1. Key development issues and rationale for Bank involvement

**Sudan has experienced dramatic changes in the last 15 years**, including the advent of significant oil exports beginning in 1999, a cessation of the country’s long-running civil war in 2005 through the Comprehensive Peace Agreement (CPA) and the cessation of South Sudan (2011) which split the country’s natural resources and was accompanied by multiple economic shocks. The loss of oil revenue, accounting for half of government income and 95 percent of exports caused deep macroeconomic and fiscal challenges. Between 2011 and 2013, the country was faced with an average yearly negative GDP growth of 6.5 percent, with a modest recovery in more recent years (GDP estimates show a growth of 2.6 percent in 2014 and expect a continuation of this trend with very similar growth rates in 2015 and 2016). Even before the secession of South Sudan, Sudan had a large debt burden and fiscal deficits. Subsequent fiscal adjustments to accommodate depleted revenue sources, including due to declining oil prices, had a profound impact on investments and development spending on basic social services essential for the poor.

**Sudan rose to lower middle income status in the last decade due to oil wealth, but the country is marked by deep poverty and inequality.** Sudan’s economic development process has historically been unbalanced and disproportionately concentrated in Khartoum and surrounding states. The average rate of poverty incidence, based on the 2009 National Baseline Household Survey, is estimated at 46.5 percent, indicating that some 15 million people are poor. 20 percent of the population is extremely poor, and 70 percent is vulnerable. The poverty rate is significantly higher in rural areas (58 percent) than in urban areas (26 percent), and varies markedly across states, from 26 percent in Khartoum state to above 60 percent in peripheral states such as North Darfur, South Kordofan, and the Red Sea State.

**The recent fuel subsidy reforms have generated some fiscal savings that have partially been invested in direct cash transfers.** According to World Bank estimates, the removal of fuel
subsidies has significant direct and indirect adverse impacts on the population. It is estimated that about 1.7 million Sudanese have fallen into poverty due to the combined direct and indirect effects of the September 2013 fuel subsidy reform measures. Compensating the bottom 60 percent of the population (a rough estimate for the poor and vulnerable) for both direct and indirect impacts would cost up to SDG 883 million, which is about 15 percent of the total savings of these reforms. This situation provides a unique opportunity to establish the foundation of a well-targeted and efficient social safety net (SSN) that can help stabilize the country’s response to shocks and alleviate poverty in the longer term.

In response to the recent economic shocks, the Government of Sudan created an ambitious social protection program called the Social Initiative Program (SIP). The SIP seeks to target poor households nationwide with a set of social protection interventions. The program was initiated through a Presidential Decision in 2011 and is financed by the Ministry of Finance and National Economy (MoFNE). It is administered by the Ministry of Welfare and Social Security (MoWSS) in collaboration with its implementing agencies, namely the Zakat Chamber, the National Health Insurance Fund (NHIF), and the Savings and Social Development Bank (SSDB). The SIP has eight components including a large cash transfer program that provides income support to 350,000 households, and health insurance for cash transfer beneficiaries. The program is financed by the Ministry of Finance with about US$ 200 million per year.

However, the SIP has also encountered challenges many of which are common to safety nets. Anecdotal evidence indicates that beneficiary selection has substantial inclusion and exclusion errors, initial reporting reflects unpredictable payments to beneficiaries, and monitoring and evaluation are affected by the limited resources and capacity of the oversight agency (MoWSS). In addition, the Government is worried about dependency of beneficiaries on the cash transfers, and would like to further explore complementary measures that can enhance the productive capacities of beneficiaries.

