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SUDAN

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JOINT STAFF ADVISORY NOTE ON THE POVERTY REDUCTION STRATEGY PAPER (2021–2023)

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OVERVIEW

1. This Joint Staff Advisory Note (JSAN) reviews the Sudan Poverty Reduction Strategy Paper (PRSP) for the period 2021–2023. The PRSP was prepared by the Government of Sudan, drawing on lessons learned from the implementation of the 2012 interim poverty reduction strategy paper (I-PRSP).¹ The PRSP was approved by the Council of Ministers on May 11, 2021. The government submitted the PRSP to IDA and the IMF on May 12, 2021 to fulfill the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative's poverty reduction strategy requirement.²

2. Sudan has made noteworthy progress in recent years to recover from decades of internal conflict and address major macroeconomic imbalances, support economic recovery and inclusive growth, and reengage with the international community. A new transitional government was established in the wake of the 2019 revolution with the mandate to carry out sweeping reforms to reverse decades of economic and social decline. The government has achieved important milestones, most prominently a peace agreement with almost all internal armed opposition groups in October 2020 to end 17 years of conflict. It has progressed in the implementation of ambitious reforms and policy adjustments agreed in the context of an IMF Staff Monitored Program (SMP) and a World Bank Development Policy Financing (DPF) operation, including exchange rate unification and rolling out the Sudan Family Support Program. On December 14, 2020, Sudan was officially removed from the United States State Sponsors of Terrorism List (SSTL), ending almost three decades of international isolation. Sudan has cleared its arrears to the World Bank (in

¹ An interim PRSP (2012-2014) was approved by the Council of Ministers and the Parliament in July 2012.

² "Under the proposed Enhanced HIPC Initiative, it is envisaged that a viable and comprehensive poverty reduction strategy be in place prior to the Decision Point." IDA and IMF, "Heavily-Indebted Poor Countries Initiative: Strengthening the Link between Debt Relief and Poverty Reduction," August 1999.

March 2021) and African Development Bank (May 2021) and has agreed on an approach to clear its arrears with the IMF (expected in mid-2021). Sudan has now reached the stage where it seeks to fully reengage the international community and is requesting debt relief through the HIPC Initiative. This will allow Sudan to mobilize adequate financing for its development needs and poverty reduction agenda. While the economic, social, and political risks in Sudan remain very high, the government has continued to press ahead with its ambitious stabilization and reform agenda.

3. Staffs note that the PRSP is a nationally owned and comprehensive strategy for inclusive economic growth and poverty reduction. The objective of the PRSP is to lay out a clear plan of the government for poverty reduction across Sudan. The satisfactory implementation of a full PRSP is a condition to reach the HIPC Completion Point and to receive irrevocable debt relief. The strategy is informed by an analysis of the poverty profile of Sudan and the drivers of poverty, which include conflict, internal displacement, and shocks, including climate, economic, and health related shocks (including the COVID-19 pandemic). The document is also informed by an overall assessment of the macroeconomic framework and the suitability of the macroeconomic reforms to release necessary budgetary resources for poverty reduction programs. These analyses have been validated through extensive consultation with a wide range of stakeholders. Building on this, the PRSP presents a comprehensive strategy to reduce poverty in Sudan that is organized around five pillars to spur growth and reduce poverty, namely: (i) promoting macroeconomic stability; (ii) fostering inclusive and sustainable economic growth; (iii) boosting human and social development; (iv) promoting peace and providing equal opportunities for all Sudanese; and (v) strengthening governance and institutional capacity. Staffs acknowledge that the PRSP aligns well with the government's Three-Year Development Plan, with both sharing the same time horizon (2021–2023). The Development Plan and PRSP have the same objective and operate at the same level. The Development Plan has a much broader agenda, including stabilizing the macroeconomy, sustaining peace and laying foundations for long term inclusive and sustainable growth, that is critical for achieving poverty reduction in Sudan. Staffs also note that improving gender and other kinds of social equity is a cross-cutting imperative that is integrated across the pillars of the PRSP. Similarly, issues related to climate change and environment are integrated throughout the strategy.

4. Staffs commend the government for a comprehensive and well-prepared poverty reduction strategy and agree with the thrust of its macroeconomic policy and economic and social objectives. The PRSP provides a thorough poverty diagnosis and presents sectoral plans, reform policy measures, and a policy matrix, which is linked to achievement of the Sustainable Development Goals (SDGs). For each sector, the document provides a situation analysis, and key challenges and strategic interventions for growth and poverty reduction. Further, the document elaborates on the process for identifying and prioritizing sectors, cross-cutting areas, and activities. It includes a matrix of key policy actions and institutional reforms and timeline (short-medium-term horizon) for their implementation.

5. This JSAN provides feedback on the PRSP from the staffs of the IMF and World Bank. It reviews the process for preparing the strategy, its poverty diagnosis, the main components of the strategy, and finally the strategy's implementation, monitoring and evaluation framework, and

associated implementation risks. The JSAN presents staffs' views on priority areas for strengthening the PRSP during its implementation.

