the conflict parties and increased the risk of renewed hostility. At best, the current situation will achieve a state of truce, rather than a sustainable mutual co-existence fostering two viable states at peace with each other and within themselves.

Economic structures and public sector performance: Economic opportunities are concentrated in Khartoum and in the Nile River valley, leaving much of the hinterland with minimal opportunities for advancement, especially for the youth. This situation is exacerbated by the conflict in several regions which has limited investments from outside and access to markets (e.g. for farmers). Poor provision of and access to basic services—such as water, education and health—currently act as a source of grievance and as a conflict driver in Sudan. These grievances will continue until there are recognizable efforts to address inequalities and disparities across the country. Some of these efforts will involve strengthening the capacity of state-level institutions, adopting more participatory planning processes and devising new and innovative funding policies to promote more equitable delivery and access to social services. These measures will also require accurate and more integrated systems of information and data collection and management in order to inform policymaking and to act as a source of feedback.

Ethnicity, diversity and religion: A potent mix of ideology, ethnicity and socio-economic marginalization further threatens stability across the country. The exclusion and lack of access to public funds or services for groups far from Khartoum, where most economic and political activity is centered, is widely considered institutionalized and systematic. As a result, lack of transparency and equity in the allocation and management of resources and public funds are potent conflict drivers rather than just simple capacity issues. As such, effective governance and efforts for better management and allocation of public resources represent an essential requirement for political stability, social cohesion and economic growth. Lack of both a cohesive national identity, as well as a space for a national conversation to resolve these access issues, leads disenfranchised groups to exit strategies and, often, violent mobilization. Progress towards a new constitution might mitigate this conflict. This will require fair elections and a participatory constitution-making process, which includes all national stakeholders as well as wider constitutional review conferences.

Environment and natural resources: Conflict mitigation and peace-building efforts around competition over natural resources are pressing priorities at all levels. It is particularly important to address issues such as government policies on land-related investment (including state land and foreign investment) and land policies that touch on migratory routes of transhumance populations as well as communal land rights. Citizens view few institutions as credible – or even legible. This remains both an economic challenge (investor confidence remains low) and a source of inter- and intra-group conflict as interests collide. Especially at the local level, the importance and role of the traditional native administration systems as well as civil society actors working in peace-building and conflict resolution cannot be over-stated. However, these efforts operate in a realm governed by a weak legal framework. Finally, environmental risks associated with both urban growth and extractive activities remain unaddressed and can potentially store-up significant conflict for future generations.

Annex 6: Contemporary Peace Agreements

One example is the recent Doha Document for Peace in Darfur (DDPD), sponsored by the Qatar government and featuring wealth- and power-sharing, and several other measures to settle rebellion. Darfur is a region in western Sudan comprising five states with an area of 493,000 square kilometers (nearly the size of France) and accounts for about a quarter of Sudan's population (almost 7 million). For decades, Darfur has been beset by drought, famine, desertification and armed conflict. After a relative period of stability, armed conflict resumed in February 2003 with violence between rebels, and government forces and militias, which led to massive loss of life and an international outcry. Although a peace agreement was signed with one rebel faction in May 2006, attacks on civilians increased dramatically from late 2006, compounding a massive humanitarian crisis with over 3 million IDPs and over half a million refugees.

Following the signing of the DDPD in July 2011, the Darfur Regional Authority (DRA) was established as the implementing body of the agreement. The signing of the DDPD, the establishment of the DRA, and the start of voluntary returns of IDPs provide an opportunity to transition from the current humanitarian approach, which at a cost of about US\$10 billion over the last 10 years, is unsustainable. With the leadership of Qatar, a donors' conference was held in April 2013 endorsing and pledging US\$1 billion in support of a recovery strategy. The Bank is well-placed to contribute to the implementation of this strategy through (i) providing a framework for a development plan (building on 2013 the Darfur Joint Assessment Mission (DJAM) document co-led with the UNDP) through follow-up key analytical, advisory and capacity building activities; and (ii) quality assurance and administration of development projects building on the lessons of the MDTF-NS.

