Country Engagement Note

Sudan

FOR THE PERIOD FY21-FY22

WORLD BANK GROUP

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FOR THE PERIOD FY21-FY22

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INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL FINANCE CORPORATION
MULTILATERAL INVESTMENT GUARANTEE AGENCY

WORLD BANK GROUP

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CURRENCY EQUIVALENTS

(Exchange Rate Effective August 25, 2020)

1 US$ = 55.27 Sudanese Pounds

FISCAL YEAR

January 1 – December 31

Abbreviations and Acronyms

AA	Administration Agreement	IFIs	International financial institutions
AfDB	African Development Bank	IMF	International Monetary Fund
AfDF	African Development Fund	IPSDA	Investment and Private Sector
ASA	Advisory Services and Analytics	MDB	Development Agency
CBoS	Central Bank of Sudan	MDGs	Multilateral Development Bank
CEN	Country Engagement Note	MDRI	Millennium Development Goals
CPF	Country Partnership Framework	MIGA	Multilateral Investment Guarantee Agency
CRW	Crisis Response Window	MOFEP	Ministry of Finance and Economic Planning
FCV	Fragility, Conflict, and Violence	MPF	Mutual Partnership Framework
FFC	Forces of Freedom of Change	NPV	Net Present Value
FoS	Friends of Sudan	PACG	Pre-Arrears Clearance Grant
FSAP	Financial Sector Assessment Program	PBA	Performance Based Allocation
FY	Fiscal Year	RRA	Risk and Resilience Assessment
GDP	Gross Domestic Product	SIPF	Sudan International Partners Forum

GOS	Government of Sudan	SMP	Staff Monitored Program
HCI	Human Capital Index	SMPF	Sudan Multi-Partner Fund
HDI	Human Development Index	SORT	Systematic Operations Risk-rating Tool
HIPC	Heavily Indebted Poor Countries	STARS	Sudan Transition and Recovery Trust Fund
IDA	International Development Association	TA	Technical Assistance
IDP	Internally Displaced Person	TAA	Turn-Around Allocation
IFC	International Finance Corporation	TG	Transitional Government

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FY21-22 COUNTRY ENGAGEMENT NOTE FOR THE REPUBLIC OF THE SUDAN

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I. INTRODUCTION – A ONCE IN A GENERATION OPPORTUNITY

1. Sudan has a small window to seize a once-in-a-generation opportunity to put itself on a path of economic and social renewal. The 2019 revolution led to the establishment of a transitional government with a mandate to carry out sweeping reforms to reverse decades of economic, social, and political decline. The Government of Sudan (GOS) has taken bold steps towards resolving long-standing internal conflicts, unwinding economic distortions, renewing the social contract, and re-engaging with the international community. It has also agreed on a rigorous International Monetary Fund Staff Monitored Program (SMP) to underpin its economic reforms. Notwithstanding a challenging first year in office, the GOS retains the support of the country's major political forces, including security elements, and continues to be a source of hope to the population for a better future. The unprecedented rapidity and breadth of the GOS's reforms present a compelling case for the international community, and the World Bank Group (WBG) in particular, to step up its engagement with the country to reduce poverty and promote shared prosperity. But time is short to deliver on the promise of Sudan's revolution given mounting pressures.

2. The country faces formidable economic, social, and political challenges. Sudan has seen a stark deterioration in its economy, seeing a doubling of poverty and moving from lower middle income to poor country status in the past three years. The economy is in recession with budgetary and current account deficits exceeding ten percent of GDP. Large public sector deficits have been monetized, driving inflation to 140 percent as of September 2020. There are shortages of key commodities and power outages are frequent. Trade in goods and services is limited and remittances are curtailed. Social indicators have also worsened, with Sudan ranked 139 out of 157 in the Human Capital Index (HCI) and 167 out of 189 countries based on the Human Development Index (HDI) in 2018. A largely agrarian country, Sudan is significantly impacted by climate change and recently has been battered by frequent floods and droughts as well as a locust invasion. There are now an estimated 9.6 million[1] people in acute food insecurity. Moreover, there are approximately 1.9 million internally displaced people in need of urgent assistance and over 1 million refugees and asylum-seekers.[2] Economic challenges are intertwined with a historically fragile social contract characterized by violent conflict, long-standing tension between the center and the periphery, and exclusionary governance. Dissatisfaction with the economic hardship and pace of reforms by the new government has led to protests and prompted a recent Government reshuffle. Notwithstanding significant progress under

1. Sudan: Integrated Food Security Phase Classification Snapshot | June - December 2020.
2. https://reporting.unhcr.org/sudan

the current government, the peace process remains incomplete, the political equilibrium fragile, and some states continue to have security challenges.

3. Sudan is also burdened with a legacy of decades of international isolation that cuts it off from significant external support at a time when it is most needed. The preceding government disengaged from the international community, including allowing almost all of Sudan's debt to international financial institutions (IFIs) as well as other creditors go into arrears. This led to the ballooning of external debt which, based on unreconciled estimates, is projected to reach US$56 billion at end-2020. Arrears on repayment of prior lending from IFIs, including US$ 1.05 billion owed to the International Development Association (IDA), bar it from access to significant external financing usually available to developing countries. The prior government's policies and actions also triggered international sanctions which have had a lasting impact in cutting off the country from regular financial transactions. Sudan is still on the United States' State Sponsors of Terrorism List (SSTL) despite ongoing bilateral efforts towards delisting. Remaining on the SSTL constrains the US from assisting the GOS, which complicates action on debt relief [3].

4. The COVID-19 crisis as well as recent flooding have exacerbated an already complex situation. As of the beginning of September 2020, the GOS reported more than 13,000 confirmed COVID-19 cases and over 800 fatalities. The Government responded with an initial lockdown in Khartoum and all borders including the airport, closure of schools and markets as well as a ban on public gatherings and other movement followed by gradual resumption of economic activities. The combination of the global economic crisis and domestic limitations triggered by COVID-19 is expected to lead to a decline of more than 8 percentage points in GDP in 2020. The crisis has also significantly lowered government revenues while increasing costs for healthcare, leading to steeper deficits and resulting higher inflation. COVID19 has led to enhanced visibility of the plight facing the government and has amplified the importance of defining a clear path to reengagement to tackle the dire economic situation. The country has additionally had to deal with record flooding in July-September that led to at least 100 fatalities and the destructionof 100,000 homes affecting over 500,000 people, prompting a declaration of a state of emergency.

5. It is critical for Sudan to stabilize its economy as well as regain access to WBG and other IFI financing. Negative growth and rising inflation necessitate a rapid overhaul of fiscal and economic policies – tough measures to which the GOS has demonstrated commitment with due consideration to the most vulnerable. These are necessary steps for a more sustainable development path in Sudan. At the same time, they put the country on a pathway to accessing significant external resources through IFIs – resources needed to deliver meaningful improvement for Sudan's people. The past year has seen substantial international support for Sudan, but this goodwill has not yet translated into levels of external financing commensurate with the scale of the country's development challenges.

3. In cases of Board decisions for Sudan government RETF-financed operations, the US votes against the operations as required by law, but thisdoes not block approval.

Gaining access to IDA, International Finance Corporation (IFC), and Multilateral Investment Guarantee Agency (MIGA) resources, as well as resources from other IFIs, is therefore critical for the success of reforms. Clearing of arrears to the WBG will need to take place within the context of an overall resolution of Sudan's debt issues, as this is a sine qua non for a sustainable macroeconomic outlook for the country. The Heavily Indebted Poor Countries (HIPC) Initiative provides a framework for addressing the country's debt situation in a comprehensive manner. Sudan has been grandfathered for eligibility for debt relief under the HIPC Initiative. The country would qualify for debt relief upon reaching the HIPC Initiative decision point, which itself requires -inter alia – establishing a satisfactory track record of policy performance.

6. This CEN embraces a high risk, high reward approach to helping Sudan's stabilize its economy and accelerate progress towards arrears clearance and HIPC Initiative debt relief. The CEN has two focus areas: re-engagement through support for macroeconomic reforms, complementary social impact mitigation, and helping the country meet the HIPC benchmarks, and contributing to a renewal of the social contract, building systems and laying the groundwork for medium-term support and a fuller country program. While Sudan has many pressing needs, the CEN focuses on immediate priorities, of which unlocking significant financing, including from the WBG itself, is most critical in order to meaningfully support Sudan towards macro-economic stability, job creation, and sustainable development. Success will be measured by when Sudan becomes eligible for regular IDA financing, at which time a Country Partnership Framework (CPF) would be developed. While the approach is high risk in that it requires progress on several fronts in fragile political economy, this is the most compelling strategy to deliver the quantum of support that Sudan needs. A far greater risk for the WBG is insufficient ambition and agility to deliver for the country at this historic juncture. If the transition in Sudan fails, the social and economic costs of a later recovery as well as the regional impacts of continued fragility will be much higher than the costs of engaging now, and it may be many years before there is another comparable opportunity.

II. COUNTRY CONTEXT – THE NEED FOR URGENT ACTION

Social, political and fragility context

7. The Sudanese population consists of a large cultural diversity which is made up of a combination of original inhabitants of the Nile Valley and migrants from the Arab peninsula. There are 19 major ethnic groups and over 597 ethnic subgroups speaking more than 100 languages and dialects. Arab speaking Muslims are considered the largest single ethnic group at about 70 percent of the total population, while other ethnicities such as Nubians, Copts and Beja and others make up the remainder.[4]

4. ACAPS.

8. Since gaining independence in 1956, Sudan's history has been one of near constant conflict and political instability. Conflicts in Sudan were and remain grounded in structural and regional imbalances, with a Khartoum-based economic and political power "center" dominated by mostly Arab groups, and more "peripheral" areas in the West, East, and South. This division has arisen over centuries. The fertile Nile River valley has always attracted settlement and economic activity. Ottoman-Egyptian rule in the 19th century reinforced the centrality of the riverine area by choosing Khartoum as the political and administrative hub and establishing a governance system distinct from the tribal customs that prevailed in large parts of the country. Similarly, the British built their colonial rule on the northern/Khartoum elite while controlling the "peripheries" through a loose system of pacts with local tribal leaders. Over various cycles of rebellion and repression that have characterized the center-periphery relationship, the division has by now become structural. Except for Red Sea state in the Northeast, poverty tends to be concentrated in the South and West, and there is a strong correlation between poverty and conflict affectedness, as both have reinforced each other over time. The grievances of the population in the periphery are thus grounded in socioeconomic reality, exacerbated by cultural-religious divisions that stem from a colonial and (possibly older) racial hierarchy and have been deliberately manipulated (i.e., by declaring "jihad" on southern groups), to devastating effect.