PARTICIPATORY PROCESS

6. Staffs note that the Government of Sudan developed the PRSP through a highly consultative and broad participatory process that has helped ensure country ownership. The September 2013 Joint Staff Advisory Note (JSAN) on the 2012 I-PRSP prepared by Bank and Fund staffs noted—inter alia—that the participatory process was encouraging but required further strengthening and inclusiveness to meet the standards needed for a full PRSP. Staffs observe that this shortcoming has been addressed during preparation of the full PRSP (2021–2023). In addition, compared to the I-PRSP, the PRSP has been informed by social statistics and information from more recent surveys together with additional analytical work in various areas. The authorities (with significant support from a local firm) held extensive public consultative meetings with civil society and grassroots organizations at the national and states levels, private sector representatives, academia, women and youth representatives, and the international community (donors and development partners).³ Government ministries and agencies at both national and state levels, and the Prime Minister's Office also participated in the PRSP preparation process. Two rounds of consultations achieved strong participation and support for the strategy by: (i) gathering stakeholder input on the nature and causes of poverty and on poverty reduction measures (March – July 2019); and (ii) forging a national consensus around proposed strategic priorities and interventions (February–March 2021).

7. It is notable that the PRSP preparation process was structured to build consensus and country ownership at the subnational level. This is critical for designing an effective PRSP and successfully implementing it. In each round of consultations, meetings with national-level stakeholders in Khartoum were complemented by consultations at the state level. Consultations were conducted using different approaches including workshops and focus group discussions, adopting a combination of structured and open-ended questions. Development of the PRSP was led by the Ministry of Finance and Economic Planning. Following the two rounds of consultations, a draft PRSP was discussed and endorsed by the technical committee comprising undersecretaries of all ministries (on April 18, 2021) and the economic committee of the Council of Ministers (on April 25, 2021) prior to approval by the Council of Ministers on May 11, 2021.

8. Staffs commend the government for clearly documenting discussions with different stakeholders and incorporating input received during the consultation process. The issues raised in each round of consultations are presented in detail, both by stakeholder type and by region of the country. The broad consultations, which were well-attended, provided a large quantity of

³ The civil society organizations included representatives from Chamber of Commerce, Freedom and Change (political custodian of the government), Farmers Union, Pastoralists Union, Media, Women Union, Fisheries Sector Committee, state universities, Resistance Committees, NGOs, and the Blind Union.

interesting and useful information that forms the basis for formulating the strategy pillars. The PRSP has incorporated specific implementation-related issues that were raised during consultations with the development partners. The number of participants, disaggregated by gender, for different meetings, is also documented (37 percent of participants in the first round of consultations were females). It is also useful that input received from various stakeholders has been integrated in the situation analysis for each pillar of the PRSP, thereby informing each pillar's strategic directions.

POVERTY DIAGNOSIS

9. The poverty analysis in the PRSP is comprehensive though the source data is relatively old. While there is currently no recent and credible poverty estimate for Sudan, the PRSP leveraged the 2014/15 National Household Budget and Poverty Survey. It complemented the available data with simulations, including a forecast that takes into account the impact of COVID-19. The quantitative analysis begins with monetary poverty and also examines multi-dimensional poverty, including non-monetary measures of poverty. The quantitative analysis is complemented by qualitative information obtained through consultations around (i) perceptions of poverty, (ii) causes of poverty, and (iii) policies to reduce poverty. The analysis provides disaggregation of welfare across space (area of residence and region) but less so by demographic groups and gender. The PRSP emphasizes the urgent need to produce up-to-date and reliable poverty estimates to inform policy decisions and monitor national goals, including those articulated in the PRSP.

10. Staffs acknowledge that despite the data limitation, the poverty chapter provides a detailed analysis of poverty, as well as the determinants of and trends in poverty sufficient to identify policy solutions. The PRSP presents poverty levels and trends with spatial disaggregation from 2009 to 2014/15. It also indicates levels and trends of inequality measured by the Gini index over the same period. The analysis includes the spatial and distributional growth in real per capita consumption and the contribution of wages and salaries to that growth. While the trends are based on non-comparable surveys (as acknowledged in the document), the analysis provides details of the poverty profile and integrates relevant thematic areas such as the link between poverty and conflict, internal displacement, and shocks. The analysis includes the distributional impacts of shocks (floods/drought, inflation). The analysis of non-monetary measures of poverty covers the distribution of human capital (education and health), asset ownership, access to public services, food security, and multidimensional deprivations. Spatial variations in living standards are included throughout the analysis.

11. Staffs commend efforts made to undertake analysis of the poverty and distributional impacts of past development policies and suggest expanding such analysis to include recent reforms once new data become available. The poverty chapter highlights the poverty and distributional effects of removal of preferential exchange rates for wheat importers at the beginning of 2018 resulting in increases in the price of basic staples, including sorghum and millet. Simulations suggested that consumption decreased, and the extreme poverty rate increased as a result, with the bottom 40 percent in urban areas affected the most. Staffs also acknowledge that simulations were conducted on the distributional impacts of fuel subsidy removals. The assessment reveals that fuel

subsidies in Sudan disproportionately benefit the wealthiest and are therefore an inefficient instrument for protecting the poor and promoting equity. It is understood that this analysis is being updated to reflect current fuel prices following implementation of the fuel subsidies reform. As new data become available, it would also be informative to explore the distributional impacts of other recent development policies in Sudan (including electricity tariffs reform, exchange rate unification, the Sudan Family Support Program, and proposed tax reforms). This will be useful for designing effective impact mitigation measures.