Another important peace agreement signaling government willingness to resolve conflict and permit development to re-start is the Eastern Sudan Peace Agreement. Eastern Sudan remains one of the poorest regions in Sudan. A host community to refugees and IDPs from the Eritrea-Ethiopia war and Sudan's civil wars, the region suffers from acute poverty and limited development prospects. Having learned from the negative international attention to the Darfur conflict and owing to the improved economic circumstances in the mid-2000s and the greater assertiveness and participation of regional leaders in national affairs, the government has increased attention to resolving the conflict in Eastern Sudan. In 2006 the Eastern Sudan Peace Agreement (ESPA) was signed between the government and the Eastern Sudan Front. An International Donors and Investors Conference for East Sudan held in Kuwait in December 2010 generated US\$3 billion in funding pledges by donors. However, implementation has been slow owing to the receipt of less than 10 per cent of pledges, with little results on the ground.

Annex 7: Highlights of MDTF-NS Results Against Sudan Joint Assessment Mission (JAM) Objectives

Increasing access to basic human services

- ***Education.*** The MDTF-NS has been instrumental in boosting school enrolment for nearly half a million pupils (49 percent female) following the construction or rehabilitation of over 514 schools, 3 teacher training institutes and the training of more than 11,000 teachers. In addition, the MDTF-NS-funded Education Status Report (ESR) informed the government's Education Sector Strategy (2012-2016) and in so doing, helped leverage—in close collaboration with other development partners (e.g. UNICEF and DFID)—the government's access to resources from the Global Partnership for Education (GPEF). As a result, Sudan was awarded a US\$76.5 million grant for a project approved in April 2013. This project will cover ten states, including three states in Darfur.
- ***Health.*** In four states targeted by MDTF-NS activities, data from health facilities show that between 2009 and the end of 2012, the number of outpatient consultations per person per year increased from 0.16 to 0.30; the proportion of pregnant women attending at least one antenatal care consultancy increased from 48 percent to 69 percent; and the proportion of total births attended by skilled health staff (including trained village midwives) increased from 19 percent to 51 percent. Access to, and use of health facilities have improved noticeably following the construction or rehabilitation of 127 health facilities, training of some 2,703 health professionals and the provision of medical supplies. The MDTF-NS-funded a Health Status Report informed the government's Health Sector Strategy (2012-2016).
- ***Water and Solar Electrification.*** With MDTF-NS support, nearly one million people were provided with clean and safe water following construction or rehabilitation of 404 water points, and training of hand pump and yard operators. Solar electrification is reaching more rural areas and people in four states are benefiting from the CDF's Solar Electrification Program. In some areas this has meant clinics are able to provide care at night.

Improving governance and capacity building

- ***Public sector capacity building.*** MDTF-NS activities also focused on increasing transparency and public sector accountability and addressing capacity gaps in key economic governance functions. Key outputs have been: 3,905 government officers trained on fiduciary, planning and related management courses; 327 senior government officers trained on intergovernmental fiscal relations, procurement, public finance and project management, monitoring and evaluation; and 156 administrative buildings benefitted from rehabilitation works to improve the physical work environment. A new public procurement regime is now in place, Standard Bidding Documents (SDBs) for goods, works and consultants and Public Procurement manual online with international standards have been adopted and being rolled out, 35 procurement officers at the state and federal levels have been trained to use the new SDBs. The MDTF supported the development of audit manuals requested by the AG to strengthen the audit systems and enhance the quality of the audit process. The MDTF also piloted a risk-based internal audit initiative with the internal audit unit at the Ministry of Finance and National Economy sustained support and capacity building over several years.
- ***Community Driven Development.*** Under the Community Development Fund (CDF) project, local communities in four targeted states have been empowered with the capacity to address delivery of basic services. As of the end of September 2012, CDF had approved a total of 1,102 community subprojects, 956 of which were completed and 146 of which were on-going subprojects. Of the completed subprojects 567 were schools, 99 primary health care facilities, 163 water points, 26 community centres constructed or rehabilitated and 97 solar power installations, benefitting over 2 million people. Some 616 Community Development Committees (CDC) have been formed in the four targeted states. Further, selected members have been trained on issues ranging from fund management to project planning and bookkeeping. These interventions have not only significantly increased access to basic services but also increased community participation and ownership, key elements to building and sustaining peace. With these communities gaining knowledge of and becoming empowered actors in development, there is greater scope to further strengthen bottom-up accountability and ensure project sustainability.