9. Sudan's 2019 revolution was driven by deep grievances stemming from center-periphery relationships as well as decades of militarized, Islamist authoritarian rule characterized by a centralized elite patronage system. While protests began over rising costs of basic commodities, especially bread, in December 2018, they quickly grew into a sustained popular uprising that ousted of long-time President Omar al-Bashir six months later. The collapse of the al-Bashir government lay in large part in shifts over the preceding fifteen years. In particular, long-running conflict in the southern part of the country was finally settled by the Comprehensive Peace Agreement (CPA) of 2005, leading to the secession of South Sudan in 2011. A key consequence of the CPA was the loss to Sudan of 75 percent of its oil reserves which, compounded by persistent tensions that further limited the north's expected revenues from oil exports, led to a deepening economic crisis that eroded the ability of the former regime to keep its patronage network intact. While the regime bet on a burgeoning gold mining industry to replace oil revenues (gold production increased by 141 percent between 2012-2017), weak regulations and the more decentralized nature of gold production has robbed State coffers of a large portion of its value. Among the beneficiaries have been elements of the sprawling military-security apparatus, including paramilitary forces. The resulting economic tailspin, along with unabated violent conflict in Darfur and Southern Kordofan and Blue Nile, brought together a broad range of Sudanese across urban and rural areas to rise up against a weakened regime fraught by internal rivalries.

10. A Risk and Resilience Assessment (RRA) carried out in August 2019 examined how the drivers of fragility, conflict, and violence (FCV) and factors of resilience impact Sudan's development going forward (see Box 1). An update carried out in July 2020 evaluated how those dynamics have played out in the 12 months since former President al-Bashir was removed from office. The key finding is that while there has been substantial progress to make the political settlement more inclusive, gradually open the economy, and establish peace with Sudan's armed movements, the mechanisms of the patronage-heavy and securitized political economy from the al-Bashir era are yet to be dismantled.

Box 1. Findings from the Risk and Resilience Assessment for Sudan: FCV Drivers and Factors of Resilience

Structural drivers of fragility:

- ***Legacy of non-inclusive governance by elite collusion,*** which monopolized political and economic power in a Khartoum-based center, sustained by extensive networks of patronage.
- ***A history of dysfunctional and elite-captured economy,*** which has yielded strong inequalities and macrofiscal vulnerabilities that have pushed Sudan to the brink of economic collapse.
- ***Regional imbalances and patterns of social exclusion*** that have created multiple grievances based on marginalization, skewed service delivery, and disenfranchisement of women and youth.
- ***Weak institutional capacities to mitigate and regulate conflicts*** resulting in intra- and intercommunal struggles over land, water, natural resources, exacerbated by climatic change and population growth.

Sources of resilience and institutional strength:

1) ***Capacities for governance and policy making,*** despite the historical exclusionary setup of most institutions.
2) ***Economic assets,*** including natural resources, as well as a very dynamic, mobile and—at least partly—highly educated population.
3) ***A strong society with a talent for collective action*** on a national but also local, grassroots level, with professionals, youth, and women at the forefront.
4) ***Remarkable community coherence and resilience in the conflict areas*** despite an adverse situation marked by violence, displacement, and lack of development.

11. Sudan's structural FCV driver remains the long-standing socio-economic imbalance between the center and the peripheries, in combination with a legacy of political settlement that has excluded large parts of the population. Three decades of al-Bashir's rule yielded a deeply distorted economy that served the interest of a narrow elite and a costly and non-transparent security sector that has crowded out investment into human capital and public infrastructure. Conflicts in Darfur, South Kordofan, Blue Nile and other parts of the country have fragmented social cohesion and institutions, especially on a local level, including through forced displacement and repeated cycles of rebellion and repression. Changing the settlement driven by the al-Bashir era political economy will require overcoming inevitable frictions among a wide range of new and old stakeholders. The transitional period, agreed to last until election of a civilian government in the fall of 2022, is critical to building a transparent, rule-bound, accountable governance system to underpin a more stable polity.

12. The 2019 revolution yielded a political settlement marked by a commitment to transition to democratic rule and the appointment of a technocratic transitional government. In August 2019, a civilian coalition called the Forces of Freedom of Change (FFC) signed an agreement with the Transitional Military Council (TMC) forming a hybrid civil-military Sovereignty Council and a transitional government to oversee a 39-month transition toward democratic elections. This government has the mandate to preside over a political transition as well as adopt the policies, reforms, and institutions needed to achieve peace, stabilization, inclusive economic growth, and re-engagement with the international community.

13. Over the last year, Sudan's political settlement has become more inclusive. For the first time in 30 years, the GOS is headed by a civilian. The press has been freed and stifling laws to control social behavior in public – especially of women – have been rescinded. The Constitutional Declaration affirms the rights of minorities and places special emphasis of opportunities for youth. The coalition of the protest movement – the Forces of Freedom and Change (FFC)[5] – is now an integral part of the governance structure for the transitional period. Negotiations with armed groups have commenced in the fall of 2019 and have resulted in a ceasefire, prisoner release, the appointment of civilian governors, and the agreement to improve humanitarian access to the conflict-affected regions.

14. However, the Transitional Government continues to face challenges in dismantling the dysfunctional political and economic legacies of the previous regime. The government must balance the interests of three broad sets of domestic actors, each of which has its own sub-divisions: (1) the diverse and divided actors that make up both the Forces for Freedom and Change (FFC) and the Sudan Professionals Association (SPA), including political parties, civil society organizations and grassroots movements and well as Resistance Committees which demonstrate strong collective action capacity; (2) the military-security apparatus, made up of the elite Sudan Armed Forces, the National Intelligence and Security Services, which continue to include hardliners from the former regime and dominate large parts of the economy, and the Rapid Support Forces, the paramilitary force that fought on behalf of the regime in Darfur; and (3) armed movements, who are also divided and which include, but are not limited to, those in the Sudan Revolutionary Forces (SRF), a loose coalition of insurgent groups. The GOS, the SRF and the Sudan Liberation Movement – Minni Minnawi (SLM-MM) initialed a peace agreement in Juba on August 31 that includes eight protocols, including on issues of security, power-sharing, revenue sharing, land ownership, and return of displaced populations. The peace agreement does not include the Sudan People's Liberation Movement – North (SPLM-N) Abdelaziz Al-Hilu faction, though it participated in talks but has been negotiating separately with the government, leading to a September 3 agreement affirming commitment to a multi-racial, multi-ethnic and multi-cultural Sudan. The peace agreement also does not include the Sudan Liberation Movement/Abdul Wahid (SLM-AW), which rejected the peace process calling for preconditions including a secure environment in Darfur and the return of IDPs. A fourth set

5. Created in January 2019, the FFC is a wide political coalition of civilian and rebel groups, including the Sudanese Professionals Association, No to Oppression against Women Initiative, MANSAM, the Sudan Revolutionary Front, the National Consensus Forces, Sudan Call, the Unionist Gathering, and the Sudanese resistance committees.

of actors are bilateral and multilateral external players with a varying agendas and relationships with domestic players. Some of these external actors exert, or can exert, considerable influence on Sudan's development. While efforts continue, it is clear that peace-building will be complex and take time.

15. The country's complex political economy impacts the prospects for economic reforms necessary to put Sudan on a pathway of sustainable, equitable development. A key element of reforms will involve weaning Sudan's security entities from their non-transparent income streams in order to promote private sector development and regularize public finances. This includes a large presence of security entities in sectors related to oil, gum Arabic sesame, weapons, fuel, wheat, telecommunications, banking, real estate and gold, in addition to a wide array of consumer goods. In addition, until recently, the security sector has reportedly consumed up to 70 percent of fiscal revenue. Some important steps have been taken by the transitional government, such as dismantling the Bashir-era intelligence apparatus and reducing Sudan's engagement in the conflicts in Yemen and Libya. However, enforcing civilian oversight and putting security allocations 'on budget' will have to be calibrated against the risk of derailing the still fragile transition. At the same time, there is intense public expectation for delivering rapid change, most recentlydemonstrated by large popular protests about the slow pace of reform in June 2020.

Economic context

16. Sudan has experienced rapid economic deterioration, declining from a middle to low income country in 2020. Key indicators to the need for rapid action to stabilize the economy and address the sharp increase in poverty are in Table 1. The main underlying cause for this downturn is the long-term failure to adjust to the large economic shock of losing 75 percent of its oil reserves with the secession of South Sudan in 2011. During the pre-partition period between 2003 and 2011, oil accounted for 50 percent of domestic revenues and 95% of export earnings.[6] Following the South's secession, Sudan lost 75 percent of its oil reserves and this resulted in a major shock to fiscal and external balances. Despite some attempts, Sudan failed to reduce enormous commodity subsidies that it could no longer afford. The size of these subsidies grew to the equivalent of almost 100 percent of government revenues in 2019. An overvalued official exchange rate was maintained, together with system of multiple exchange rates for rationing existing forex to fuel and other priority imports. Growing associated macroeconomic imbalances led to destabilization and slower growth. Second, social unrest, mostly in the South of the country, and associated political choices by the leadership, both disrupted economic activity and led to Sudan's virtual isolation from most of the international economy. Finally, even in the years of significant oil revenues, Sudan's economic management was poor, with an overvalued exchange rate and lack of needed public investments that negatively impacted productive sectors, particularly agriculture and tourism. These effects have taken a cumulative toll on the pace of growth and exacerbated food insecurity.

6. The National Population Council, Ministry of Social Welfare and Security, "Draft Report: The Millennium Development Goals (MDGs): Status, Challenges and Prospects for Sudan." Khartoum, Sudan, March 2012, pp. 1-2.

Table 1. Macroeconomic, Poverty, and Human Development Indicators

	2005	2010	2015	2016	2017	2018	2019e	2020f
Real GDP Growth	7.49	-0.33	4.91	4.70	4.3	-2.3	-1.0	-8.2
Agriculture					2.5	-1.5	-1.0	-5.5
Industry					4.5	-1.7	-0.7	-10.7
Services					4.5	-3.2	-4.7	-8.4
GDP per capita (current US$)	689	1401	1910	1299	1125	854	780	730
Inflation (CPI Average Annual)	8.5	13.2	16.9	17.8	32.0	64.8	51.3	140.0
Current Account Balance (% of GDP)	-9.3	-2.8	-7.4	-8.1	-10.2	-13.0	-15.0	-12.5
National Budgetary Balance (% of GDP)	-1.8	-0.4	-3.8	-4.5	-6.5	-8.0	-11.0	-7.0
Public Debt (% of GDP)[a]	..	74.6	92.2	127.9	159.6	185.6	211.7	260.0
External Public and Publicly Guaranteed Debt (% of GDP)[a]	..	64.9	82.7	118.8	150.8	176.0	193.0	246.0
International Poverty Rate ($1.9 in 2011 PPP)[b,c]	14.9	14.4	11.3	10.6	10.6	12.1	14.2	20.0
Lower Middle-Income Poverty Rate ($3.2 in 2011 PPP)[b,c]	40.5	40	42.2	40.8	40.4	43.7	47.0	55.7
Human Development Index, Global Ranking[d]	147	169	165	165	167	168	..	..
Female labor force participation rate, female (% of female population ages 15+)	28.22	28.12	28.56	28.71	28.88	29.10	29.10	..
School Enrollment, Primary (% net)	63.3	71.7	73.1	75.9	76.8	..	..	
School Enrollment, Primary, Female (% gross)	59.1	67.8	69.8	73.2	74.4	..	..	..
School enrollment, secondary (gross), gender parity index (GPI)	0.93	0.87	0.98	0.98	1.01	..	..	..