12. Staffs agree that Sudan’s current poverty level is uncertain and urge them to fill the information gaps on poverty and socioeconomic indicators by finalizing the household survey under preparation. The PRSP correctly states that Sudan’s current poverty level is uncertain as data from the latest household survey (2014/15) do not reflect the impact of the recent economic decline, high inflation and recent flooding. The ongoing economic crisis, exacerbated by COVID-19, will likely have significantly negative effects on living conditions and poverty. To obtain a more accurate estimate of poverty, a new household survey is urgently needed. Staffs note that the government has started preparations for a National Household Budget and Poverty Survey (NHBPS) with support from the World Bank. The new survey should provide more accurate information on recent poverty developments, especially regarding state level poverty and inequality in Sudan. The survey will also allow to monitor progress towards implementation of the PRSP. Staffs recommend that the government build on the household survey and leverage the pipeline IDA operation on data and statistics strengthening to design a sound strategy for monitoring and analyzing poverty trends on a regular basis.

THE POVERTY REDUCTION STRATEGY

13. Sudan faces several interrelated development challenges. These include, among others, political, macroeconomic, and financial instability associated inter alia with a fragile banking system that needs to be restructured; weak governance and institutional capacity; the varying effects of prolonged isolation from the international community; multidimensional poverty; unemployment; disparities in income; and unequal access to social services and economic opportunities. Aligned with the government’s Three-Year Development Plan to address these challenges, the PRSP is anchored around five pillars as discussed in Section I.

Pillar 1: Promoting Macroeconomic Stability

14. The authorities’ macroeconomic plan is appropriately focused on fiscal consolidation, reducing inflation, and reallocating public resources toward critical social spending. The macroeconomic framework in the PRSP is based on conservative assumptions broadly in line with the baseline in the Extended Credit Facility (ECF) request, with growth of about 3 percent annually over the medium-term, a modest fiscal deficit, and a current account deficit below 10 percent of GDP. With the expected achievement of HIPC Decision Point providing debt relief and a framework for significant policy reform and increased international assistance, a modestly more ambitious growth trajectory, and higher levels of fiscal and external consolidation, are achievable. Given

Sudan's extremely low foreign exchange reserve coverage of less than a month, the PRSP could have also expanded on the nexus between fiscal consolidation and forex accumulation, and more explicitly stress the authorities' commitment to a market-determined exchange rate.

15. Fiscal measures are well balanced between revenue mobilization and subsidy reduction.

Revenue measures are appropriately targeted to base broadening, with key reforms including unification of the customs valuation exchange rate, rationalization of tax exemptions, and increased progressivity of the income tax. However, it would have been helpful for the authorities to specify the timetable of the customs rate unification and provide more granular information on measures underpinning the fiscal adjustment. Key among them are new tax policy measures, administrative reforms to strengthening the Large Taxpayer Office (LTO) and Customs Office, and removing discretionary tax exemptions in the Investment and Public-Private Partnership (PPP) laws. On the expenditure side, staffs welcome the attention given to the need to eliminate energy subsidies currently crowding out critical social and infrastructure spending. However, more prominence could have been given on the more recent lack of progress to adjust retail gasoline and diesel prices to cost recovery levels, to the need to reform the electricity tariff regime, including increased electricity tariff rates on high-end consumers. The discussion on increased allocations for social spending is welcome. However, it could have been more granular and provided unequivocal support for conducting Public Expenditure Tracking Surveys (PETS) in the areas of education and health expenditure to improve the efficiency of spending and targeting, especially after the Sudan Family Support Program (SFSP) winds down and Sudan transitions to a domestically-financed program.

16. The discussion of public-private partnerships (PPPs) could have given more attention to risks. PPPs are mentioned throughout pillar 1 and in the discussion of financial access and inclusion as a key element of the authorities' strategy for mobilizing greater private investment. While staffs are open to a discussion of their use, the attendant risks should be thoroughly explored. If not well-structured, PPPs can impose significant future costs on the government via explicit and implicit contingent liabilities. Any PPPs pursued must be grounded in a transparent framework and risks must be thoroughly quantified. In particular, fiscal risks stemming from PPPs need to be consistent with the overall strategy of controlling debt vulnerabilities including debt limits under the ECF and the HIPC interim period.

17. The attention to State-Owned Enterprises (SOE) reform, including governance, is warranted as it would help mitigate fiscal risk and create a more enabling environment for private sector-led growth. As part of a plan to rationalize SOE operations and improve their transparency, it would benefit the authorities to adopt a comprehensive strategy for SOEs (e.g., retain, privatize, or liquidate) and commit to publishing externally audited financial statements of all SOEs beginning with the 10 largest SOEs. Staffs welcome the authorities' decision to transfer responsibility for oversight of all SOEs to the Ministry of Finance and Economic Planning.

18. The focus on low and stable inflation is appropriate given the recent period of high inflation, but the transition to reserve money targeting deserves elaboration. The staffs agree that the transition to a reserve money targeting regime will need to be underpinned by greater central bank independence supported by work to amend the Central Bank Act, as well as ongoing

fiscal consolidation. It would have been beneficial to elaborate on how the planned move to a dual banking system of Islamic and conventional institutions could support the development of a domestic debt market and the provision of credit. In addition, staff would have welcomed a stronger commitment by the authorities to avoid multiple currency practices, including the use of preferential exchange rates for sales of foreign currency to state-owned companies, which is an implicit subsidy. Finally, the PRSP could have highlighted the need to revise the Banking Regulation Act to provide for a comprehensive resolution regime for the banking sector in line with international best practice.