Promoting rural development and private sector development

- ***Improving Gum Arabic production and marketing.*** Sudan is the world's largest exporter of raw gum Arabic, a food stabiliser used in soft drinks. It is a key sector in poverty alleviation in rural areas of Sudan contributing about 15-25 percent of household incomes. The Gum Arabic project has supported some 130 Gum Arabic producers' associations (GAPAs), almost ten percent of the total number of GAPAs and provided seed funds for gum production and marketing activities. The policy reform measures undertaken through the project led to the removal of market barriers in the gum Arabic sector including abolishing 13 out of 18 taxes, and removing the monopoly

concession entrusted to the Gum Arabic Council on trading and export of raw gum. These measures have led to noticeable efficiency improvements in marketing and higher prices for producers.

- *Livestock.* An ongoing project structured around *pilot* activities that address pastoral communities' priority needs in support of livestock production and marketing *demonstrates* innovative ways to deliver services and improve pastoralists' livelihoods. These successful initiatives are being documented and are ready for scaling up. (E.g., an innovative way to deliver veterinary services to producers through supporting private veterinarians has been tested and documented.) Six livestock markets and 28 watering points have been constructed or rehabilitated. Rehabilitation and livestock market equipment has led to an increase of animals' heads sold annually in those markets. The livestock routes demarcation proved to be a real translation of the CPA into dividends of peace, as it provided a conflict prevention tool for natural resources-based conflict and enabled political and social spaces in which conflict resolution could be dealt with effectively. In this regard, 286 kilometres of livestock routes have been rehabilitated and demarcated, with services provided at established centres. Overall more than 160,000 community members across five target states were provided access to veterinary services and other livestock production initiatives such as better access to water points or restocking of animals for community members.

- *Microfinance.* The Microfinance Development Facility Project has supported the establishment of the microfinance industry in Sudan. The project assisted the Central Bank in drafting the microfinance policy, regulatory framework, and supervision guidelines. Moreover, the project supported the creation of an Apex Institution that provides lines of credit and technical assistance to microfinance institutions in eight states. As a result, more than 214,000 Sudanese have access to finance, 40 percent of whom are women. This contributes to diversifying sources of growth, as well as generating private incomes and employment growth.

Rehabilitating transport infrastructure

- *MDTF-NS funded the rehabilitation of 446 kilometers of rail line* thereby re-linking northern and southern Sudan after two decades of interruption due to civil conflict. Commercial train services have commenced on the line and travel time between Babanousa (Sudan) and Wau (South Sudan) has been reduced from three days to ten hours. The MDTF-NS funded construction and/or rehabilitation of three roads (totaling 207 km): the ongoing Demazin-Kurmuk Road (79 km) in Blue Nile State, the completed Kadugli-Kaouda Road (46 km) in South Kordofan State, and the completed Hamashkoreib-Gadamai Road (82 km) across Kassala and Red Sea States. These are expected to further reduce travel time and costs, and improve access to all-weather roads and markets, connecting producers and consumers in targeted states.

- *Meeting key provisions of the CPA: currency and census unity projects.* The MDTF-NS was set up in 2005 in the context of the CPA with the intent of supporting the peaceful operation of the CPA and the government of national unity. The introduction of a new currency recognizing the government of national unity and the implementation of a population census (a prerequisite to holding a referendum on unity), were two important immediate objectives. The MDTF-NS supported the successful completion of the census and new currency project.

Providing analytical and advisory activities

- In addition to administering the MDTF-NS projects, the Bank has developed a growing program of knowledge and analytical products that have been instrumental in setting up the development agenda in Sudan. Over the past 5 years, the program has produced a number of key diagnostic studies including two *Country Economic Memorandum (CEM, 2005, 2009)*, an *Investment Climate Assessment (ICA, 2010)*, a Financial Sector Review (*FSR, 2011*), a Public Expenditure Review (*PER, 2008*), a *Country Integrated Fiduciary Assessment (CIFA, 2010)*, and a Report on Observance of Standards and Codes (*ROSC, 2010*) in the accounting and auditing areas. The Bank has also recently completed the *Status of the Education Sector Report* and the *Public Expenditure Tracking Survey* in the health sector. These studies have helped formulate key sector strategies as in education and health and informed the I-PRSP. Discussions are underway between the government and the Bank to begin studies in agriculture, energy, and private sector development in order to accelerate needed reforms in these sectors.

