

# The Sudan Interim Poverty Reduction Strategy Paper Status Report

A Joint World Bank Group and Sudan's Ministry  
of Finance and Economic Planning Assessment



# Abbreviations and Acronyms

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## Currency Equivalents

US\$1.00 = 5.98 Sudanese Pounds

## Fiscal Year

January 1–December 31

## Weights and Measures

Metric System

AfDB	African Development Bank
CBOS	Central Bank of Sudan
CPA	Comprehensive Peace Agreement
DDPD	Doha Document for Peace in Darfur
ESPA	Eastern Sudan Peace Agreement
EU	European Union
GDP	Gross Domestic Product
GOS	Government of Sudan
HIPC	Highly Indebted Poor Countries
IDPs	Internally Displaced Persons
IMF	International Monetary Fund
INC	Interim National Constitution
IPRSP	Interim Poverty Reduction Strategy Paper
MENA	Middle East and North Africa
MOFEP	Ministry of Finance and Economic Planning
MOGE	Ministry of General Education
MOWSS	Ministry of Welfare & Social Security
PDOs	Policy Development Objectives
PFM	Public Financial Management
PPG	Public and Publicly Guaranteed Debt
PRSP	Poverty Reduction Strategy Paper
SDG	Sudanese Pound
SMP	Staff-monitored Program (IMF)
SSA	Sub-Saharan African
VAT	Value Added Tax
WTO	World Trade Organization

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# Preface and Acknowledgements

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Sudan's National Assembly approved the *Interim Poverty Reduction Strategy Paper* (IPRSP) in July 2012. The document was then endorsed by the Boards of the World Bank Group and the IMF in October 2013. This *Interim Poverty Reduction Strategy Paper Status Report* assesses the status of implementation of the IPRSP; examines progress towards poverty reduction in Sudan; and draws lessons learned to inform the preparation of the full-fledged *Poverty Reduction Strategy Paper* (PRSP) that the Government of Sudan is currently preparing. The status report is an effective instrument for guiding the PRSP, providing an analytical product, and establishing an indispensable dialogue platform for development partners through which to coordinate with the Government of Sudan.

The *Interim Poverty Reduction Strategy Paper Status Report* was jointly prepared by the Ministry of Finance and Economic Planning Consultant, El-Fatih Ali Siddig, and World Bank Group Consultant, Fareed M. A. Hassan. The status report benefited from the guidance and support of the Minister of Finance and Economic Planning, H. E. Badr El-Din Mahmoud Abbas, and the World Bank Group Country Representative for Sudan, Xavier Furtado, in addition to close consultations with a variety of national and international stakeholders as well as ministries staff at the federal and state levels. Earlier drafts of this report's main findings were presented at meetings of the *Poverty Reduction Strategy Paper High-Level Working Group* under the leadership of H. E. State Minister Magdi Yassin. Feedback from these meetings has been incorporated.

The report concludes that public resources allocated to the IPRSP pillars, with the view of targeting the poor, have grown since 2012. The growth in pro-poor spending is a commendable achievement as it has occurred in the context of a difficult economic situation, including declining revenues and expenditures, following South Sudan's secession, Sudan's limited access to concessional development financing due to the external debt, and challenges of the sanctions. However, the report also notes several areas where the policy, planning and execution functions of the Government could be strengthened thereby making more effective use of Sudan's own resources as well as the limited concessional financing available. Going forward, it will be important to learn from these lessons while also protecting and raising the levels as well as improving the effectiveness of pro-poor spending in the budget. The formation of Sudan's national poverty reduction strategy should help in this regard.

The reporting team hereby expresses their gratitude to all whose support and active participation made possible the development of this important product.

## Summary of Findings and Way Forward

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*This status report assesses the progress made in implementing Sudan's IPRSP.* The report examines the context within which the IPRSP was implemented, tracks pro-poor expenditures, evaluates progress made under IPRSP pillars/sectors, identifies constraints and shortcomings, and is meant to inform the development of Sudan's full national poverty reduction strategy.

*Sudan has suffered from prolonged years of conflict,* volatile security situations, political transitions, an unsustainable debt burden, economic and financial sanctions and fragile relations with the international community, all of which have constrained the country's broad-based growth prospects and poverty reduction efforts. Sudan's poverty rate is estimated at 46 percent, indicating that some 15 million people are poor. The poverty rate is significantly higher in rural areas (58 percent) than in urban areas (26 percent), and varies markedly across states, from 26 percent in Khartoum state to nearly 60 percent in conflict-affected states such as North Darfur, South Kordofan. Other social indicators exhibit the same pattern.