Sources: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices, World Development Indicators, March 2020 Debt Sustainability Analysis, United Nations Development Programme Human Development Index
Notes: e = estimate, f = forecast.
(a) Figures from March 2020 Debt Sustainability Analysis through 2019; World Bank staff estimate for 2020 forecast
(b) Calculations based on 2014-NBHS. Actual data: 2014. Nowcast: 2015-2019. 2005 figures are for 2009. Figures after 2015 are estimates.
Forecast is from 2020 to 2022.
(c) Projection using neutral distribution (2014) with pass-through = 1 based on GDP per capita in constant LCU.
(d) Compiled from UNDP HDI annual reports.

17. Sudan's economy has been in recession since 2018. Although official GDP statistics from prior years may show otherwise, other official data[7] indicate that the pace of GDP growth in Sudan may have slowed to under 2 percent on average during 2012-2017 and turned negative in 2018-2019. With the COVID-19 emergency and lockdown, the contraction of GDP in 2020 will be up to or even exceed 8 percent. The fiscal position deteriorated in 2018-2019 primarily because of ballooning fuel subsidies and COVID-19 brought additional unexpected budgetary challenges in 2020. Total (explicit and implicit) fuel subsidies rose by an estimated 7.5 percentage points to 11.75 percent of GDP over 2018–2019. This was because of higher international oil prices, exchange rate depreciation, and increased fuel consumption. The fiscal deficit rose rapidly, from 6.5 percent of GDP in 2017 to 10.75 percent of GDP in 2019. In 2020, federal budgetary receipts were more than 40 percent less than anticipated in the planned budget, while the COVID-19 crisis also necessitated larger-than-expected health and social expenditures.

18. Energy subsidies in Sudan benefit the rich disproportionately. Analysis of fuel consumption by expenditure quintile shows the extremely regressive nature of fuel price subsidies whereby the rich accounted for the bulk of the fuel subsidies captured directly.[8] Similarly, more than 60 percent of the electricity subsidy benefitting households is captured by two richest quintiles, against only 5 percent captured by the bottom quintile. Only 35–40 percent of Sudanese households, mostly in Khartoum and Al-Jazeera states, benefit from the electricity subsidy while most rural poor are not connected to grid electricity. A strong reduction in fuel subsidies, along with higher external receipts, should help to limit the extent of the still very large budgetary imbalance in 2020.

19. Inflation skyrocketed in 2020. The pace of annual inflation accelerated to over 50 percent since 2018 and rose to 140 percent and higher in September 2020[9] . With limited external financing or possibilities for domestic borrowing, large fiscal deficits were monetized. This monetization fueled a vicious circle of high inflation, exchange rate depreciation, and further deficit expansion. With domestic fuel prices fixed in Sudanese Pounds, exchange rate depreciation has automatically increased the size of the fiscal subsidy, further contributing to deficit monetization and pressure on the exchange rate. As of September 2020, the parallel market exchange rate has quadrupled the official rate of 55 pounds to the US dollar.

20. Sudan's economy also bears a heavy legacy of isolation from the world economy that was prompted by the conduct of the preceding government. In 1993, the United States designated Sudan as a state sponsor of terrorism which was followed by comprehensive economic, trade, and financial sanctions. In 2005, Sudan was placed under United Nations sanctions involving an arms embargo, travel bans, and asset freeze for selected individuals and entities.

7. E.g., official data showing low levels of investment and per capita income growth, as well as negative growth in exports.
8. World Bank poverty and inequality report (2019).
9. Central Bureau of Statistics.

21. Sudan's external public and publicly guaranteed debt is expected to reach about US$56 billion by end-2020.[10] Debt is mainly owed to bilateral creditors, and roughly equally divided between Paris Club (US$21 billion) and non-Paris Club (US$21 billion) creditors. About US$51 billion of the external debt is expected to be in arrears by end-2020, of which interest arrears on bilateral and commercial debt accounts for roughly three-quarters.

	Nominal Debt Stock (Including Arrears)		Arrears Stock (US$ billion)			
	US$ billion	Percent of total	Principal Arrears	Interest Arrears	Total Arrears	Percent of total
Total	55.9	100	11.2	39.8	50.9	100
Multilateral	5.0	10	2.1	2.0	4.1	8
IDA 2/	1.4	3	0.8	0.2	1.1	2
IMF 2/	1.3	2	0.3	1.1	1.3	3
AfDB	0.5	1	0.2	0.1	0.3	1
AFESD 3/	1.2	2	0.5	0.1	0.6	1
AMF 4/	0.3	1	0.1	0.3	0.4	1
Others	0.7	1	0.2	0.1	0.3	1
Bilateral	42.3	76	6.8	31.9	38.7	76
Paris Club	21.2	38	2.6	18.6	21.1	41
Non-Paris Club	21.1	38	4.2	13.3	17.5	34
Commercial	8.2	15	2.2	5.9	8.2	16

22. Sudan is in debt distress. Public and external debt ratios remain high and unsustainable, with most external debt in arrears. Public and external debt ratios stood at 211.7 percent of GDP and 198.2 percent of GDP, respectively, in 2019. Consistent with results of the most recent Debt Sustainability Analysis[11], Sudan's external debt is assessed to be unsustainable. All external debt indicators breach their LIC DSF indicative thresholds under the baseline scenario and debt solvency indicators stay above the thresholds throughout the time horizon of the analysis. Restoring debt sustainability will require Sudan to implement needed reforms, undertake sound economic policies, and build a strong track record of policy implementation to remove obstacles as the country moves towards HIPC debt relief.

23. Financial sector stability remains a significant concern that can affect medium and long-term sustainability of proposed economic reforms and economic growth. Financial sector stability risks

10. Indicative unreconciled projection.
11. The last completed joint Bank/Fund reconciliation of Sudan's external debt data dates to the early 2010s (end-2010 figures).

in Sudan have significant implications of hindering broader macroeconomic reform and economic growth of the country. The risks are significant due to several factors, including under-provisioning of nonperforming loans, low levels of capitalization in the banking sector, the lack of proper enforcement of an accurate reflection of banks' asset quality and liquidity, and the inability of the Central Bank of Sudan to effectively supervise the banking sector and to manage crisis situations. In addition, there is also heavy political interference in the financial sector, which creates concerns of conflict of interest, effective policy making and oversight. The COVID-19 crisis also has further added the challenges on financial sector stability and on financial intermediations that are essential for economic activities in the country. Sudan also has one of the lowest levels of financial inclusion and access of small and medium enterprises to finance in Sub-Saharan Africa. According to Findex 2015, only 15.3 percent of Sudanese adults had a financial account in 2015, with women and the poor particularly underserved. Similarly, only 4.6 percent of all Sudanese firms and 2.7 percent of small firms had access to a loan or line of credit from a bank, a level below Sudan's peers and Sub-Sharan Africa's average.[12]

24. The private sector in Sudan remains underdeveloped[13]. Business environment in Sudan is not conducive to enabling growth of the private sector, with both domestic enterprises and foreign investors facing multiple policy and infrastructure constraints. The most pervasive problems for doing business include trade regulation, tax administration, political instability, tax rates, and corruption. Most existing private sector activities are linked to the agriculture sector. However, sector productivity remains very low. In addition, an increasing number of firms supply the growing domestic demand for a wide range of goods and services. At the same time, informal business activities have expanded in urban areas and now constitute a large segment of private sector activities. The country needs to create favorable conditions for private sector led growth to accelerate its economic recovery, increase its exports, and create new and better job opportunities for the Sudanese people.

25. Sudan also faces significant climate change impacts and recent locust infestation as well as record floods. The country is highly prone to weather shocks and climate change is putting increasing burden on the country's large agricultural sector. The ongoing desert locust upsurge that started in 2018/19 further illustrates the role climate plays in shocks to the agriculture and livestock systems as well as food security. These transboundary pests are endemic to Sudan, which is home to summer and winter breeding grounds, and normally the populations remain controlled. When conditions elsewhere stimulate excess population growth and swarming—as they did on the Arabian Peninsula and Somalia in 2018/19- the swarms can invade Sudan and devastate crops and pasture. Predictions of increasing rainfall and more extreme rainfall events in East Africa as the climate changes mean that the conditions for desert locust upsurges could become more common in Sudan and in neighboring countries. This will threaten productivity in the agriculture and livestock sectors and put millions of households at risk of increasing food insecurity. The country's heightened risk of disastrous weather events has been

12. Enterprise Survey, 2014
13. The formal private sector consists largely of small firms, structured as private limited companies (60 percent) and sole proprietorships (37 percent) spread over a wide range of sectors.

demonstrated by record, devastating floods over the past three months. This flooding has caused at least 100 fatalities and destroyed 100,000 homes, prompting the declaration of a state of emergency.

26. Notwithstanding short-term economic challenges resulting from decades of misrule, Sudan has strong long-term prospects. Currently a largely agrarian economy, Sudan possesses the second largest amount of irrigated land in sub-Saharan Africa as well as abundant mineral resources, most notably gold, which has become the country's largest export. Insofar as Sudan has suffered in recent years from massively distortionary economy policies and a high degree of isolation from world markets, the removal of these distortions alone, along with re-integration into the world economy, should ignite rapid growth and poverty reduction in the near future into the medium term. Policies to reverse the neglect in recent decades of investment in human capital and key public infrastructure can impact strongly productivity over the medium and longer term. While loss of oil revenues negatively impacted the country, over the longer-term lack of reliance on the commodity should facilitate a more diversified private sector led expansion than was the case in the past. Over the medium-term, agriculture and agro-business has particularly high potential for growth in both output and productivity, with major implications for poverty reduction.

Poverty and vulnerability context

27. Sudan lacks recent, credible poverty data, but the ongoing economic crisis is estimated to have increased the rate of extreme poverty to 20 percent. The most recent *National Household Budget and Poverty Survey*, conducted in 2014/15, indicated that the incidence of extreme poverty—the percentage of population living below $1.90 a day—is 13.5 percent. However, when the lower-middle income countries poverty line—$3.60 a day—is used, the incidence of poverty raises to 46.1 percent— slightly higher than the 2015 average poverty rate of 44.3 percent for an LMIC. Data from 2014/15 shows that poverty was particularly high in rural areas, with 15.7 percent living in extreme poverty.[1] Since 2014/15, Sudan has gone through severe economic challenges that have contributed to increasing poverty in recent years. In particular, the removal of preferential exchange rates for wheat importers in early 2018 resulted in sharp increases in the price of basic staples, including sorghum and millet. Simulations suggest that extreme poverty (US$ 1.90/day) between October 2017 and July 2018 increased by 3.2 overall percentage points simply as a result of the food price hikes, with the urban poor most affected. The ongoing economic crisis, exacerbated by the impacts of COVID-19, will likely have significantly negative effects on living conditions, yielding an estimated increase in the extreme poverty rate to 20 percent in 2020.