- In December 2012, the MDTF-NS Oversight Committee approved a special allocation of US\$1.5 million to support new analytical work on Darfur where donors have limited knowledge due to their absence in the region of nearly a decade. The Bank's three-step program provides an early start to the FY14-15 interim strategy: (i) analytical work to generate much-needed knowledge to guide development investments in key sectors as the development community returns to Darfur; (ii) rapid technical assistance to establish foundational institutional capacity for development management (e.g., planning, fiduciary, evaluation, gender, etc.); and, (iii) preparatory work for project and program design and selected project piloting to accelerate results on re-engagement. Proposed areas of analytical and preparatory work include basic social services, private sector development, governance, budget and fiscal management, agriculture and infrastructure.

Annex 8: Funding Status of the MDTF-NS Portfolio
(US\$ millions, as of July 31, 2013)

	Projects	Allocated Financing (Final)		Actual Disbursements in US\$ million		Grant Signing Date	Grant Effective Date	Grant Closing Date
		MDTF	GoNU	MDTF	GoNU			
Capacity Building	Technical Assistance Facility-TAF	4.9	0.7	-4.88	-0.8	1/16/2006	4/6/2006	1/31/2010
Community-Driven Recovery	CDF (Community Development Fund) - Initial Grant	42.8	31.5	-42.80	-44.9	1/16/2006	4/26/2006	6/30/2012
	CDF - Add. Financing (AF)	10.0	11.0	-7.47				6/30/2013
Census	5th Population Census-Phase I	7.1	14.3	-7.10	-14.3	5/8/2006	7/31/2006	12/31/2008
	5th Population Census-Phase II	11.3	54.2	-11.27	-50.3	8/16/2007	8/16/2007	6/30/2009
Judiciary & Legal Administration	Capacity Building of the Judiciary	4.6	5.0	-4.56	-0.3	8/23/2006	8/23/2006	6/30/2009
Roads and Rails	NETREP-National Emergency Transport Rehabilitation	55.6	83.4	-47.30	-56.3	10/29/2006	1/24/2007	6/30/2013
Health System Investment & Basic Health Service Delivery	DHSDP-Decentralized Health System Development	14.0	3.2	-13.98	-3.2	10/29/2006	1/29/2007	6/30/2013
Private Sector Development	SMDF (Rural microfinance)	11.8	10.0	-10.91	-10.0	5/22/2007	4/14/2008	6/30/2013
Econ. Policy	New Currency	25.2	120.0	-25.18	-120.7	5/22/2007	5/22/2007	12/31/2008
Cross-Sector	S. Kordofan-UNICEF	5.4	0.0	-5.35	0.0	7/25/2007	7/25/2007	5/31/2008
	S. Kordofan- UNIDO	1.1	0.0	-1.11	0.0	10/7/2007	10/7/2007	4/30/2009
	S. Kordofan- State	1.2	2.9	-0.95	-7.4	8/29/2007	1/8/2008	6/30/2011
Agriculture & Livestock	Improving Livestock Production & Marketing	8.4	3.7	-7.67	-4.1	8/29/2007	8/29/2007	6/30/2013
Cross-Sector	Blue Nile-State	4.1	8.0	-4.00	-9.8	12/3/2007	6/29/2008	6/30/2012
	Blue Nile- UNIDO	0.399		-0.40	0.0	1/24/2008	1/24/2008	9/30/2009
	Blue Nile-UNICEF	5.582		-5.58	0.0	1/31/2008	1/31/2008	9/30/2009
Public Service Reform & Decentralization & Local Govt.	PSCAP-Capacity Building for Public Sector Reform & Decentralization	2.6	2.2	-2.57	-0.8	9/11/2008	9/11/2008	6/30/2012
Education	Basic Education	15.0	0.0	-14.89	0.0	7/8/2009	7/8/2009	6/30/2013
Cross-Sector	Abyei Emergency Project	2.5	0.0	-2.46	0.0	6/29/2009	6/29/2009	6/30/2012
Agriculture	Gum Arabic	7.0	0.0	-7.00	0.0	8/20/2009	8/20/2009	6/30/2013
Total (Projects 2005-2012)		240.3	350.1	-229.5	-322.8			

Notes:

(a) *Joint Assessment Mission*, Volume II: Cluster Costing and Matrices, March 18, 2005

Jam Clusters: 1/Capacity Building & Institutional Development; 2/Governance & Rule of Law; 3/Econ Policy; 4/Productive Sectors; 5/Basic Social Services; 6/Infrastructure; 7/Livelihoods & Social Protection; 8/Information & Statistics