The World Bank’s engagement in the social protection sector has evolved from a community development approach to a focus on the country’s broader social protection systems. In support of the Comprehensive Peace Agreement (CPA) signed between the Government of Sudan (GOS) and the Sudan People’s Liberation Movement/Army (SPLM/A), signed on January 9, 2005, which ended a civil war that had raged for nearly 40 of the previous 50 years, the Bank supported the establishment of a Community Development Fund (CDF) which delivered priority economic and social services and infrastructure in war-affected and underdeveloped areas (Blue Nile, South Kordofan, Abeye, Kassala State and North Kordofan). The CDF project was closed in 2013 with an overall satisfactory rating by its Implementation Completion and Results Report. Based on the Sudan Social Safety Net Assessment finalized in May 2014, the Bank team started providing technical assistance and policy advice to the government which was in the process of establishing the SIP as the country’s main government-led social protection system. The Bank is also providing some technical assistance to strengthen

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1 “Implementation and Results Completion Report for a Multi-Donor Trust Fund Grant in the amount of US$ 52.8 million to the Government of Sudan for a Community Development Project”, Report No: ICR00002887, The World Bank January 17, 2014
the NHIF\textsuperscript{2} which forms part of the SIP. The proposed Social Safety Net Project builds on this divers experience and integrates various elements of the Bank’s past engagement in the social protection sector.

**The proposed project intends to support the integration of disparate programs into a social protection system, improve their efficiency and targeting, and develop a potential graduation mechanism, as envisioned in the ISN.** It intends to support improvements in the implementation of the government’s response program to the fuel subsidy reforms (the SIP) through technical assistance, training, goods and materials. In addition, it introduces a productive safety net (PSN) approach that would respond to the Government’s concerns about social assistance dependency, and develop an element of safety net “graduation” as shown by productively oriented safety net programs elsewhere\textsuperscript{3}. By linking cash transfers to work requirements that produce productive assets, the PSN approach potentially offers an avenue for exiting from social assistance programs. The Government has requested the Bank’s support to pilot such a ‘second generation’ safety net modality in Sudan and suggested the Community Development Fund (CDF) to be the pilot’s implementing agency given the institution’s vast experience with community development and World Bank project financing. By combining the activities of the MoWSS and the CDF, the proposed project would also contribute to greater coherence and building of synergies among institutions, programs, and approaches. Furthermore, the project is in line with the goals of inclusive economic growth and shared prosperity, given the clear pro-poor orientation of the SIP. By strengthening the SIP and developing second generation safety net modalities through the PNS approach, the Bank is also contributing to strengthening inclusiveness and ensuring the presence of a comprehensive, integrated, and sustainable social safety net in Sudan.

2. **Proposed objective(s)**

The Project Development Objective is to strengthen the capacity of the Ministry of Welfare and Social Security (MoWSS) to transparently and effectively implement the national Cash Transfer (CT) program, and to pilot a Productive Safety Net (PSN) approach for poor households. The project includes a total financing of US$3.5 million for three years.

3. **Preliminary description**

**The proposed operation adopts a two pronged approach by strengthening the MoWSS’s capacity for safety net program implementation, and by piloting a “second generation” productive safety net approach** that could be adopted in the medium term with potentially positive effects not only on household consumption and income (through the cash transfers) but also through improvements to the productive asset base of communities and households through

\textsuperscript{2} The World Bank’s Health, Population and Nutrition team is providing technical advice to the NHIF in the area of health financing.

\textsuperscript{3} Ethiopia’s Productive Safety Net Program (PSNP) managed to graduate millions of former beneficiaries from the program after 5 – 10 years due to its productive focus and combination of cash for work activities with household asset building activities. In addition, this type of program has shown to build resilience against climate change, a topic highly relevant in the Sudanese context as well. See “Coping with Change: How Ethiopia's PSNP & HABP are building resilience to climate change”, publication produced by LTS for World Bank
the work efforts provided by the beneficiaries. This is reflected in the two components of the project: (i) strengthening the implementation of the MoWSS Cash Transfer program; and (ii) piloting a Productive Safety Net program.