28. Sudan posts very poor human development indicators for its level of GDP. In 2018 it ranked 139 out of 157 according to the World Bank Human Capital Index (HCI)[14] and 168 out of 189 countries based on the Human Development Index (HDI) with a score of 0.507 in 2018.[15] It did not meet the

14. https://databank.worldbank.org/data/download/hci/HCI_2pager_SDN.pdf
15. http://www.hdr.undp.org/en/composite/HDI

2015 Millennium Development Goals (MDGs), and its progress lags behind its neighbors and Sub-Saharan African averages. Education and health indicators remain low and vary markedly across states, gender, and income level. The primary school enrolment rate is only 70 percent (below the target of universal coverage), with substantial disparities across states, richer and poorer, urban/rural areas, and gender. The under-five mortality rate of 68 deaths per 1,000 births in 2014 is still higher than the 2015 MDG target of 41 per 1,000 births, meaning that a lot of efforts are needed to achieve the 2030 Sustainable Development Goal target of 25 deaths per 1,000 births. The education system in Sudan is characterized by unequal access to basic education services, high drop-out rates, weak and outdated infrastructure. Lack of access to basic water and sanitation is a key contributor to low HDI. More than 40 percent of the population still lacks access to safe drinking water, and more than 60 percent lacks basic sanitation.

29. Sudan has one of the world's lowest rankings for gender equality. Sudan is ranked 168 out of 189 countries and territories and remains in the 'low human development category'. When disaggregated by sex, the Gender Development Index[16] of Sudan is 0.837, placing it in the group of countries furthest from achieving gender parity (UNDP 2019). A number of contributing factors to this gender equality in Sudan include (i) low levels of women's political participation (28 percent); unequal participation in the labor market (24.5 percent); unequal education attainment of adult women relative to adult men (15.3 percent); lack of inclusion and participation in official peace building and conflict resolution initiatives. Recent law changes to increase women's personal freedom and criminalize female genital mutilation are steps in the right direction, however more targeted, affirmative measures will be needed to bring about gender parity and inclusion.

The impact of COVID-19

30. Sudan has been severely impacted by the pandemic and ranks as one of the top four African countries at highest risk due to the impacts of COVID-19.[17] As of the beginning of September 2020, the GOS reported more than 13,000 confirmed COVID-19 cases and over 800 fatalities. The government responded to the COVID-19 crisis with a declaration of a state of health emergency in March and finalization of a national COVID-19 Preparedness and Response Plan on March 28.[18] The government also shut all schools and markets and banned all public gatherings and restricted international and inter-state travel. A revised draft federal budget for 2020 includes a major emergency allocation of

16. GDI, based on the sex-disaggregated Human Development Index (HDI), defined as a ratio of the female to the male HDI. Available at:
http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/SDN.pdf.
17. https://africacenter.org/spotlight/mapping-risk-factors-spread-covid-19-africa/
18. The plan was revised in June and the estimated budget went from an initial US$100 million to US$ 230 million. As per the plan, GOS will focus its efforts to (i)strengthen the coordination leadership capacity to control and minimize the spread of COVID-19 in Sudan; (ii) build national capacity to detect, trace and confirm cases through strengthening the surveillance, rapid response and laboratory capacities; (iii) build national capacity to isolate and manage cases through establishment of treatment centers, including intensive care, training health workers and Rapid Response Teams (RRTs) and improving the Infection Prevention and Control (IPC) measures; (iv) support measures that prevent further spread of the virus through effective risk communications and other control measures; and (v) quarantine exposed and suspected cases of COVID-19 in especially equipped areas.

resources (US$370 million) for COVID-19 related expenditures. Despite these actions, COVID-19 has already worsened economic prospects, hampered key services, delayed political reforms, and have impacted public trust in government capacity.

31. The crisis has revealed systemic weaknesses in Sudan's health system.[19] Projections indicate that large service disruptions in Sudan triggered by the COVID-19 crisis have the potential to leave 751,000 children without oral antibiotics for pneumonia, 1,520,200 children without DPT vaccinations, 94,500 women without access to facility-based deliveries, and 323,900 fewer women receiving family planning services. Child mortality may increase by 14 percent and maternal mortality by 4 percent over the next year.

32. The pandemic has had detrimental impacts on education services and learning opportunities. Closure of schools has affected an estimated 6.2 million students. Unabated, this situation could have profound, long-term negative impacts on the country›s human capital and economic development. The combination of being out of school and the loss of family livelihoods caused by the pandemic may leave girls especially vulnerable, by increasing caregiving responsibilities, the likelihood of adolescent pregnancies, and the potential of early marriage frequently associated with the negative income shock.

33. COVID-19 is also leading to increased prices of basic foods, rising unemployment, slower growth, higher deficits, and falling exports. COVID-19-related measures significantly decreased commodity movement, market functioning and cross-border trade. It compromised local livelihoods, daily labor opportunities, household purchasing power, and food accessibility of the vulnerable population. Restrictions on movement are making the economic situation worse, with commodity prices soaring across the country. The World Bank expects GDP to decrease between 4-10 percent in 2020 due to the combined impact of the economic crisis exacerbated by the social distancing measures to curb the spread of COVID-19. Slowing growth and COVID-19 policy responses will have a significant negative impact on government revenue. Slowing activity translate into lower levels of tax and other government revenue collection. The COVID-19 pandemic poses further risks and challenges to the micro, small and medium enterprises (MSMEs) in Sudan, including the large informal sector, threatening jobs and livelihoods in the already fragile economic context.

34. Because of the COVID-19 pandemic, Sudan's projected GDP growth for 2020 has been downgraded to -8.2 percent from an initial expectation of +1 percent, with negative poverty impacts. The ongoing economic crisis, exacerbated by COVID-19, will likely have significantly negative effects on living conditions. The number of poor will increase. Consistent with the projected fall in GDP in 2020, the poverty rate is estimated to increase to nearly 60 percent in 2020.

19.https://www.globalfinancingfacility.org/sites/gff_new/files/documents/Sudan-Covid-Brief_GFF.pdf

Lessons Learned from FCV contexts and past WBG Programming in Sudan

35. There are important lessons learned in other FCV contexts as well as in Sudan to guide this CEN. The WBG's FCV strategy highlights the importance of addressing the root causes of fragility and stresses the need for development actors to remain engaged and be willing to accept higher levels of risk. Lessons from supporting fragile transitions point to the importance of building an inclusive and resilient social contract between citizens and the state and strengthening the legitimacy and capacity of core institutions. Revisiting territorial administration and fiscal decentralization and empowering local institutions are key to addressing structural inequalities and marginalization that can fuel protracted conflict in FCV situations.

36. Lessons in the FCV strategy resonate with experience from the WBG's preceding engagement in Sudan. The key lesson from the WBG's prior activities in Sudan is the paramount importance of interest of the authorities in a partnership that allows for deploying the resources of the World Bank, IFC, and MIGA to maximum effect for the country (see Box 2). Experience from limited operations underscore the importance of investing in country systems is critical for public service delivery and for laying the groundwork for future investments in a context where development and humanitarian assistance has been provided off budget for decades. A second important lesson from the WBG's work in Sudan is the need to be sensitive to the socio-economic imbalance between the center and the peripheries. Institution building at the center is just as important as working with sub-national and local governments. Employing such an approach helps address a key driver of fragility and respond to regional aspirations and priorities. Finally, there is a strong need to maintain coordination among government and its partners of humanitarian and development assistance. This will ensure harmonized support for the government's agenda as well as adherence to principles of selectivity, comparative advantage, and efficiency of resource allocation. It will also facilitate joint action on key challenges, above all re-integration with the international economic community.

Box 2. The World Bank Group and Sudan

The World Bank Group has supported Sudan since it gained independence but engagement with the country has been limited over the preceding three decades under the Bashir government. In 1994, the World Bank closed its office in Khartoum owing to Sudan falling into arrears to IDA and the corresponding lack of World Bank programming. Soon after the signing of the 2005 Comprehensive Peace Agreement (CPA), the World Bank reopened the office in Khartoum and opened a new sub-office in Juba (which later became the capital of South Sudan after this country's recognition as an independent country in 2011). This re-engagement was made possible by trust fund financing from other donors. The World Bank implemented activities under two interim strategies formulated in 2008 and 2013 with support from trust funds. The World Bank's activities have been largely technical assistance and support for analytics and piloting approaches in productive sectors. IFC advisory services supported a review of a water treatment plant as part of a PPP – a model that could be immediately extrapolated to help reforms and preparation for Transaction Advisory in other SOEs and prepare the reform agenda for other key sectors - especially in infrastructure (energy, ICT, housing, transport including ports and airports). At the same time, throughout this period, the World Bank together with other development partners, particularly the IMF, sought to work with the authorities on addressing the rapidly worsening economic challenges as well as re-engage the international community. There was little progress in tackling the deep dysfunctionality in Sudan's economy in this period owing to lack of sustained interest from the authorities.

As of April 2019, when President Bashir stepped down, the World Bank had a portfolio of 8 activities totaling US$ 113 million in commitments (including a US$ 77 million basic education project) while IFC had no investments but had one advisory project focusing on investment climate. The objective of IFC's advisory project was to support the Government to initiate critical reforms to enhance private sector led growth. The program also supported evidence-based policy dialogue with the private sector and has created a Private Sector Development ("PSD") Hub and a Public Private Dialogue ("PPD") platform to support engagement and reforms. MIGA did not have programs. The 2019 revolution and establishment of a Transitional Government with a mandate to carry out sweeping reforms, build peace, and reintegrate with the international community radically changed the prospects for WBG engagement. This Country Engagement Note puts forth a strategy to make the most of what is the best opportunity in decades to reduce poverty and boost shared prosperity in Sudan.

III. THE WORLD BANK GROUP COUNTRY ENGAGEMENT STRATEGY

37. This CEN is a "re-engagement CEN" that prioritizes having Sudan address its debt and arrears challenges as the key to unlocking a full WBG partnership. The focus is on supporting Sudan to reengage with the international community and gain access to substantial external financing, especially from the WBG. This strategy is based on a triangulation of (i) the Sudanese government's development priorities; (ii) the WBG's analysis of key opportunities and constraints to reducing poverty and promoting shared prosperity in Sudan, particularly the urgent need for macroeconomic stabilization and accessing fresh financial flows; and (iii) the WBG's comparative advantage and value proposition in mobilizing access to substantial financing and providing knowledge services. The CEN's strategy builds on the lessons of past engagement in Sudan and the WBG's experience in fragile and transitional contexts, ensuring a focus on doing no harm, attention to potential changes in the political economy and corresponding flexibility in program design.