Annex 9: Sample Results in Early Recovery and Peace-Building

The 2005 CPA made a provision for 70 percent of National Development Reconstruction Funds to be targeted to the least developed states in North Sudan, reflecting the recovery and development needs of these areas as well as their pivotal role in sustained peace and security. Within this group of least developed states, the particular status of the Three Areas – Abyei, Blue Nile, and South Kordofan – was recognized in the CPA through specific protocols. These protocols establish a special status under the Presidency for Abyei, and the Blue Nile and South Kordofan states with their own constitution and legislative bodies. The first Sudan Consortium, held in Paris on March 9-10, 2006, noted that since the signing of the CPA, the Three Areas had not received the expected resources, which could aggravate political instability in the region. The quick formulation and start-up of recovery projects – including quick impact interventions – was therefore a priority.

The MDTF-NS Start-up Emergency Projects for Abyei, Blue Nile and South Kordofan, although designed prior to its publication, project objectives and implementation are closely in line with the recommendations of the 2011 WDR Conflict, Security, and Development, including taking into account stress factors and potential drivers of instability, and the need to focus on capacity building of weak institutions. Where appropriate, the projects attempted to identify and leverage partnerships with national and regional actors, as well as with international donors and agencies including the State government, locality governments, Unity Support Fund, and UN. The projects were further in alignment with two key WDR principles, including the need for focus on cross-border commons, and the emphasis on inclusive growth for job and livelihoods creation.

The Start-up Emergency Projects aimed to address three types of issues – political, socio-economic and institutional. The **political aspect** provided assistance to the implementation of the CPA in terms of encouraging fiscal transfers to the Three Areas.

The **socio-economic aspect** encompassed the greater part of the projects, and included interventions addressing access to basic services and infrastructure. This support included several interventions taken from the state and locality development plans, such as rehabilitation of existing schools and water points and the provision of anti-malaria bed nets ambulances, x-ray and fogging machines. The vocational training center in Kadugli was rehabilitated, equipped and re-opened while a center for disease control was established in Damazin. These projects also involved support to the economic development of the population as a disincentive to re-engaging in conflict. A fisheries service center was established in Blue Nile alongside institutional capacity, training and IGA support to fishers and the State Fisheries Department. Livestock and crops based livelihoods were supported through the provision of animal traction, hand tools and training in both Blue Nile and South Kordofan. In Abyei, 67.5 tons of improved seed was distributed to 15,000 farmers to support the agricultural season for returnees. The projects placed emphasis on youth, IDPs and women particularly in the most conflict-affected areas of each state. In this regard, support was provided to areas such as Kaouda and Kurmuk (bordering South Sudan) in South Kordofan and Blue Nile States respectively. These areas were previously closed off due to conflict and were largely inaccessible following the cessation of hostilities. The demining and rehabilitation of rural roads provided by both the Blue Nile and South Kordofan Start-up Emergency projects contributed to opening these areas to allow social and economic recovery.

Finally, recognizing that emerging from a conflict situation, the state government and local authorities had very low capacities for planning, implementation, M&E and fiduciary functions, the **institutional aspect** of these projects provided support to and capacity building for government institutions, civil society, and other key actors. One of the main achievements was the contribution to long-term institutional change by instilling conflict sensitivity to state and locality development planning. For example in both Blue Nile and South Kordofan States, financing by the State government of the rural roads component above the original target was specifically designed to open up conflict-affected and previously neglected areas of the State. As a result of training, government field officials (e.g., agriculture and livestock extension workers) networked with traditional administration and village leaders as well as NGOs and learned to jointly plan and execute community programs. The development of comprehensive data collection systems for development planning has also proven important in ensuring sustainable maintenance of the assets created under the projects and to carrying on the tasks in future.

The projects fulfilled their relevance through initiatives that contributed to the stabilization of war affected populations whose economic and social life had been severely disrupted. By providing water supply in villages, restoring social infrastructure such as schools, directly supporting agricultural operations and linking communities and markets by constructing/improving vital road links, bridges and culverts, war affected populations could resume normal life and engage in productive economic activities. This has contributed to communities largely not re-engaging in renewed conflict in the Three Areas as well as having a positive impact on poverty alleviation.

Annex 10: Independent Evaluation of the MDTF-NS Results and Lessons Learned

The MDTF-NS Independent Evaluation focuses on: (a) institutional and organizational relevance, (b) cost effectiveness, (c) development impact, and (d) lessons learned.