*In 2012, Sudan adopted an Interim Poverty Reduction Strategy that seeks to reduce poverty through rapid and sustainable shared economic growth.* The strategy is clustered around four broad pillars: (i) promote economic growth and employment creation, focusing on agriculture and infrastructure; (ii) develop human resources, emphasizing education, health and social protection; (iii) reintegrate IDPs and other displaced populations; and (iv) strengthen governance and institutional capacity of the public sector, focusing on human rights, peace and security, decentralization and public financial management. These pillars along with the rest of Sudan's IPRSP were endorsed by the Executive Boards of the World Bank and the IMF in October 2013.

*Public resources allocated to the IPRS pillars with the view of targeting the poor have grown since 2012, signaling the Government's commitment to poverty reduction.* Public resources, allocated to the IPRS pillars of agriculture and infrastructure, human resources, governance, and integration of IDPs, increased from 4.2 percent of GDP to 5.0 percent of GDP in 2014. These percentages do not include subsidies and non-budgetary expenditures such as zakat (Islamic charity) and micro-finance. If these resources were included, pro-poor expenditures would increase from 7.2 percent of GDP in 2012 to 8.4 percent of GDP in 2014. The growth in pro-poor spending has occurred despite the decline in total expenditures and the difficult economic situation following South Sudan's secession, limited access to external financing for development due to Sudan's external debt, and challenges of the sanctions. It will be important to protect and strengthen pro-poor spending as a policy reflected in the budget, especially during resource envelope shortfalls. The formulation of a national poverty reduction strategy (PRSP) should help in this regard.

*The need for improving the mechanisms for prioritizing pro-poor expenditures during the budget preparation and execution processes is vital for effective implementation of PRSP.* The pro-poor budget execution rate averaged only 80 percent of planned amount during the IPRSP implementation period. The low budget credibility is largely explained by the shortfall on development pro-poor spending, reflecting strict priority for release of funds to the recurrent activities—such as wages and salaries—compared to development projects during resource envelope shortfalls. This highlights the need for improving the mechanisms for further prioritizing development expenditures during the budget preparation and execution processes, especially at subnational levels.

*The PRSP should lead to a measurable definition of pro-poor spending that effectively captures expenditures directed to the poor, and enables monitoring of Government efforts.* While identifying pro-poor spending is the first step, applying a measurable/working definition is vital towards formalizing monitoring in budget planning, implementation and execution, and reporting. The set of policies and priorities developed in the IPRSP anchored a definition of poverty-reducing expenditures that has been utilized by this report. Further improvements are expected during the process of the full PRSP preparation, including better monitoring of the actual use of the funds classified as pro-poor. Identification of pro-poor expenditures is highly context-dependent, and is most useful as a means to help guide and track Government efforts when the conceptual framework is developed through a wide participatory discussion and is country-owned, underscoring the desirability for the PRSP to provide the framework. This report and the experience of some Sub-Saharan Africa (SSA) countries in applying the pro-poor expenditures definition can also provide guidance.

## Creating an Enabling Political Environment

*Creating a conducive political environment is essential for reducing poverty.* Essential steps include: (i) bringing a lasting political settlement through the ongoing political dialogue initiated by the Government to its intended aim; (ii) reaching a lasting peace for the conflict in Darfur and in the two states of Blue Nile and South Kordofan; (iii) finding practical ways to implement the September 2012 agreements with South Sudan; (iv) addressing delays and/or ineffective implementation of the Doha Document for Peace in Darfur (DDPD) and Eastern Sudan Peace Agreement (EPA); (v) ending the vicious inter-tribal fighting in Darfur; (vi) resolving the issue of settlement of the Sudanese returnees from South Sudan; (vii) finalizing the mechanisms initiated by the Government for combating corruption; and (viii) addressing the remaining pending issues of concern to the UN Human Rights Council, building on efforts taken by the Government in these areas.

## Creating an Enabling Economic Environment

*Economic stability is essential for economic growth, the single most important factor in poverty reduction.* In consultation with the IMF the Government of Sudan should determine the macroeconomic targets (growth rate, inflation, budget deficit, exchange rate regime, and international reserves) and pursue prudent fiscal and monetary policies with the objective of attaining macroeconomic stability.