38. Supporting Sudan to clear its arrears to IDA and other IFIs, as part of the comprehensive framework for debt relief under the HIPC Initiative, is a key priority of the CEN because it is

the only path to allow the country to access significant external resources to finance its turn-around. The WBG's engagement The WBG's engagement is presently limited to activities financed via World Bank administered global and Sudanspecific trust funds raised from donors. Trust fund resources have financed slightly over US$ 100 million in commitments for presently active World Bank and Recipient executed activities initiated over the past four years. A high-profile concerted effort over the spring and summer of 2020 to raise funds for the Sudan Family Support Program to be funded via the World Bank-administered Sudan Transition and Recovery Trust Fund (STARS) yielded about US$ 500 million in pledges thus far. While this support has been significant, it is insufficient to meet the urgent needs and opportunity for carrying out reforms. Reengagement and access to regular IFI resources would provide much greater levels of support. In the context of a HIPC debt relief package inclusive of arrears clearance to IDA, Sudan could access up to US$ 1 billion in exceptional support from IDA-19. This allocation together with resources to be offset against Sudan's country allocation, could then finance a re-engagement development policy operation (RDPO) that could repay the bridge financiers. Upon clearance of arrears, Sudan would also be able to access its regular country IDA allocation for IDA19 and is likely to apply for support under the special Turn-Around Allocation (TAA), which could provide an additional amount of up to US$1.25 billion of IDA resources during the IDA19 period through World Bank FY23.[20] Sudan would also be able to leverage its PBA and TAA for further resources from other IDA financing windows such as the regional IDA window, the Window for Host Communities and Refugees[21], and the Crisis Response Window. Finally, insofar as clearance of arrears to IDA would necessarily be part of a broader package of clearing arrears to other IFIs and debt relief, Sudan would also potentially benefit from significant external development funding beyond IDA. The quantum of potential support underscores the importance of successfully progressing to a HIPC decision point, inclusive of clearing arrears to IDA.

The Government's Strategy

39. Sudan's government has launched an ambitious economic and social revival program. This program focuses on (a) achieving internal peace in the country based on inclusion, regional equity, and justice, (b) economic stabilization through correcting the causes of current large macroeconomic imbalances, and (c) providing a foundation for future rapid growth, development, and poverty reduction. It has spent considerable effort and political capital on peace-building, most notably in signing a peace agreement with almost all regional armed opposition groups, ending some 17 years of conflict. Other steps in the GOS's strategy address peace, security and social and development needs, including the rollout of the SFSP providing cash transfers to the bulk of the

20. Arrears to IDA can be cleared with a country's own resources or with resources from a willing donor or lending. Typically, however, arrears are cleared through a short term "bridge loan" mechanism which relies on a bridge financier to provide a short-term loan to clear IDA's arrears. The short-term bridge loan clears the arrears, making it possible for IDA to restore the country's eligibility for new financing. The Government can then use resources disbursed from a DPO to repay the bridge financier. The arrears clearance set-aside can supplement the country's Performance Based Allocation (PBA) to ensure that the DPO is large enough to support the repayment of the bridge loans. The amount of support from the set-aside for eligible countries is based on a capacity to pay assessment.
21. Subject to meeting eligibility criteria.

population, and support for private sector growth and investment.

40. Sudan successfully negotiated an SMP with the IMF in July 2020. This program embodies bold reforms that Sudan is pursuing with exchange rate policy, subsidy removal, social mitigation measures, greater fiscal transparency, tax reform and anti-corruption, while setting a series of benchmarks to guide macroeconomic policy toward economic stabilization that is conditional on external financial commitments from the international community. The exchange rates will be unified and subsidies on gasoline and diesel will have been removed already in the third quarter of 2020. The SMP is expected to be of upper credit tranche (UCT) quality, which is important to propel Sudan toward a decision point. A minimum track record of six months of successful implementation of an SMP of UCT quality is one of the requirements to reaching a HIPC decision point.

41. Several key economic reform measures have already been taken. These include initial measures to raise fuel prices, and the consolidation of subsidies and part of the military funds into the federal budget. The GOS has eliminated many tax exemptions and provided greater transfers to states, particularly conflict areas. To accelerate efforts to foster private sector development, the GOS created the Investment and Private Sector Development Agency (IPSDA) in December 2019 as a one-stop-government institution to cater for the private sector, its needs and challenges. IPSDA has already embarked on its reform agenda, including drafting of a new Investment Law, PPP Law and SME Law and strategy. Other measures as part of the SMP that are to be concluded in 2020 include the creation of the Anti-Corruption Law and Commission, inventory of all SOEs, new Central Bank law granting independence, and publication of monthly execution data on the web for the federal budget (see Box 3).

Box 3: Key Economic Reforms in 2020 and 2021: Ongoing and Planned

The reduction and elimination of fuel subsidies. The cost of subsidies in Sudan, mostly for fuel, grew to 100 percent of government revenues in 2019, and has become a great threat to macroeconomic stability. The reduction in subsidies began in March 2020, and their complete elimination is expected by September 2021.

Exchange rate unification and liberalization. Sudan currently has multiple overvalued official exchange rates at which it rations forex. The exchange rate will be unified and liberalized in a series of measures in 2020 and 2021. This includes reductions in import tariffs to mitigate the shock to import prices.

Tax Reform. The government has begun a comprehensive program to eliminate enormous individualized tax exemptions and create an efficient, uniform, and fair modern tax system. As a first step, all ministerial- granted tax exemptions have been abolished, no new special exemptions can be granted, and draft legislation has been prepared to address those exemptions that require legal action. Public enterprise rationalization. Sudan is rolling out a program for the full-scale rationalization of public firms including commercialization, corporate governance, privatization, and reorganization.

Many firms controlled by the military will be transformed into proper public enterprises, consistent with a general goal for consolidation of the public sector.

Reform of public finance. Consistent with the Economic Revival Plan, the 2020 budget reallocates considerably larger shares of resources to the social sphere and transfers to states. A single consolidated federal budget is being created, and the incorporation of commodity subsidies into the budget in 2020 is an important step in that direction. A single treasury account is being created. Monthly budget execution reports will be published on the web. Measures to improve debt management and transparency are being undertaken. A new Anti- Corruption Law is imminent.

Reforms to unlock private sector led economic growth. The government has commenced reforms to improve business environment for domestic private sector growth and foreign direct investment, including a new Investment Law, PPP Law and SME Law and strategy.

The World Bank Group's Strategy

42. The CEN has two focus areas – (i) re-engagement and (ii) contributing to a renewed social contract and a cross-cutting theme of promoting inclusion and citizen engagement. The CEN's two focus areas comprise inter-related sets of activities grouped by immediate and longer-term imperatives. The first focus area responds to the need to support the country's urgent macroeconomic stabilization effort and to facilitate progress on a maximally quick path to address debt challenges, including arrears to IFIs, and access to fresh financial flows. The second focus area represents initial steps towards addressing key structural and institutional challenges that are central to rebuilding a more equitable and prosperityenhancing social contract in Sudan. These activities lay the groundwork for more expansive activities that may be undertaken after arrears are cleared, at which time a full-fledged WBG program under a Country Partnership Framework is expected to be formulated. Finally, cross-cutting themes of social inclusion and citizen engagement are a critical "how" of the CEN program, given the importance of these issues in Sudan's still fragile context and their centrality to a renewed social contract in the country.

43. Focus Area 1: Re-engagement. The WBG will partner with the Government towards the achievement of three objectives to contribute to addressing pressing macroeconomic challenges in Sudan and re-engage with the WBG. These areas reflect the GOS's priority requests to the WBG as well as extensive coordination with the development partner community:

- **Objective 1.1 Supporting Macroeconomic and Fiscal Policy Reforms.** The WBG will continue to provide technical support to the GOS's stabilization agenda in close alignment with implementation of the IMF SMP. The World Bank will provide advisory services on budget policy, tax policy, and energy policy, as improved policies in all three areas are critical to stabilizing public finances, which in turn is central to reducing inflation, removing costly market distortions, and therefore stabilizing the economy. In particular, the WBG will continue to provide advisory services for GOS 's energy subsidy and management measures in order to increase sustainability and efficiency. The World Bank will also provide technical support to the GOS's financial sector stability agenda in close coordination with IMF. Finally, the WBG will, in coordination with the African Development Bank provide technical support to the GOS as it prepares a Poverty Reduction Strategy Paper, a requirement on the pathway to debt resolution under the HIPC initiative. Activities under these objectives are complemented by a focus on institutional development through public financial management systems improvement under objective 2.1 below.

- **Objective 1.2. Mitigating the Impact of Economic Reforms and COVID-19 – the Sudan Family Support Program (SFSP).** The SFSP is a broad government-run cash transfer program which aims to provide the equivalent of US$5 per person per month for 12 months for approximately 80 percent of Sudan's population, yielding an estimated total cost of $1.9 billion. It is an integral element of the GOS's approach to mitigating the impact of fuel subsidy reform and bring benefits to the (mostly poor) majority of Sudan's population. The SFSP also plays a role in addressing economic impacts of the COVID-19 crisis. The GOS has prioritized the SFSP in its request for World Bank support. The SFSP has been piloted with the expectation of rapidly scaling up towards the end of CY20 and will run into 2022, accounting for ramping up and ramping down periods. The World Bank is partnering with GOS on the design of the program as well as leading and coordinating the raising of funds for the program. Design and implementation of the SFSP also benefits from close cooperation with the World Food Program, which has been able to mobilize rapid technical support for the program. World Bank financing of the SFSP operation will occur in rounds as trust fund financing comes available, to be complemented by pre-arrears grants (PACGs – see section IV). Part of the SFSP design is to ensure that registration, payment, verification, and other systems will be transitioned to a regular, sustained social protection system. The development of ID and payment systems will also be leveraged for other uses, particularly to support financial inclusion.

- **Objective 1.3. Technical steps towards comprehensive debt relief under the HIPC Initiative, including arrears clearance, and access to regular IDA support.** This objective further complements the support for economic reforms envisaged under Objective 1.1, most notably the conduct of economic reforms aligned with the SMP and preparation of a PRSP which are required reach a HIPC decision point. The World Bank will work closely with the IMF and the GOS, as well as eventually other creditors, on the required debt reconciliation and the preparation of other HIPC-related documents, including a preliminary HIPC document and the HIPC decision point document. The World Bank will also prepare in conjunction with government a Re-engagement Development Policy Operation (RDPO), building on policy actions undertaken for macroeconomic and fiscal stabilization. Prior actions are expected to be drawn from reforms in macroeconomic policy, transparency, public financial management (PFM), service delivery, business environment regulation, and/or the energy sector. Finally, upon arrears clearance, the World Bank group will support the client to apply for the IDA19 Turn Around Allocation (TAA), including with the development of turnaround milestones.