(A) Institutional and organizational relevance

i. The MDTF-NS has been relevant in terms of:

- The mechanism – mobilizing development assistance at a time when it was difficult for donors to engage with Sudan bilaterally;
- Addressing priority needs of post-conflict Sudan;
- Focus on Three Protocol Areas (Blue Nile, South Kordofan and Abyei);
- Working through critical institutions at national, state and locality level, building institutional and implementation capacity for state building; and
- Alignment of donor resources with the JAM and CPA priorities.

(B) Cost effectiveness:

The MDTF-NS has provided a cost-effective mechanism for all donors in aggregate:

- It is more efficient than 10 donors operating separately;
- Leveraging Government of Sudan contribution is sizable, exceeding the grant amount;
- One of the most effective aid modalities compared to other trust funds in conflict areas; and
- Local communities contribute about 10% to some projects and if these amounts were included, they would have further improved the cost effectiveness of the MDTF-N.

The Fund has achieved catalytic benefits:

- Provision of an entry point for donors, including in the Three Areas;
- Developed project formulation and implementation capacity;
- Platform for dialogue with government in a difficult political economy
- Established World Bank as a trusted, politically neutral institution, at a time of difficult relations between the GoS and the international community.

(C) Development Impact:

The MDTF-NS has

- Trained nearly 4,000 government staff, improving various capacities;
- Strengthened technical and financial capacities of 31 micro-finance institutions, 130 Gum Arabic Production Associations, 6 livestock markets, water associations, community animal workers;
- Benefited 500,000 pupils, trained 11,380 teachers, rehabilitated some 514 schools and 114 health centres, trained 534 midwives and developed 410 water points;
- Constructed 446km of railway line and more than 200km of road network; and
- Second generation impact include institutional strengthening and capacity building across federal, state and local institutions.

(D) Key lessons Learned

- Leverage partnerships – with government, the international community, civil society, and other projects.
- Flexibility is key: the ability to learn from experience, adjust to emerging realities and incorporate change in the course of implementation is vital.
- Analytical work when well done and followed up by dialogue in an environment of trust helps set commitment to reform agenda.

Source: Independent Evaluation of the Multi-Donor Trust Fund in Sudan, Final Evaluation Report, ICF GHK, London, UK, December 1, 2012.

Annex 11: Darfur: A Frontier Work Program: Rationale, Scope and Risks

The Bank will undertake, during CY 2013, analytical, project preparatory, and just-in-time technical assistance activities in support of development in Darfur. This box explains the rationale, scope and risks for this undertaking. Thus: a) a window of opportunity has opened, the result of a significant peace deal, mobilization of the international community for a recovery strategy and a donor conference; b) the founding legal instruments permit MDTF-NS to invest in Darfur as part of its national scope; c) the security conditions have improved to permit some work; and federal, state and regional authorities (i.e., the Darfur Regional Authority) are requesting assistance; d) the World Bank is ready to undertake the work drawing on its leadership of the 2006 DJAM, key roles in the recently concluded Joint Assessment coordinated by UNDP, and experience and results of MDTF projects that can be scaled-up or replicated, and analytical work and just-in-time TA that can quickly be mobilized; e) finally, given the MDTF experience, the Bank is able to manage the risks of this engagement, de-escalating and re-allocating resources as risks rise or fall.

A credible window of opportunity for sustainable peace has opened in Darfur since the signing of the Doha Document for Peace in Darfur (DDPD). The MDTF-NS has not operated in Darfur since its establishment due to operational constraints (insecurity and lack of a peace deal). The establishment of the Darfur Regional Authority and the keen engagement of the federal Government of Sudan present an opportunity the international community has not encountered in a decade in Darfur. The international community led by Qatar (with technical support from the World Bank, United Nations agencies, and the African Development Bank) is engaged in an accelerated effort to prepare a strategy to support early recovery and development in Darfur. This includes an updated Darfur Joint Assessment that underpinned the international donor conference in Doha in April 2013. The Bank has contributed to this strategy work by leading on three themes: budget and fiscal management, governance and accountability, and private sector development; and supporting others: basic social services, infrastructure, agriculture, and rural development. The Bank also completed a pilot SPF project on stock routes in 2012.