*The current fiscal constraints in Sudan, following the loss of oil revenues underscore the importance of increasing revenue resources and achieve expenditure efficiency and effective use of scarce resources.* Increasing fiscal space (like reducing tax exemptions, increasing the tax base) is essential for the noninflationary finance of the pro-poor expenditures.

*Redirecting the substantial resources allocated for subsidies to targeted pro-poor expenditures greatly contributes to efficient use of the limited resources.* Sudan runs an extremely expensive general subsidies system that is not better targeted towards the poor. The issues of subsidies removal needs to be seriously looked into. Lifting of subsidies could be sequenced to minimize impacts on the poor such as starting with items that are less important to poorer households as recommended by the IMF and World Bank Group and utilizing the subsidy resources for well-targeted compensation programs.

*It will be extremely difficult for Sudan to effectively address poverty reduction without assistance from the international community.* Major steps required include lifting the US sanctions, resolving Sudan's external debt and arrears, and increasing concessional development funding.

*Along with macroeconomic stability and sustainable economic growth, improvements are needed in the quality of growth to ensure broader participation along with poverty targeting programs:*

- (i) encourage a diversified pattern of growth that promotes the productive use of labor—the most abundant resource of the poor, particularly in rural areas where nearly 60 percent of poor households live and depend on agriculture as the main source of livelihood—through policies that address constraints facing the rural/agriculture sector;
- (ii) invest in human development to build and enhance the capabilities of the poor through better education and health, and address interstate disparities in accessing basic services; and
- (iii) improve the targeting of transfers and safety nets to support those living in remote and resource poor states or groups directly affected by internal conflicts, displacement, harsh climate conditions, droughts, erratic and low rainfall, unemployment and frequent economic adjustments with direct consequences on the poor.

*A detailed analysis is provided below with the view of informing the preparation of the full national poverty reduction strategy.*

## **Agriculture as an Engine of Growth**

*The IPRSP recognized the importance of agriculture, but the sector remains extremely underfunded. Public resources allocated to agriculture remain small compared to the ambitious objectives of increasing agricultural productivity and expanding exports. Sudan's agriculture and agriculture related sectors represent around 1 percent of GDP, whereas if agriculture related sectors were excluded, the share of public spending on agriculture to GDP would be around 0.3 percent, less than the average of the developing countries of 1 percent–2 percent and well short of agreed Comprehensive African Agricultural Development Program (CAADP) targets.*

*In terms of policy priorities, the Government is according high priority to agriculture related infrastructure. Irrigation dams and paved roads account for more than 80 percent of total agriculture expenditures. The remaining balance is largely absorbed by irrigated agriculture, leaving other sectors such as livestock, rain fed agriculture (which accounts for approximately 80 percent of the sector), research and agricultural service support with meager resources.*

*In addition to the large investments in irrigation and roads, efforts were made to develop livestock and crop production. Liberalization policies and investments in the Gum Arabic and oilseeds led to increased production and exports of those commodities. Investments in technological improvement (i.e., genetically modified cotton) contributed to the recovery of cotton. The livestock sector, which accounts for half of total agricultural GDP, also witnessed a remarkable recovery. Livestock exports increased almost tenfold over the period 2008–2013 led by the increase of sheep exports, primarily to Arab countries. Vaccination and veterinary inspection of livestock for exports as well as investment in quarantines contributed to the recovery of live animal's export.*

*However, the development of the sector has lagged behind its potential. Agricultural productivity for most crops lags well behind those seen in neighboring countries and have stagnated or even declined. Dependence on cereal imports, especially wheat, has grown considerably over the past decade and food security remains a concern. The livestock sector, where production is strong, rising and generates large export earnings, is facing important risks to sustainability.*

*The PRSP will be an opportunity to address agricultural constraints, mostly being of a medium- to long-term nature.* The recovery of production in certain crops as well as the livestock exports over the past three years have helped to compensate for the loss of oil; nonetheless, the main constraints faced by agriculture are still prevailing. Besides improving the macroeconomic environment for agriculture growth, Sudan has to make strategic choices to address the constraints facing agriculture, particularly the structural issues as detailed below.