44. Focus Area 2: Contributing to a renewed social contract. The success of Sudan's transition will require fostering an inclusive and resilient social contract responsive to, and in alignment with, citizens' expectations. A key building block on the path of renewing the social contract is the SFSP: while it supports results under Focus Area 1 as a part of the Government's macroeconomic reform package, it also contributes to strengthening the Government's capacity to deliver for its citizens and building towards a longer term social protection system. In addition to SFSP, Focus Area 2 comprises a set of activities in key sectors to help the GOS build trust in institutions, strengthen the upstream effectiveness and accountability of the public sector and downstream service delivery, improve functioning of key markets, and promote resilience and peacebuilding. Improvement in these dimensions will help address issues that have fed fragility and conflict in the past. The range of activities in this Focus Area also leverage the breadth of the WBG's implementation expertise and knowledge in order to maximize re-engagement in Sudan within the resource constraints owing to lack of regular IDA and IFC financing, as well as MIGA products. Activities will be largely advisory and analytics along with a few small operations as is possible in the immediate term thanks to trust funds. Work in this focus area will be critical to laying the foundation for a full-fledged WBG program in the future.

- **Objective 2.1. Strengthening the Government's institutional capacity and accountability.** The WBG will carry out a set of analytical diagnostics and technical assistance activities to support the Government to improve its internal capacity, particularly in PFM, as well as support greater transparency as a key element for accountability and improving public trust. A Public Expenditure and Financial Accountability (PEFA) assessment will be carried out to assess Sudan's PFM capacity and performance. The WBG will also support a Tax Assessment, a Country Public Procurement Assessment, and introduction of an e-procurement system. The World Bank will support improved debt management, both in the context of preparing for a HIPC decision point and in updating Sudan's Debt Management Performance Assessment (last conducted in 2012) and review the implementation of the 2013 Debt Management Reform Plan. The World Bank will carry out sectoral Public Expenditure Reviews (PERs) to assess the efficiency, effectiveness, and equity of expenditures relative to Sudan's goals in priority sectors, initially in education, health and water. Finally, the World Bank will provide technical support for greatly expanding transparency of government operations. The World Bank will support the GOS in its efforts to publish budgets, including in citizen-friendly formats, as well as key reports on expenditures, audit and debt. Policy actions undertaken by GOS to improve transparency are also expected to be part of preparation of the RDPO. Finally, the World Bank will carry out analytical work on public administrative reform and provide technical support for the GOS's anti-corruption efforts.

- **Objective 2.2. Promoting economic opportunities.** The World Bank and IFC will work together as one WBG, each bringing its unique capabilities to support Sudan and lay the ground for a larger program in the future. While Sudan is in arrears, IFC is unable to finance investment projects. Therefore, until arrears are cleared all IFC activities will be advisory in nature while after arrears clearance IFC will proactively pursue investments. Over the CEN period, IFC will focus on building a robust advisory program to prepare the ground for future investments. IFC will support GOS to build a sustainable private sector able to attract investments, strengthen the financial sector and support the creation of jobs. Building on prior work on investment climate and the public-private dialogue ("PPD") process, IFC engagement in Sudan will be guided by private sector assessments which will (i) review key economic sectors to identify areas of intervention including in legal and regulatory reform, (ii) inform the design of advisory services; and (iii) identify potential investments. The assessments will provide strategic insights on potential projects, identify the required sequence of advisory work and potential areas of collaboration with other partners.

  A Sources of Economic Growth and Job Creation study will be carried out to provide a coherent overarching private sector development agenda. More specifically, the WBG will build on the findings and recommendations of the 2019 FSAP to restore the confidence of and strengthen the financial sector. The World Bank will provide technical assistance to the Central Bank of Sudan (CBoS) to strengthen its institutional capacity and to put in place the legal and regulatory framework of prudential supervision and crisis management framework to create the de-risking environment and enable intermediation to support the economic growth and private sector development. The World Bank will complement this with advisory services for a cohesive and strategic approach for financial inclusion anchored in a National Financial Inclusion Strategy. The WBG will also provide advisory services, technical assistance and capacity building to the government to unlock opportunities for private sector led growth, including in reducing administrative costs and barriers in establishing and operating a business, especially in relation to the regulatory regime and trade environment. Areas of advisory support include: (i) implementing the MSME development strategy, as well efforts to foster innovation and entrepreneurship; (ii) the legal and institutional environment for PPPs and review eligible SOEs of strategic economic importance to prepare a roadmap for potential restructuring and investment plans including PPPs; (iii) private sector diagnostic and analytical work on facilitating job creation for youth; and (iv) sector-specific diagnostics such as agribusiness. In addition to partnering with the World Bank on analytics and advisory services outlined above, IFC will further carry out upstream scoping and advisory services in the energy (focusing on a framework for IPP engagement), logistics (Port Sudan), and agriculture (global value chains) sectors with a view towards preparing future investments. IFC will also conduct a comprehensive mapping of private companies operating in Sudan.

MIGA has no outstanding exposure in Sudan, but sectors that can potentially benefit from the use of MIGA's political risk insurance guarantees include infrastructure (PPPs), agribusiness, manufacturing and services and financial markets.

- **Objective 2.3. Strengthening service delivery and resilience.** The World Bank will support the GOS across a range of sectors to strengthen service delivery systems and promote greater resilience. These activities will be informed by political economy considerations of supporting government-citizen engagement, building trust, and overcoming center-periphery tensions. Supporting analysis on conflict and forced displacement, will be conducted to inform WBG support across sectors to ensure a peace-building lens.

    - ***Education Sector***. Activities will build on longstanding trust fund-financed support in this sector with follow-up operations to support school-level interventions aiming at improving reading proficiency of pupils in early grades and progression to the upper grades of primary education in disadvantaged schools. At the system level, the program continues to support the collection of annual school census data on students, teachers and school resources as well as triannual national learning assessment in core subjects. In addition, the World Bank will support the GOS in its efforts to address the immediate effects of COVID-19 on education by supporting continuity of learning now, as well as to prepare for the school system›s re-opening once the pandemic has subsided. These operations will be financed by the Global Partnership for Education. Finally, the World Bank will support the technical and institutional capacity building in the GOS and subnational educational departments through the preparation of policy notes and offering advisory services to support the design and implementation of education reforms.

    - ***Health sector.*** An emergency response operation will provide financing for a portion of Sudan's Preparedness and Response Plan for COVID-19. It will aim to boost the GOS's capacity at federal and state level to respond and address COVID-19 by (i) strengthening case detection and confirmation, and conducting contact tracing, and laboratory investigation; (ii) improving clinical care and case management capacity; (iii) raising public awareness and promoting community engagement; (iv) supporting infection prevention and control at the facility and community levels; and (v) bolstering coordination, planning, logistical support, and reporting. The operation will initially utilize US$22 million from the Sudan Transition and Recovery Support trust fund and Health Emergency Preparedness and Response Facility, to be supplemented by additional financing as it becomes available.

    - ***Energy sector.*** In addition to work directly related to fiscal implications of energy sector policies pursued under Objective 1.1, the World Bank will support GOS efforts to enhance access to modern and clean energy by scaling low-cost renewable energy (solar and wind) and improved energy efficiency. It will improve the quality of energy services in a fiscally sustainable way, which is also aligned with GOS's Nationally Determined Contribution (NDCs) on climate change. All of this will contribute to improve the GOS's delivery of energy services to revive its economy and tackle existing economic inequalities.

- *Rural sector*. Support will continue to be provided to small pilots launched in 2019 to promote rural livelihoods employing a community driven approach in conflict-affected areas. The World Bank will continue supporting improvement of natural resource management through strengthening institutions and policies at the national level and targeted interventions in select localities to promote community based sustainable management of rangelands, forests, and biodiversity. The World Bank will also pilot investments in irrigation and agriculture to stimulate production activities and enhance economic opportunities and lay the groundwork for scaled up engagement with IDA and IFC. These operations are respectively financed by the Sudan Transition and Recovery Support (STARS) Trust Fund and the Global Environmental Facility.

Core Analytics

The WBG will pursue a robust analytical agenda during the CEN period which will, inter alia, help provide analytical underpinnings for both the RDPO and a full-fledged country program in the future. In addition to Advisory Services and Analytics integral to achieving CEN objectives such as the PEFA assessment, the WBG will carry out a **Poverty Assessment** complemented by technical support for a new household income and expenditure survey and data collection to update information last collected in 2014/15. The World Bank will also carry out a **Sources of Economic Growth and Job Creation** study with particular focus on agriculture, irrigation, and infrastructure development to inform future interventions. Finally, in light of the fragile and dynamic nature of the transition, the World Bank will strengthen its capacity for **political economy analysis** with a particular focus on SOEs, administrative reform, and decentralization. Work on these key analytics will feed into a **Systematic Country Diagnostic,** to be finalized within the first year of CEN implementation.

45. Cross cutting themes: Promoting Citizen Engagement and Social Inclusion. The WBG will ensure strong outreach to, and dialogue with, citizens, civil society organizations, the private sector, and diverse participants of Sudan's polity across all of its activities. The WBG will also seek to leverage its convening power by promoting public debate and dialogue around knowledge products delivered over the CEN period It will support the Government to develop a Citizen Engagement Strategy as this is a key ingredient for the success of the planned economic reforms. Particular attention will be given to achieving balance in implementation between the capital city and the periphery. Where local context merits, the WBG will seek to work with other development partners to have impact across Sudan's geography. In particular, there will be a robust communication, outreach, and grievance redress design elements in the SFSP, the major operation envisaged under the CEN. A key element of social inclusion will be a focus on addressing gender and youth gaps. All operations under this

CEN are expected to be gender tagged. The SFSP will have a gender strategy to address potential challenges in family stereotypes and regulations that might hinder women's access to the program's benefits. Analytical work, particularly on poverty, financial sector inclusion, and productive sectors will have specific gender elements.[22]

IV. IMPLEMENTING THE CEN

Financing

46. Delivery of activities under this CEN is expected be financed by a combination of trust fund resources and pre-arrears clearance grants. In addition, the World Bank's administrative resources will be used to finance some of the planned major analytical work. Insofar as this is a "re-engagement" CEN, it does not program anticipated future IDA from Sudan's PBA or potential receipt of a TAA beyond what would be needed for the Reengagement DPO.

- **Trust Fund Resources**. The primary country-specific vehicle for financing activities is the Sudan Transition and Recovery Support Trust Fund (STARS), which was recently established through a restructuring of the prior Sudan Multi-Partner Fund (SMPF). STARS is an umbrella trust fund for Sudan that is the primary vehicle for donor funding in support of activities in alignment with the CEN, most notably the SFSP. The trust fund also supports a range of key technical assistance and analytics in the area of economic governance, energy reform, poverty, social protection, and private sector. In addition to STARS, the WBG will use financing from several global trust funds (e.g. the Global Partnership for Education, the Global Environmental Facility, Energy Sector Management Assistance Program, Health Emergency and Preparedness Trust Fund) and will seek to expand this avenue of support.