An indisputable critical need exists in Darfur – the poorest and most conflict-ravaged region in Sudan. Darfur has had very low investment even while the rest of Sudan has benefited from investments possible in the relative peace of the CPA. Engagement in Darfur offers opportunities to impact positively the lives of millions of people in dire poverty, and to enhance chances for sustainability by building capacity. Poverty levels in Darfur are among the highest in Sudan: almost two thirds compared to a 46.5% national average. The 2009 National Baseline Household Survey findings reported poverty rates in the then existing three states as: North Darfur 69%, South Darfur 61%, and West Darfur 56%. The conflict has disrupted Darfur's economy for a decade and development spending within Darfur states is less than half that of other states in Sudan. Social indicators also lag behind other states in the country as the delivery of essential services of education, health, and water are severely constrained by the limited human and financial resources available to the region. The child mortality rate (deaths per 1000 births) is highest in Darfur (170); Sudan's national average is 111 while South Sudan's is 135.

Investments in Darfur are permitted under MDTF agreements; they were envisaged in founding MDTF-NS documents but not pursued for security reasons. The documents underlying the MDTF-NS (the JAM report, the Administration Agreements with MDTF-NS donors, and MDTF World Bank Board Paper) noted only the difficulty of working in Darfur due to security and recorded a need to respond when conditions permitted. The JAM report acknowledged the relevance of the assessment for Darfur and noted "The programs outlined in this assessment do take account of the key development needs throughout disadvantaged regions of Sudan, including Darfur, for basic social services, infrastructure, and so on" (p. 26). The Bank Board Paper noted: "The elements of the CPA can be used in the formulation of a political settlement for Darfur and to ensure a fairer distribution of public resources and a concerted development effort. Clearly, Darfur presents a major development challenge beyond the current humanitarian emergency that will need to be addressed as soon as conditions allow (p. 2).

Planned areas of analytical and preparatory work and just-in-time TA include a school survey, health facility assessment, pharmaceutical supply and access study, value chain analysis of Gum Arabic sector, public sector management analysis and training. These areas are within the MDTF-NS mandates and are areas the Bank has been leading/contributing to the current DJAM.

The planned work presents risks to the Bank and its partners. The overall risk is of one of breakdown of the agreement and a return to conflict thus making even the modest analytical work impossible to undertake. This could arise from three sources. First, Darfur remains at risk of sliding back into conflict. Not all rebel groups are signatories to the DDPD and although some are in new negotiations with the government, there is still a chance that some may choose to continue with armed rebellion. Second, if the funding pledged at the Doha conference is delayed therefore delaying development investments, confidence in the peace agreement might wane, risking further conflict. Finally, the government is expected to provide over \$2.6 billion to Darfur reconstruction over six years; however, the first installment has been paid after significant delays, again risking a breakdown of the agreement and leading to donor hesitation in contributing their own funds when government has not met its commitment.

Annex 12: The World Bank Country Survey: Summary of Overall Findings

The FY 12 Country Survey for Sudan captures the client's perspective on the Bank's performance. The survey respondents included government, civil society, donors, and citizens. The findings highlight areas of strength, concern, and opportunity for the next few years.

The overall country context

More than half of stakeholders interviewed are pessimistic about the future of the country. Stakeholders identify major concerns as education, rural and agricultural development, security and stability, basic infrastructure and public financial management. All these areas are critical for poverty reduction and economic growth. Nearly half of surveyed stakeholders attribute failed and/or slow reform efforts to political issues in the country. A quarter of stakeholders are concerned about the inefficiency of government, while more than twenty percent view inadequate levels of citizen participation as the biggest challenge to successful reform in Sudan; an equal proportion point to ongoing conflict as the key challenge.

The World Bank within this context

Stakeholders surveyed believe strongly that the Bank should continue to play a significant role in Sudan in the near future. While financial resources were identified as a top value of the Bank's contribution, stakeholders also indicated they valued training and capacity building. Training and capacity-building are identified by more than 40% of respondents as the Bank's most effective instrument. Technical assistance follows closely behind (38.8%). This is clearly an area where the Bank adds unique value to the development landscape in Sudan.

Survey findings strongly suggest that aspects of the relationship with the Bank are perceived in a very positive light. These include the level of respect with which the Bank treats clients and stakeholders, follow-through, straightforwardness and honesty, and the way it collaborates with donors. To a lesser degree, but still positive, clients lauded the way the Bank collaborates with government. In line with the finding that stakeholders highly value the Bank's support for training and capacity building, it is worth noting that ratings for the Bank's efforts to help build institutional capacity are quite high.