19. The attention to state effectiveness is welcome given Sudan's low capacity, but the need for further improvements in fiscal governance and PFM in general, could have been given more prominence. Revisions to the budget law would improve the management of public resources. The revised law should cover the entire budget cycle including macro-fiscal policymaking and fiscal risk management; budget preparation and approval; budget execution and treasury management; accounting and reporting; financial oversight of extrabudgetary units; and enforcement mechanisms and sanctions. As the current debt management system is opaque and lacks centralized control, it too would benefit from revision. A Debt Management Office should be established as a priority with a mandate to manage external and domestic debt; promulgate regulations and operational procedures for the approval, issuance, and monitoring of loan guarantees in line with best practice; and enhance coordination with fiscal policy. Quarterly external public debt reports should be issued covering the outstanding debt stock, debt flows, comprehensive information on new borrowing, and external and domestic public and publicly-guaranteed debt, with more comprehensive summary reports issued annually.

20. Electricity sector reform has important implications for fiscal sustainability and the business climate, as well as the daily lives of the Sudanese people. At present, only 35 percent of the population has access to grid electricity, significantly undermining growth and poverty reduction. Nevertheless, per capita electricity consumption in Sudan is extremely high relative to peers due to some of the lowest electricity prices in the world. This undermines the energy sector's financial viability and contributes to continual power outages; meanwhile, enormous fuel and electricity subsidies cause large fiscal deficits and crowd out needed social spending. The PRSP acknowledges the critical importance of measures to strengthen the electricity sector, including the potential attraction of private investment. However, more attention could have been given to the necessary first steps for improving the financial viability of the sector, including the need for reducing losses and preparing and implementing least-cost sector plans. The reform of the Electricity Law will be important to strengthen the regulatory and institutional framework for the electricity sector and attract private investment once fundamental financial viability is achieved.

Pillar 2: Fostering Inclusive and Sustainable Growth

21. Pillar 2 is comprehensive in discussing the challenges for achieving inclusive and sustainable economic growth and outlining specific policy measures to achieve this objective. Staffs welcome the proposed measures, which include transforming the agriculture and livestock sector while inducing growth elsewhere in the private sector. Expected results include a more productive and resilient agriculture and livestock sector; a policy and regulatory environment that is

more accessible and attractive to investors and small and medium enterprises; a more diversified and future-fit economy; and reduced unemployment (particularly among women and youth) through the creation of work that is accessible to all levels of Sudanese society. The pillar proposes a broad set of interventions that include government investments in agricultural research and extension services, and infrastructure; and building the legal, regulatory, and institutional framework for private sector-led economic growth. Staffs also welcome the strong focus of the PRSP on jobs, particularly the proposed actions to boost women and youth employment, for achieving inclusive and sustainable growth and poverty reduction.

22. Staffs commend the authorities for the comprehensive analysis that underpins the strategies and interventions proposed in this pillar, and welcome the pillar’s emphasis on promoting inclusive economic growth as a driver of poverty reduction. Staffs acknowledge that all the interventions outlined in this pillar are important for achieving inclusive and sustainable growth and encourage the authorities to focus and prioritize their interventions. It would also be useful for the government to build on the participatory process used to develop the PRSP by ensuring that reforms implemented in this pillar are developed through further consultations with the private sector, civil society, and state and local, state governments.

23. Staffs note that this pillar rightly identifies agriculture as the most important sector in the economy of Sudan and highlights the importance of agriculture for food security and, in the long-term, labor productivity. The comprehensive analysis of the agriculture sector is welcome given that it accounts for the majority of employment in Sudan. Staffs also commend the authorities for openly discussing the problem of low productivity in agriculture, with Sudan underperforming compared to its peers in Africa. Other challenges related to the agriculture sector are also appropriately highlighted in the document, namely a general lack of access to markets and credit, land tenure issues, and the need to improve the value of livestock production. Staffs welcome the proposal to boost women and youth employment as a key for achieving the objectives of this pillar. Productivity in agriculture and livestock could be increased if the government undertakes the proposed complementary investments and reforms in transport infrastructure and energy, financial services, production and marketing systems, agriculture extension services, adaptation to climate change, animal health treatment, and water and forestry. In particular, the government’s strategic objective to increase export of meat instead of live animals (as currently done) is highly welcomed by staffs as meat value chain development and marketing will maximize returns from livestock. Staffs strongly agree that agribusiness presents a priority sector for Sudan to alleviate poverty, promote food security, and improve living standards. These interventions are expected to result in improved productivity and incomes, with positive impacts on poverty reduction.

24. The PRSP appropriately highlights the government’s commitment to enhance resilience to climate change. Against the backdrop of Sudan’s high vulnerability to climate shocks and its heavy dependence on rainfed agriculture, staffs see agribusiness development as the foundation to enhance Sudan’s climate resilience. The private sector is well placed to take a leading role from investing in green technologies and renewable energies to steering agriculture and other priority industries towards making the necessary adaptations to climate change. In addition, the

PRSP could have been further enriched by specifying reform areas to enhance climate adaption and mitigation.⁴ In particular, the strategy could have discussed irrigation bottlenecks and limited access to water in Sudan, warranting investment in water purification and treatment technologies such as desalination and wastewater treatment technologies. Equally important would be the development of insurance mechanisms (e.g., Catastrophe bond) as a cost-effective tool to unlock private investment and enhance ex-ante preparedness. Before investing more in agriculture insurance, it would be useful to carefully review the experience and lessons learned from prior agricultural insurance schemes in Sudan and neighboring countries.