Component 1: Strengthening the implementation of the Ministry of Welfare and Social Security (MoWSS) cash transfer program (US$3 million)

This component will provide technical assistance, capacity building opportunities and goods/equipment to (a) improve the MoWSS’s institutional capacity to effectively manage, coordinate, and administer the CT program; (b) strengthen the Poverty Reduction Coordination Center’s capacity in data analysis and IT access; (c) establish a management information system (MIS) in the Poverty Center to manage the main components of the SIP (including fiduciary aspects); (d) improve targeting (using the poverty map and proxy means test) and establish a common targeting database for the SIP; (e) further develop the cash payment systems including the e-payment pilot to improve timely cash payments; (f) strengthen monitoring and introduce evaluation to guide the scaling up of the CT program; and (g) enhance advocacy, communication and social accountability to strengthen outreach to beneficiaries and key stakeholders.

The component will be implemented by the Poverty Reduction Coordination Center (PRCC) of the MoWSS. A capacity needs assessment will be conducted during project appraisal to determine the requisite training needed for the ministry’s staff. In the interim, a financial and procurement capacity assessment of the implementing agency was undertaken in November 2014 and will feed into the design of the project.

Component 2: Piloting a Productive Safety Net (PSN) Approach (US$500,000)

This component will finance a pilot cash for work (CfW) program modeled after the productive safety net programs established in the region, particularly Ethiopia’s PSN program. The PSN pilot will constitute an integral element for supporting resilience and opportunity in Sudan and an important aspect of the SSN framework, allowing enhanced coordination with ongoing initiatives by providing the poorest households of selected communities with temporary employment during the lean season. The pilot will be implemented by the Community Development Fund (CDF) and coordinated with the MoWSS. Beneficiaries will be chosen based on a combination of community pre-selection and application of the a proxy means test (PMT) presently developed by the Bank upon request of the MoWSS.

The PSN pilot will not only provide short term income and employment opportunities for poor households, but will also create social and productive assets through the work provided by beneficiaries. Possible activities may include soil and water conservation, small scale irrigation, and social and economic infrastructure. Sub-projects will be determined locally based on a community based participatory planning process. It is envisaged that the majority of activities will focus on the introduction and further enhancement of improved land use management practices to create an enabling environment for more productive livelihoods. In addition, because
of new interactions between rural communities and towns, the component will contribute to improved access to education and health services.

25. The Social Safety Net Project would include a small PSN pilot and provide financing for technical assistance, cash for work sub-projects, training, goods and incremental operating costs for, inter alia, (i) participatory landscape management planning, (ii) cash for work sub-projects, (iii) monitoring and evaluation, and (iv) communication and social accountability activities. The pilot is planned to be implemented in North Kordofan, as agreed between the MoWSS and the CDF.

4. Safeguard policies that might apply

No significant adverse environmental impacts are expected due to the activities of this project. Component 2 – Piloting a Productive Safety Net Approach will provide financing for small scale public works at the community level. What impacts are expected are likely to be localized, temporary, and easily mitigated through sensible construction management techniques. To help strengthen the capacity of the implementing agencies and ensure that the proposed Project is implemented in a socially responsible and environmentally sound manner, an Environmental and Social Management Plan (ESMP) and Check List will be prepared. The ESMP Check List will establish a mechanism to determine and assess the potential environmental and social impacts of productive safety net investments and set out appropriate mitigation, monitoring, and institutional measures to avoid and/or minimize the expected environmental and social impacts to an acceptable levels.

It is possible that implementation of Component 2 could require land to be acquired, re-location, and/or restriction of access to sources of livelihoods; thus OP/BP 4.12 is triggered. Since the exact locations and the number of people to be impacted are not known at this time, a Resettlement Policy Framework (RPF) will be prepared which will outline measures to avoid and minimize resettlement as well as procedures for voluntary land donation. The RPF will be disclosed in country and in the InfoShop prior to appraisal.

5. Tentative financing
Source: Multi-donor Trust Fund for North Sudan
Borrower 0
Multi-donor Trust Fund for North Sudan 3.5
Total 3.5

6. Contact point
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