- **Pre-Arrears Clearance Grants (PACGs)**. The IDA framework for pre-arrears clearance grants provides for levels of finance that range from $1 to $10 per capita. Assuming the maximum historical per capita level, Sudan could potentially receive up to US$ 410 million in PACGs to finance high priority needs while it secures the track record and financing needed for arrears clearance. PACGs can be provided under the following conditions: (i) The proposed grant has been designed in accordance with OP 2.30; (ii) Early performance is promising as evidenced by the recipient country having taken convincing steps towards social and economic recovery; (iii) Arrears to IDA and/or IBRD are large and protracted, and cannot be easily cleared using domestic resources; (iv) A concerted international effort to provide positive financial flows and other assistance is underway, and other creditors have agreed not to make net withdrawals of financial resources from the country; or agreement on pari passu sharing of payments among

22. With respect to WBG's priority on climate change, this CEN's focus on social and macroeconomic policy priorities leaves relatively less scope for addressing climate change with the exception of support for better natural resources management

IFIs; and (v) Alternative sources of financing for post-conflict recovery are inadequate or available only on inappropriate terms. These conditions are met, notably in that the Government of Sudan commits to ensuring pari passu payments among IFIs, including the IMF and the AfDB. Should the reengagement process take time, it would be possible to consider follow-on PACGs.

- **Reengagement Development Policy Operation.** The WBG will prepare for this DPO during the CEN period as a complement to its engagement on Sudan's policy reforms. Financing for the RDPO is expected to come from the IDA arrears clearance set-aside and from Sudan's country allocation.

47. The SFSP will be financed initially through a combination of PACGs and trust fund financing. Given the SFSP's overall cost of US$1.9 billion, financing will need to be provided through multiple rounds of additional fundraising. As of the submission of this CEN, 14 donors have pledged (but many are still processing contributions) approximately US$ 500 million to finance the SFSP through STARS. The first round of financing for the SFSP, expected in October 2020, will consist of US$ 200 million in PACG financing and US$200 million in bilateral financing channeled through the STARS trust fund. Additional financing for the SFSP is anticipated in early calendar year 2021 with a combination of US$ 210 million in PACG financing and approximately US$ 300 million in STARS trust fund financing. After these first two rounds, the SFSP is expected to be financed through a combination of further bilateral support and regular IDA (if Sudan reaches a decision point and arrears clearance) or potentially further PACGs (should conditions for such grants continue to be in effect). Additional PACGs beyond the US$ 410 million in the first two rounds would subsequently be deducted from the country's IDA allocation upon arrears clearance.

Partnerships and donor coordination

48. The aid landscape in Sudan is mainly humanitarian and dominated by off-budget flows. A substantial part of external support is currently not channeled through the government, with UN and humanitarian agencies being designated as executing agencies for the assistance. Supporting the gradual transition from humanitarian to Government-led development assistance during the transition will be essential for building confidence in country systems to deliver to its citizens. The World Bank will capitalize on its comparative advantage of working through country systems to strengthen Government capacity and build trust in the institutions. Partnership with UN agencies will be critical to successful Bank engagement in early recovery activities especially in regions emerging from conflict building where UN has a strong comparative advantage.

49. The World Bank will coordinate closely with key partners to ensure coordination and avoid duplication. Building on humanitarian-development complementarity, the WBG will work closely with key UN agencies such as the World Food Program and UNICEF in building a government-led harmonized social protection system and supporting education efforts. The World Food Program is providing technical support as well as serving as a channel for cash transfers aligned with the SFSP financed by donors which cannot provide funding through the GOS. The World Bank will also partner with the new United Nations Integrated Transition Assistance Mission in Sudan (UNITAMS) on governance, peacebuilding, and join data efforts. In the areas of macro-fiscal reforms and institutional strengthening, the World Bank will work closely with UK, EU, US, and France on public financial management, tax administration, political economy analysis, and citizen engagement aspects.

50. Close coordination with the IMF and Sudan's other creditors on debt issues takes place in the context of the HIPC debt relief and arrears clearance. The HIPC Initiative is a joint Bank and IMF effort, and requires close coordination between the two institutions at all stages of the HIPC Initiative process. Both institutions must be satisfied that the country's performance track record is strong and specific requirements are met before it can reach the HIPC initiative's decision and completion points. In this context, the World Bank and IMF staff hold regular coordination meetings. Both institutions reach out to other creditors, including to multilateral development banks (MDBs) in the context of the MDB technical meetings on debt issues. Going forward, when the country is on a clear path towards the HIPC decision and completion points, staff from both institutions will conduct joint debt data reconciliations and debt relief analyses which will be presented in the relevant HIPC documents.

51. Sustained dialogue with partners on program implementation is critical. At the global level, the World Bank has been part of the Friends of Sudan[23] group which provides a useful vehicle for building consensus on priorities areas of support and mobilizing donor resources. In May 2020, the Friends of Sudan adopted the Mutual Partnership Framework (MPF) capturing key Government and donor commitments in support of Sudan's economic reform agenda and debt relief process. Implementation of the MPF will be coordinated at the country level through the Sudan International Partners Forum (SIPF), which provides a platform for dialogue among humanitarian, development, and civil society partners. SIPF operates under the evolving coordination and financing architecture of the Aid Coordination Unit of the Ministry of Finance and Economic Planning (MoFEP). In addition, the STARS MDTF Partnership Council will provide Government, the Bank, and its donors with a platform for coordination and policy dialogue on Bank-supported activities.

23. The Friends of Sudan (FoS) core group includes the Special Envoys for Sudan from US, UK, Norway, France, Germany, Sweden, EU, and UN, as well as IMF and World Bank. The extended group also includes Saudi Arabia and UAE and there are weekly coordination meetings among the group. A wider configuration includes AfDB, AU, Canada, Egypt, Ethiopia, Italy, Japan, Kuwait, The Netherlands, Qatar. The League of Arab States were also invited to the most recent FoS meeting for the first time. The donor conference in June was open to over 35 country delegations.

Situationally sensitive implementation

52. The CEN's approach has the WBG leaning in towards a best-case scenario for Sudan. Under this scenario, the GOS succeeds in rapidly carrying out substantial reforms while maintaining security and social harmony. It is able to reach resolution with a large number of creditors on debt and arrears. Progress on all these elements is important, though it cannot be expected to be linear, rapid, or always in sync with one another. However, to the extent that there is continuity in GOS's reform trajectory, including in carrying out economic measures supported by the SMP, the WBG will provide maximum support to help Sudan to stay the course – in sensitive manner that is cognizant of the political economy -- and succeed under this scenario.

53. A downside scenario is if Sudan's political economy changes to the extent that reforms are halted or substantially diverted or there is a steep increase in fragility or even conflict. Sudan's complex balance of interests may shift in response to the current difficult circumstances and the weight of challenging, even if necessary, reforms. This scenario would entail a substantial lessening of capacity of government to deliver on reforms or carry through with meaningful steps towards a more equitable social contract. It could lead to further instability and even conflict. The historic window of opportunity for rapid re-engagement would close. Under this scenario, work under Focus Area 1 would need to be recalibrated to a slower, more deliberate pace with scaled back ambition. Activities planned under Focus Area 2 would continue to the extent possible, driven in large part by GOS readiness to continue partnering with the WBG on systems strengthening within the public sector and across sectors.

54. The WBG will monitor Sudan's political economy closely in order to make timely adjustments in strategy. The WBG team will invest in building understanding of drivers of events in Khartoum and across the country and regularly take stock of the appropriateness of its strategic approach. The WBG will also continue to coordinate with other development partners in monitoring the situation.

V. MANAGING RISKS

55. The overall risk to achieving the CEN's development objectives is rated 'High'– but the risk of lower ambition is even higher. If the GOS does not succeed in stabilizing an economy and fostering a more equitable social contract, the downside scenario of increased fragility and accelerated impoverishment is likely to ensue. This downside scenario is the greatest risk to achieving good development outcomes, hence the WBG will "lean in" to support Sudan at this critical juncture. At the same time, the WBG recognizes that there are significant risks to carrying out the CEN's strategy and it will seek to mitigate these risks in conjunction with Government and other partners. Even with mitigation, all risks remain high.

CEN Risks	
Risk Category	**Rating (H, S, M or L)**
Political and governance	High
Macroeconomic	High
Sector strategies and policies	High
Technical design	High
Institutional capacity for implementation and sustainability	High
Fiduciary	High
Environment and social	High
Stakeholders	High
Other (COVID -19 impacts)	High
Overall	**High**

56. The Political and Governance risk is 'High'. While there is broad consensus on the need for macroeconomic reforms, they are inherently controversial and not all elements of society agree on specifics of implementation. There is significant risk that political factions or security elements which struck a compromise underpinning the present transitional government will not be content with the consequences of reforms and adopt positions that undermine the chances of their success. Similarly, while there is fatigue over the long running internal conflicts and momentum for peace, there remains a substantial risk of renewed conflict as other transitions and Sudan's own history suggests. The peace process itself is fragile, still facing challenges in implementation and addressing the legacy of decades of conflict, with insecurity and violence persisting in many rural regions. To mitigate these risks, the World Bank will continue to support the GOS to communicate effectively and support consensus among all stakeholders on the legitimacy and necessity of the economic and social reforms. The World Bank will further seek to mitigate this risk by working with partners to provide just in time conflict and political economy analysis and help CMU and task teams enable agile program adaptation.

57. Macroeconomic risk is 'High'. The precarious state of Sudan's economy and the difficulties of putting in place policies that will help escape it present a high risk. At the same time, external resources are limited owing to Sudan's arrears challenges, yielding a significant short- term financing gap that will have to be filled by monetization that generates higher inflation, which in turn undermines the impacts of reforms. To reduce these risks, the Bank will work closely with government on execution of reforms, communications, mitigation measures in active coordination with the IMF and other donors. The World Bank will also lead on further fund-raising for mitigation measures, chiefly though the SFSP.

58. Sector Strategies and Policies risk is ''High'. The policy environment for key sectors is undergoing significant and frequent changes of direction. The World Bank will mitigate this risk by continued support for sector policy dialogue and emphasis on inclusiveness in understanding of reforms and associated trade-offs by all stakeholders. The Bank will further develop the evidence base for reforms through sectoral assessments and help strengthen the capacity in ministries to formulate and implement reforms.

59. Technical Design risk is 'High'. Given the limited capacity in government institutions, there is high risk that the design of programs will encounter challenges. In particular, the SFSP has a very ambitious scope and timeframe for achieving its objectives. In addition, the government – and the WBG -- is operating in fluid conditions with severe data limitations. The CEN program will emphasize simplicity and flexibility without shortchanging ambition given the complex operating environment

60. Institutional Capacity for Implementation and Sustainability risks are 'High'. Implementation capacity is weak and made weaker by the prolonged instability and legacy of non-transparent institutions and widespread capture by vested interests. Mitigation will be focused on building capacity for implementation in respective ministries, including helping in the recruitment of specialized skills in procurement, financial management, SP delivery systems, M&E and communication. In general, strong ownership of the proposed programming will motivate quick adaptation and development of capacity.