25. The strategy rightly acknowledges limited access to financing and inadequate private sector support mechanisms and identifies key corrective actions. The government recognizes Sudan's poor ranking in the Doing Business indicators and the importance of creating more favorable conditions for private sector-led growth to power economic recovery and build stability. The authorities are taking concrete actions to improve the business environment, including establishing the Investment and Private Sector Development Authority and a Ministry of Investment, and passing a new Investment Law in April 2021. Going forward, the government is encouraged to give priority to creating a more enabling environment for private sector development by implementing its proposed policies to improve the investment climate, foster Public-Private Dialogue, strengthen the legal and institutional framework for PPPs, and support micro, small and medium enterprises (MSMEs) development. Staffs observe that the private sector development section lacks a gender focus and that more details could have been provided on policies to create employment for youth and women. Staffs commend the government for setting a target to improve Sudan's Doing Business Index ranking by 20 points in the coming four years from its current rank of 171 out of 190 countries in 2020.

26. The PRSP adequately stresses the importance of improved infrastructure to boost growth and facilitate access to social services. Poor infrastructure is a key constraint to growth and achievement of the sustainable development goals (SDGs) in Sudan. Given considerable investment needs and limited fiscal space, staffs urge the government to prioritize interventions to optimize the use of existing resources. In the electricity sector, for example, this may include optimal use of existing international interconnectors for electricity trade and rehabilitation of existing assets to reduce losses and improve efficiency. Given that energy subsidies are not pro-poor, are unsustainable, and will result in a large fiscal burden (while continuing to fuel inflation), it is important to develop a subsidy reform strategy that can win broad public support. Staffs encourage interventions in the energy sector that would strengthen the transmission and distribution of electricity, ensure access by MSMEs, and support renewable energy on a least-cost basis.

⁴ For example, integrating climate change into national policies and planning processes, and building capacity of farmers and institutions to implement climate-smart agriculture, strengthening the climate-smart agriculture knowledge base, improving access to drought-resistant seeds and other climate-smart technologies and climate-proofing infrastructure.

Pillar 3: Boosting Human and Social Development

27. Pillar 3 appropriately focuses on boosting human and social development as the foundation for poverty reduction and promoting shared prosperity. Staffs agree with the comprehensive diagnostic showing that Sudan's education, health, and social development have been chronically affected by a combination of armed conflicts, political instability, weak institutions, and a legacy of decades of international isolation. Staffs concur that Sudan is underperforming on human development indicators, ranking among the lowest 20 countries in the world based on the Human Capital Index (HCI). This is partly because access to education, health, and social protection is limited, and where available the quality of service delivery is low. Staffs also note that public financing in these sectors is minimal, leading to high households' out-of-pocket expenditure on education, health, and social protection services.

28. Staffs agree that the PRSP correctly prioritizes the key areas to support sectoral resilience to strengthen human and social development. However, staffs stress the importance of improving coordination in these sectors and multisectoral interventions to boost human capital and social development. Staffs support the measures proposed to address key challenges in human and social development, giving particular importance to girls, vulnerable populations, and youth. Staffs commend the authorities for expanding the interventions to support human capital development across these groups and encourage the authorities to deliver a more holistic set of interventions to support skills development for Sudanese youth.

29. The emphasis on strategic development of vocational and technical training in the education sector to support growth and employment creation is appropriate though a few more details could have been provided. The PRSP, which aligns with the Education Sector Strategic Plan and the SDGs, identifies key measures to address a drop in basic education quality and enhance vocational training to provide skilled workers to the labor market and improve total factor productivity, which is currently very low in Sudan. The option of promoting access to vocational training for youth and other targeted groups is also welcomed, especially in the rural areas. However, quality is still a concern in both primary and secondary education and could be addressed more forcefully. Attention to the informal sector is also needed by developing apprenticeships to provide skills to informal enterprises. Further, staffs agree that the proposed teacher training is a key reform for the education sector. A more detailed assessment of the teacher training situation and proper financial planning will provide necessary inputs to mobilize resources to implement this activity.

30. The PRSP provides an accurate picture of Sudan's progress in expanding maternal and child health services and controlling communicable diseases, and staffs concur that progress in improving health and nutrition outcomes compares unfavorably with peer countries and is far from the SDG target for 2030. Staffs believe that the double burden of communicable and rising non-communicable diseases coupled with the challenge that COVID-19 is posing necessitates increased allocation to the health sector while at the same time rationalizing public expenditures and improving the efficient utilization of health resources. Staffs welcome the policy priorities outlined in the PRSP (building on the National Health Policy, 2017-2030) and note that effective implementation

of the short-term and medium-term priorities is key to producing results. The PRSP rightly emphasizes the need to improve the functioning of the current system and to focus on the poor to reduce existing disparities. Tracking whether this implementation is producing results will require investment in improving health information management systems, expenditure tracking systems down to the level of local governments and regular household surveys such as Demographic and Health Surveys (DHS) and Multiple Indicator Cluster Survey (MICS).

31. The PRSP presents a comprehensive assessment of the situation in the water and sanitation sectors, and needed corrective actions. However, there are a few areas that could have come through more strongly in the presentation of country context as they are closely intertwined with drivers of poverty and inequality. Lack of access to water supply and sanitation contributes to malnutrition, poor cognitive development and school dropout/lower rates of attendance, as well as higher neonatal and infant mortality due to poor hygiene conditions in health care facilities. Further, improving health surveillance, public health infrastructure and access to water supply and sanitation, and promoting peace and addressing internal displacement can contribute to reducing unnecessary deaths from cholera in Sudan. Furthermore, the strategy could have given more attention to the relationship between water scarcity and nutrition outcomes. Sudan is characterized by high rates of stunting, high water stress and low water availability with freshwater withdrawals reaching 94 percent of renewable freshwater resources available. Given Sudan's fragility, staffs assessed that these interlinkages could have been highlighted and underpinned by appropriate policy responses in the PRSP. Finally, improving access to water, sanitation and hygiene (WASH) in schools, including sanitation facilities for girls, will play an important role in any effort to improve education specifically and human capital outcomes more broadly. WASH services in schools are also shown to contribute to improved school attendance (especially for girls), lower dropout rates and improved health of schoolchildren. Along similar lines, provision of WASH services in health care settings, including environmental cleaning and health care waste management for effective infection prevention and control, will be important contributors to strengthening public health preparedness and reducing maternal and neonatal mortality.