However, the Bank's work and achievements remain under-reported to stakeholders. For example, the survey findings suggest little familiarity with the MDTF-N, the Bank's primary instrument of engagement in Sudan for the last six years. More than a third of respondents answered 'don't know' when asked what the MDTF-N's greatest strengths were. Similarly, when asked what the MDTF-N's greatest weaknesses were 43% noted that the greatest weakness was the inadequate level of resources provided to Sudan. Another almost forty percent (38.8) said that the organization is too influenced by developed countries. In an environment as geopolitically charged as Sudan's, this is not surprising. Having said that, it reinforces the need for effective communications to help clients understand the Bank's and MDTF's work and how priorities are set. This has a direct development import for current and future partners and for those from whom support is critical to enact reforms and achieve results. The survey findings suggest a nuanced difference between how stakeholders view the Bank's overall effectiveness and whether the Bank's work is helping to ensure sustainable development.

Annex 13: ISN Consultations with Stakeholders, Government, Private Sector Representatives, Civil Society, Academia and Donors

Consultations with Government: The government emphasized that the Bank's strategy should focus on social protection, education and health to address the imbalance in the provision of basic services at the national level. Bank support was also requested in the transport and agriculture sectors, where the government has devised a four-year transport strategy and an agricultural revival program the implementation of which has been hampered by lack of financial resources. On its part the government committed its support to the Bank's strategy through (i) continuing to provide counterpart contributions to on-going MDTF-NS projects (including CDF, which the government plans to extend and fund for a further 5 years; requesting the Bank to help facilitate donor co-financing); (ii) using the elements of the Bank's strategy as a base to devise a full-fledged PRSP; (iii) ensuring the Bank's strategy is coordinated with the government's overall aid strategy which aims to ensure efficient allocation and management of development resources; and (iv) fostering partnerships between the Bank and other donors and development agencies through the government's upcoming aid coordination strategy.

Consultations with Private Sector Representatives: Private sector representatives noted the difficult business environment due to economic uncertainty, conflict, high taxation and inadequate infrastructure services. They emphasized the importance of consistent policy messages from the Government in influencing the business environment. The representatives also looked at promoting private sector and especially small and medium enterprises (SMEs) development to create jobs. They recommended that the Bank should use its global knowledge (including the recent ICA) to advise the government on policies that will help to achieve these. They also asked the Bank to establish a private sector unit at the county office. Also noted was the need to address the limited participation of women in the private sector and the importance of capacity building for women in order to make them more eligible for funding support.

Consultations with civil society organizations: Civil society organizations observed that the Bank has been a consistent development partner for Sudan and urged the institution to be proactive in improving the lives of the poor even though Sudan has been re-classified as a lower middle income country; support diversification of the economy and ensure sustainable management of natural resources; support the country's agenda for economic growth and job creation, especially among youth; and increase interaction and consultation with civil society so they can inform the public and hold government accountable; in addition to being more responsive to the need for a more community driven approach to implementation. The representatives stressed the need for the Bank to be more engaged with building capacity outside the government (e.g. CSOs, academia and private sector) as well as having more sustainability measures when planning future support to the country.

Consultations with academia: Participants acknowledged the contribution of the Bank's analytical work in informing government policies and programs but asked for more involvement of local research institutions. They also indicated that the Bank should work closely with state and local governments, private sector, NGOs and beneficiaries to ensure better development outcomes. In particular, the Bank program should support diversification and development of agro-industry and livestock sectors, and create economic opportunities for the rural population, including traditional and women farmers.

Consultations with donors: The Bank's consultations with bilateral and multilateral donors are on-going. Formal discussions in the context of the ISN revealed that the donor community supports the strategy and strongly believes that the Bank should continue to play a significant role in Sudan beyond the end of the Multi-Donor Trust Fund –National (MDTF-NS). Concurrent with the ISN consultations, the Bank has commenced bilateral and collective discussions with MDTF-NS donors to consider establishing a successor multi-donor trust fund, the Sudan Partnership Trust Fund (SPTF). The idea of the new trust fund was endorsed by MDTF-NS Oversight Committee (OC) Meeting held on June 11, 2013. This meeting endorsed the rolling over of the remaining MDTF-NS funds into the new SPTF. The Bank is also preparing to launch a dedicated effort to reach out to Middle East donor countries, funds, and other non-OECD donors such as Turkey, China and Brazil to contribute to the SPTF. The strategy will focus particularly on leveraging key partnerships and funding for the SPTF, including its Darfur window.