61. Fiduciary risk is 'High'. Weaknesses remain in the procurement and financial management processes, particularly regarding noncompliance with key procedures. Issues include the lack of qualified and proficient dedicated professional procurement and financing management staff, lack of experience in contract administration and management for implementation of project and weak control for procurement processes and financial management. The World Bank will provide TA to build the procurement and financial management capacity of the project implementation units.

62. Environment and Social risks are 'High'. Environmental and social risks are not well understood due to disengagement of the international community and capacity to manage it is assumed to be weak. Environmental risks are high owing to Sudan's vulnerability to impacts of climate change, shock weather events, and the ongoing locust crisis. Social risks are also high. These risks include: (i) social exclusion of beneficiaries; (ii) security-concerns for project workers and beneficiaries; (iii) insufficient community engagement and elite capture; (iv) Sexual exploitation, abuse, and gender-based violence, (v) operational concerns due to remoteness and insecurity; and (vi) weak implementation capacity. Implementation capacity support will include a focus on addressing areas of vulnerability. The CEN programming will be informed by political economy, conflict sensitivity, and gender analyses to promote inclusive approaches.

63. Stakeholders risk is 'High'. Although the political changes were driven by popular sentiment, Sudan's economic and social challenges are such that support for reforms and belief that the new dispensation can deliver may wane. The root causes of much of the protest – high inflation, supply shortages, elite capture and high levels of unemployment especially among the youth – are still in effect. Similarly, those with vested interests in the prior government have much to lose and may block changes or seek to reverse any gains. Mitigation will be to gain a better understanding of the interests and approach reforms in ways that will make them more likely to be implemented and effective. Mitigation will also include continued outreach to Sudanese stakeholders and citizen engagement facilitation as the Bank builds confidence its field presence.

64. There are other high risks associated with COVID-19. The pandemic will have significant impacts on the design and roll-out of the CEN program, including: (i) delay in arrival of expertise into the country to participate in the preparation of the numerous technical and operational pieces of the program, (ii) competition for scarce funds and other technical resources to manage the health impact of the virus, (iii) further deterioration of the economic situation. At an operational level, the coronavirus outbreak will inhibit travel and all types of logistics and operations within the country. Mitigation measures include: (a) working remotely to help with the project preparatory tasks; (b) engaging diligently with GOS counterparts and donors though all electronic communications channels; (c) engaging virtually with donors to inform them on the parameters and timing of support to Sudan.

Annex 1. Key Features of the HIPC Initiative

Launched in 1996 and enhanced in 1999, the Heavily Indebted Poor Countries (HIPC) initiative is a rulesbased framework for comprehensive debt relief to eligible countries with strong linkages to poverty reduction. The Initiative entails coordinated action by all external creditors, including multilateral creditors, to reduce the external debt of beneficiary countries to pre-established levels. Debt relief under the initiative is provided on an equitable after the full application of traditional debt relief mechanisms.[24] Countries graduating from the HIPC Initiative process also benefit from full cancellation of eligible debt from the World Bank›s International Development Association (IDA), the International Monetary Fund (IMF), the African Development Fund (AfDF) and the Inter-American Development Fund under the Multilateral Debt Relief Initiative (MDRI).[25] Potential eligibility for debt relief under the HIPC Initiative is limited to the poorest countries that continue to face high debt levels even after the full application of traditional debt relief mechanisms. More specifically, countries potentially eligible for HIPC Initiative debt relief should meet the following criteria:

i) Income criterion: the country has to be IDA-only (i.e., not eligible for IBRD support) and eligible for support under the IMF's Poverty Reduction and Growth Facility.
ii) Indebtedness criterion: the country has to have a net present value (NPV) of debt-to-exports ratio as greater than 150 percent based on end-2004 and and-2010 data after full application of traditional debt relief.[26]
iii) Ringfencing: the country has to be included in the list of countries ring-fenced for potential eligibility.

The HIPC initiative process includes two key milestones:

i) The HIPC decision point. This is the formal start of the HIPC Initiative process. At decision point, a country's eligibility for HIPC Initiative debt relief is confirmed. In addition, the amount of such debt relief is determined as well as the conditions that the country has to fulfill to reach the HIPC Initiative completion point (the so-called "floating completion point triggers"). To reach the HIPC Initiative decision point, a potentially eligible country must:

- Meet the HIPC Initiative indebtedness criteria based on the most recent data available.
- Establish a satisfactory track record of strong policy performance under IMF- and World Bank-supported programs.

24. Traditional debt relief refers to the application of Naples Terms by the Paris Club and comparable treatment by non-Paris club bilateral and commercial creditors.
25. The MDRI was set up in 2005 to help accelerate progress towards the MDGs. Eligible debts under the MDRI are defined based on creditorspecific cutoffs (end-2003 for IDA, and end-2004 for the IMF, AfDB and ADB).
26. In addition, a country could be HIPC-eligible if its NPV of debt-to revenue ratio after traditional debt relief is greater than 250 percent. To qualify under this second criterion, however, a country must also have ratios of exports of goods and services to GDP and fiscal revenue to GDP above 30 percent and 15 percent, respectively.

- Clear its arrears to the IMF, the World Bank, and the African Development Bank (AfDB), and clear or prepare a plan to clear arrears to the remaining external creditors.
- Prepare a satisfactory (full or interim) Poverty Reduction Strategy, or similar document, involving civil society participation.
- Agree on the floating completion point triggers with IDA and the IMF.[27]
  Upon reaching the HIPC Initiative decision point creditors start delivering HIPC Initiative debt relief on a voluntary basis.

ii) The HIPC completion point. This milestone marks a country's graduation from the HIPC Initiative process. There is no pre-established length for the period between the HIPC decision and completion points. Instead, the HIPC Completion point is reached when the country meets the floating completion point triggers – including maintaining macroeconomic stability and adopting a full poverty reduction strategy and implementing it satisfactorily for at least one year.
Once a country reaches the HIPC Initiative completion point, all creditors are expected to deliver their share of HIPC debt relief on an irrevocable basis. As detailed above, MDRI debt relief is also delivered by participating creditors at this point.

The objective of the floating completion point triggers is to guarantee the effective use of debt relief once it is provided on an irrevocable basis at completion point. The floating completion point triggers always include core triggers related to macroeconomic stability and the design and implementation of a poverty reduction strategy. In addition, there are country-specific triggers which cover reforms in policy areas for enhancing pro-poor growth, poverty reduction, and debt sustainability. As such, the triggers also directly and indirectly lay the foundation for a fiscally sustainable development trajectory.

Decisions by the Boards of the World Bank and the Fund at these milestones are informed by three documents: i) the HIPC preliminary document, which precedes the HIPC decision point and is informally discussed by both Boards,28[28] ii) the HIPC decision point document, and iii) the HIPC completion point document. Debt relief analyses in the three documents are based on loan-by-loan reconciliation exercised performed jointly by the authorities in collaboration with staffs from both institutions.

To date, 36 countries have reached the HIPC Initiative completion point benefiting from US$102 billion of debt relief in end-2017 NPV terms.[29] This debt relief substantially alleviated the debt burdens of recipient countries (Figure 1) and enabled them to increase their poverty-reducing expenditures (Figure 2).[30]

27. The introduction of floating completion points was part of the enhancement of the HIPC Initiative in 1999. Introducing floating completion points provided an incentive for quick reform implementation, thereby permitting strong performers to reach the completion point earlier.

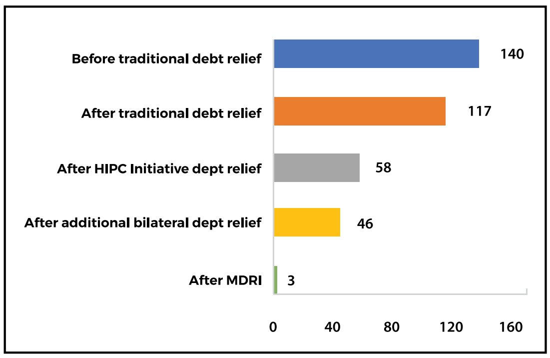
28. The aim of the HIPC preliminary document is to gather feedback from the Bank and Fund Executive Boards on the country's eligibility for support under the HIPC Initiative, the timing envisaged for the HIPC decision point, and the quality of a preliminary set of completion point triggers. The document also presents preliminary estimates of the costs of debt relief (overall and for individual creditors).

29. Of which US$ US$59 billion corresponds to HIPC Initiative debt relief and US$43 billion to debt relief under the MDRI.

30. Figure 1 assumes full creditor participation. Multilateral and Paris Club creditor participation have provided over ninety-

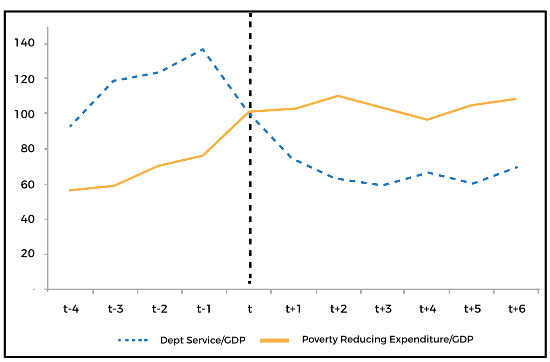
Sudan and Eritrea are eligible for HIPC Initiative debt relief.[31] These countries will formally qualify for HIPC Initiative debt relief upon reaching the HIPC Initiative decision point. Access to debt relief under the HIPC Initiative and MDRI will significantly reduce the country's debt burden, thereby creating the conditions for strong growth and long-term debt sustainability. Preserving debt sustainability over the long-term will depend – inter alia – on the continued implementation structural reforms and policies to promote growth, diversify the economy, access to financing in appropriate terms, and permanent focus on debt management.

Figure 1. Estimated Debt Stocks of Post-Completion Point HIPCs Assuming Full Delivery of Debt Relief
(in US$ billion, end-2017 PV terms)



Source: 2019 HIPC Initiative Statistical Update.

Figure 2. Poverty-Reducing Expenditure and Debt Service in Post-Completion-Point HIPCs
(in % of GDP, indexed to 100 at completion point)



Source: 2019 HIPC Initiative Statistical Update.

nine percent of their HIPC debt relief to post-completion point HIPCs. As a group, non-Paris Club official bilateral creditors have delivered 51 percent of their expected debt relief (35 percent of creditors in this group have provided more than 80 percent of the expected debt relief). Commercial creditor participation remains a challenge.
31. These two counties have been grandfathered under the HIPC Initiative. See "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI)—Status of Implementation and Proposals for the Future of the HIPC Initiative". WB/IMF, November 8, 2011.

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