32. The strategy usefully highlights the links between inequality, growth and poverty reduction. The PRSP identifies performance indicators linked to the SDGs aimed at promoting gender equality and empowerment of women. When new household survey data become available, it will be useful to update the analysis on pension, food security and safety nets to provide more information for designing adequate policies and programs to strengthen social protection for vulnerable groups.

33. The PRSP could have also discussed the opportunities and challenges posed by urbanization. Urbanization and rural to urban migration present challenges in meeting future demand for public services, including water, electricity, education, and health. The PRSP acknowledges that urban areas can play an important role in the economic recovery, and in boosting human and social development. Moving forward, the strategy can provide a basis for integrated urban development aimed at strengthening urban resilience and fostering social and economic inclusion to alleviate the multiple dimensions of poverty related to urbanization.

Pillar 4: Promoting Peace and Providing Equal Opportunities for all Sudanese

34. Pillar 4 of the PRSP focuses on implementation of the peace agreement, which addresses challenges in conflict-affected areas in Sudan. Staffs welcome this approach and note that an additional focus on peacebuilding and development needs at the community level may be considered. Staffs also note that the leadership and voice of women and youth have been key stabilizing factors in the country's transition. Their engagement and voice in peace and civic processes will be critical to resolve longstanding patterns of division and exclusion.

35. The role of safety and security in facilitating the sustainable return of IDPs and Sudanese refugees is rightly highlighted in the PRSP. The PRSP provides a frank summary of failures of previous peace efforts. A strategic plan to govern the reintegration of the IDPs is essential, as are supportive institutional structures. Staffs note that the Government of Sudan has a National Strategy for the Protection of Civilians which could help to support these priorities. Further, the Peace Commission has called for support from international organizations on collecting data on displaced Sudanese to inform the planning process for their return. Staffs also note that these returns and the restoration of land and assets are a potential flashpoint for conflict and will require careful measures for the prevention and mitigation of any conflict. The engagement of the international community and sharing of regional experience would be valuable to Sudan.

Pillar 5: Strengthening Governance and Institutional Capacity

36. The objective of Pillar 5 is to establish a functioning federal system that possesses the institutional capacity to carry out core state functions by strengthening public financial management, decentralization, peace and security, and the fight against corruption. The focus is rightly on reforming the federal system and intergovernmental fiscal relations as part of the process of constitutional reform and Peace Agreement implementation. Decentralization could help to improve targeting, especially in disadvantaged areas. Staffs recommend that the decentralization process be strengthened to ensure adequate allocation of resources to decentralized entities, enhancing the capacity of their staff on financial and procurement management, and improving the provision of basic services to the population.

37. Having fiscal decentralization at the core of this pillar is welcome. Fiscal decentralization will be developed as part of the constitutional reform and Peace Agreement implementation process. The delegation of spending responsibilities is closely linked with the political authority that the final constitution will confer on each level of government. Accordingly, this pillar includes plans for the efficient allocation of revenue raising powers and mechanisms for equitably sharing national revenue. Staffs welcome interventions proposed in this pillar to enact a law establishing a National Revenue Fund in which all nationally collected revenues will be pooled, and to establish a new National Commission for Resource Allocation. They also welcome the government's plan to conduct and publicize analysis on the current fiscal decentralization system, which will guide reform of the system to achieve the aims of poverty reduction, improved social outcomes and reduction of regional disparities.

38. Staffs welcome the candid acknowledgement of Sudan’s governance challenges and need for corrective measures. The PRSP rightly recognizes the enactment of the Anti-Corruption National Commission Law and the establishment of an independent Anti-Corruption Commission as a cornerstone of the authorities’ governance agenda. Given its importance as a source of corruption, the attention to procurement is also welcome, though it would have been useful to have more policy detail, including a reference to the Governance Diagnostic exercise and its results intended to take stock of macro-critical governance vulnerabilities. Among other things, the authorities should consider public and competitive tenders for procurement over a certain threshold and open advertisement of all public job vacancies and awards. These changes should be enshrined in a new or revised Procurement Law. Staffs would also emphasize the importance of strengthening the operational autonomy of the central bank as intended under Sudan’s IMF Staff-Monitored Program (SMP) and further consult on legislative reform agenda associated with AML/CFT. Finally, the emphasis on improving trust and accountability vis-a-vis citizens through increased participation and transparency, and equitable and efficient service delivery is welcome.

IMPLEMENTATION, MONITORING AND EVALUATION

39. Monitoring and evaluation is critical for effective and successful implementation of the PRSP and staffs stress that addressing data and capacity limitations will be key for successful implementation of the strategy. The priorities and action plans of the PRSP are part of the ongoing development programs implemented by line ministries. Building on the experiences of the 2012 I-PRSP, the implementation chapter of the PRSP proposes a set of government-driven aid, coordination, and oversight policies that aim to progressively strengthen capacities of the state. The official PRSP transmittal letter to the World Bank and IMF indicates that the government will establish a PRSP Implementation Oversight Committee that will include several government ministries (including the Ministry of Finance and Economic Planning, MoFEP) to provide overall oversight and guidance on implementation of the strategy. Staffs also note that the government plans to establish a PRSP Implementation Unit within the MoFEP reporting directly to the Undersecretary of Planning in the MoFEP. The Unit will be tasked with the day-to-day implementation of the PRSP as the MoFEP will be responsible and accountable for successful monitoring. Staffs support the government’s plan to establish an Oversight Committee and a PRSP Implementation Unit and recommend that both be established at the earliest possible opportunity given the relatively short implementation timeline. For the PRSP Implementation Unit to be effective, it needs to be empowered through capacity building. However, the PRSP could have been much clearer on how the authorities plan to adapt existing structures to accommodate oversight and implementation of the strategy. Also, clear terms of reference for the work of the Unit on implementation and monitoring and evaluation should be prepared, discussed, and shared with key agencies responsible for program implementation. Staffs recommend that the Unit prepare a monitoring and evaluation plan, collect the necessary data, and prepare an implementation progress report, covering the first year. Technical assistance from development partners may be helpful.

40. Staffs recommend streamlining the monitoring and evaluation (M&E) process by simplifying institutional arrangements and defining clearly monitorable inputs and outcomes.

They also recommend that future Budget Laws be aligned with the PRSP by enhancing the formulation of program budgets within key sectoral ministries on the basis of sectoral Medium-Term Expenditure Frameworks (MTEF) and the global MTEF, which defines sectoral budget envelopes. Staffs welcome the government's plan to develop an effective M&E system to track progress towards PRSP implementation. They urge the authorities to move quickly with developing this system, leveraging credible sources of data including surveys and administrative data. Staffs also recommended training people in key line ministries on those new tools and identifying sound results indicators for the ongoing projects and programs. Staffs stress the need to strengthen coordination between the PRSP Implementation Unit at the MoFEP and other government units (notably the Central Bureau of Statistics and the line ministries).

41. The PRSP adequately identifies the main implementation challenges including those relating to internal capacity constraints and multi-level coordination, and it correctly identifies the need to adopt a strategy that integrates donor and domestic fiscal resources.

The authorities plan to implement the PRSP at multiple levels of government and in coordination with non-state actors. This involves adopting an implementation approach based on three guiding principles: (i) implementation will be multi-dimensional with the need to coordinate across the different levels of the government and with partners to reflect the national priorities identified in the national development plan and the PRSP; (ii) implementation will preserve national ownership and be commensurate with government capacities; and (iii) interventions will be focused and demonstrate progress against indicators contained in the PRSP policy matrix. Staffs support adherence by the government and its development partners to these three principles, which will help address the challenges of scale, complexity, and capacity, and enhance implementation effectiveness.

42. The main causes of poverty and required interventions have been identified through poverty analyses and consultations. The proposed strategies, interventions, and outcomes in the five pillars are consistent with an analysis of the main causes of poverty, given the constraints imposed by data limitations. Staffs encourage the authorities to refine implementation of the strategy as more information becomes available through new or updated data sources. For example, once the new household survey data become available, the poverty analysis in the PRSP can be updated and sufficient resources would be needed to speed up the poverty analysis. Staffs stress that defining targets through consultations and recognizing institutional capacity constraints is important to generate ownership in managing and operating the results framework.

43. Staffs emphasize the importance of putting in place a clear reporting mechanism to track the status of implementation. Satisfactory implementation of the PRSP will be one of Sudan's milestones for reaching full debt relief at HIPC Completion Point. Monitoring and reporting progress on a regular basis will be crucial in this regard. Given that some indicators will be updated yearly, and some less often, continuous tracking of PRSP implementation will require developing indicators and targets at the intervention level to generate structured and regular progress reports on the action plan for each pillar. Staffs recommend that an Annual Progress Report be prepared to keep track of implementation progress and take mid-term corrective actions as necessary.

44. The PRSP is frank about data gaps that pose challenges for the monitoring and evaluation framework, but it lacks a comprehensive strategy for addressing them. These include gaps on poverty, social and economic statistics; administrative data; and population and agriculture censuses. Sudan is preparing a new household poverty survey with support from the World Bank to update poverty and socioeconomic statistics and has a pipeline statistical capacity development project (financed through IDA19), which will improve data availability. Staffs encourage the authorities to also initiate regular and frequent collection of data on employment. A rapid and effective monitoring system that is flexible and allows for loop-back mechanisms would facilitate adaptation of the strategy as results come through. Finally, it is important to strengthen data collection capacity in the Central Bureau of Statistics and line ministries. The M&E system should make clear what data source will be used to monitor various goals outlined in the PRSP, identifying data gaps, and expected periods to fill those gaps.

45. It will be important to ensure the inclusion of gender considerations in the PRSP implementation. Although gender aspects are mentioned throughout the analysis, they are not prominent in the Policy Matrix of the PRSP. In particular, the link between fiscal and monetary policies and their implications for women could be more fully fleshed out as knowledge increases. Critical issues that could have been discussed in more depth include: women's political representation and participation across all sectors and levels of government in line with the Constitutional Declaration; women's rights in the agricultural sector and their role in the informal sector economy; women's share of wage employment; women's land rights; gender responsive macro-economic policies; gender-based violence and the need for justice and security sector reforms; and engagement with local communities.

46. The PRSP correctly acknowledges the compounding poverty implications of climate shocks, including floods and droughts. As discussed in the document, floods and droughts have had a very large negative effect on the welfare of Sudanese households. A Post-Disaster Needs and Recovery Assessment, which was conducted by the government with support from the World Bank and the United Nations, highlights that the Nile floods in 2020 produced unprecedented damages and losses in the different sectors of the economy, but also had severe poverty implications related to health, education, and food security. The PRSP provides a strong framework to combine efforts in poverty and disaster risk reduction. Through its strategic priorities to strengthen the resilience of communities in the face of climate change, and to enhance the government's capacities for emergency preparedness and response, the PRSP can use disaster risk management for poverty reduction, and ensure that in the future, poor people are less exposed and vulnerable to disasters, and fewer people are pushed into poverty.

47. Staffs support the notion in the PRSP that successful implementation requires effective communication and building capable communication systems. To overcome the challenges of the current political environment, the authorities plan to use communication and citizen engagement, transparency, and accountability as building blocks for a successful implementation of the PRSP. Staffs welcome this initiative as it may help improve ownership and identification of fit-for-purpose solutions for different groups across the country.

48. Staffs note that the PRSP lacks a costing and financing plan for the proposed interventions. They recommend that the authorities develop cost estimates for specific interventions under the PRSP as quickly as possible and use the cost estimates to inform the prioritization of expenditure in the drafting of the 2022 and future budgets. Having a costing plan will also be useful for prioritization based on available financing and debt sustainability considerations, supporting the authorities' efforts to plan external fund raising with a greater degree of precision and certainty, and adapt to changing circumstances.

49. The authorities should reflect staffs' recommendations in the PRSP and report on their implementation in Annual Progress Reports. Staffs of IDA and the IMF will submit JSANs on these annual reports to the Boards that provide feedback on the progress of the PRSP and results from its implementation. These JSANs will provide the source of evidence when Sudan achieves the floating Completion Point trigger requiring satisfactory implementation of a full poverty reduction strategy for at least one year.

CONCLUSION, RISKS AND RECOMMENDATIONS

50. The PRSP provides a comprehensive assessment of Sudan's development challenges and associated policies through a highly consultative participatory process, and has developed a realistic monitoring and evaluation framework. The staffs of the IMF and World Bank believe that it provides an adequate framework to support sustained growth recovery and curb widespread poverty.

51. However, implementation of the PRSP faces significant risks. While the government is pursuing a strong program for economic stabilization, the results of this program are still subject to high uncertainty. Annual inflation accelerated to over 300 percent in 2021 and achieving stability in this context will not be easy. The patience of the population with continuing economic hardship is being tested, and popular protests are on the rise. Limited monitoring and evaluation capacity within the civil service and funding shortages are additional key risks that could delay implementation of identified policies and programs. Risks to the fiscal projections are considerable especially regarding the timing of the full effect of tax policy measures and the political capital that needs to be spent to eliminate energy subsidies. Also, beyond capacity constraints, macro-critical governance issues identified in the governance assessment exercise contribute to downside risks, which are significant due to weakness of institutions and fragility of Sudan's transition. Risks to Foreign Direct Investment (FDI) projections are also high. Contributing to the uncertainty in the area of public investments are: yet to be eliminated ad hoc tax concessions under the Investment Law, public procurement capacity, the way the fiscal risk will be managed under the PPP framework, and severe governance problems. Staffs assessed that climate and natural disaster related risks could have also been highlighted more prominently in the PRSP not as a possible risk, but as a fact that needs to be managed as part of the overall development process, especially considering impact of natural resource constraints on social relations in many parts of Sudan (i.e., conflict between pastoralists and farmers). Additional risks include: (i) the delayed political transition; (ii) a protracted and more severe impact from COVID-19; (iii) continued border clashes and regional conflict spillovers; (iv) a failure to create an enabling

environment for private sector-led development; (v) progress on governance and transparency reforms to strengthen the investment climate hampered by vested interests; and (vi) limited data on poverty, social, economic and financial indicators that could impede the development of a clear medium-term macroeconomic framework linked to poverty outcomes.

52. Among the recommendations made in this JSAN, staffs encourage the authorities to take the following steps in the near term:

- Prepare and present a costing and financing plan only for the most immediate and highest priority interventions (and not for all interventions proposed in the PRSP). To avoid the creation of parallel processes, staffs stress the importance of strengthening existing public investment management systems and of using those systems to cost the investments proposed in the PRSP and to integrate them into Sudan's public investment program.
- Establish a system for monitoring the implementation status of the strategy. In this regard, it is important to immediately establish the proposed PRSP Oversight Committee and Implementation Unit.
- Streamline the monitoring and evaluation process by simplifying M&E institutional arrangements and defining clearly monitorable inputs and outcomes. An Annual Progress Report should be prepared on the interventions in the various sectors.
- Adjust the strategy (as a planning process, not the paper) to strengthen the link between macro/structural policies and poverty reduction. This includes refining implementation of the strategy as new data become available and take corrective measures as necessary.
- Given the high level of uncertainty, Sudan should prepare for some flexibility in priorities for implementation going forward.
- Move forward quickly with implementation of the new National Household Budget and Poverty Survey (NHBPS) that is being prepared with support from the World Bank. New household survey data will facilitate monitoring the progress towards meeting a key requirement to reach the HIPC Completion Point and receive irrevocable debt relief - that is, satisfactory implementation of the full PRSP. Building on this survey, it would be helpful to put in place a regular data collection system to track trends in poverty and other key socio-economic indicators. The pipeline IDA project on data and statistics strengthening is a great opportunity to build a foundation for improving the frequency and regularity of data collection.
- Continuous communication of the PRSP and its implementation is also critical for buy-in of the citizens and for strengthening the social contract.