*Transforming Sudan's subsistence agriculture to an economically viable sector will require policy choices that must be reflected in the full PRSP.* The transformation will entail certain policy choices and trade-offs. The transformation is linked to the change in land rights and access to services such as modern and innovative technology, extension, improved seeds, rural credit, and development of infrastructure. The current level of investment and the institutional arrangements in agriculture will not achieve these objectives.

*Sustainable production in rain fed agriculture is critically dependent on resolving land issues.* However, land reform in Sudan is difficult to manage and if not carefully designed could result in massive conflicts and social disintegration. Nevertheless, strategic choices are required to address the dichotomy between the statutory and customary land laws and the dichotomy between tribal management of land and civil administration of land. The challenge is how to initiate a gradual approach to reform the land rights issue with the least disruptions to the social system and without fueling further conflicts.

*Revitalizing irrigated agriculture is a strategic choice.* Rainfall in Sudan is erratic and varies from one location to the other. Drought episodes occur from time to time. Dependence on rain fed agriculture may pose great risks and increase vulnerability of the poor and puts the economy under volatility pressures. The pressures posed by climate change only exacerbate the situation. Actions to reduce volatility in the rain fed areas like use of water harvesting, drought resistance seeds, and other measures will be needed. Revitalization of the irrigated sector remains a strategic choice despite the substantial investments it requires. The challenge will be how to develop the irrigated sector which is located in the center and northern parts of Sudan, without neglecting the rain fed sector in which the majority of the poor live and in such a way as not to turn the rest of the country into resource poor areas.

*Fundamental issues related to the nomadic livestock sector need to be addressed.* On one hand, livestock shows remarkable performance in terms of production and resilience in response to climate change. On the other hand, it is facing serious challenges that threaten its existence. The mobile system of nomadic livestock production often leads to conflicts among parties competing for grazing, water and space. Pastoralists are being driven into more remote areas through the gradual expansion of agriculture, minerals explorations—including artisanal gold mining—and the situation is exacerbated by land degradation. The secession of the South resulted in loss of pastures and grazing space. While the livestock population fell by only 28 percent due to secession, the natural rangeland resources upon which they depend fell by 40 percent. The normal wetland areas in South Sudan in which grazing was practised by northern Sudan tribes for centuries are now considered trespassing by the South Sudanese authorities. Moreover, the inherent volatility of the sector, being exposed to frequent drought and diseases, is apparent. Issues of quality are also a concern that affects commercialization and competitiveness of the livestock sector. Live sheep exports which dominate the livestock exports in Sudan have limited markets, which are risky. The future demand for livestock products is based on consumers' concern about food quality, including food safety and animal welfare, while modern systems of production greatly benefit from genetic improvement in grass and animals that are both difficult to meet in traditional production systems. Therefore, the future is for the modern livestock production rather than the traditional production system. Although the change seems inevitable, the last thing the current volatile livestock sector in Sudan needs is an abrupt change. Meanwhile, the

sector has to be provided with the required services of water, veterinary, rangeland rehabilitation and stock route demarcation.

*Agro industrialization and diversification are vital for economic growth and poverty reduction.* Sudan cannot afford to continue relying on exports of agriculture raw material from mainly traditional and subsistence economies. Industrialization and modernization of agriculture are inevitable for sustaining poverty reduction and economic development. But Sudan has a long way to go to reach this goal. Many of the large scale agro-processing factories in the Sudan are operating far below capacity. The constraints inhibiting the growth of agro industry include: weak integration between agriculture, manufacturing and trade, irregular supply of raw materials, outdated technology, high electricity rates and interrupted power supply, unskilled manpower, and limited access to finance and unstable supply of foreign exchange to buy inputs. Nevertheless, initial steps have to start to achieve this medium- to long-term goal. Meanwhile, reform and actions to increase production and growth from the existing systems have to continue. Industrialization of agriculture raw materials issues should be looked into as medium- to long-term solutions. Meanwhile, diversification of exports is essential in the short run.

*Poor transport infrastructure is the main cause of high transport costs that adversely affect the competitiveness of Sudanese agriculture.* The poor quality of roads as a result of lack of maintenance in Sudan significantly lowers the efficiency of transport services. Poor maintenance reduces the life span of the existing stock of infrastructure and will result in higher operating costs.

## Human Resources

*Developing human resources is an IPRSP pillar.* The IPRSP recognizes the role of investment in human development to build and enhance the population capabilities through education and better health. The emphasis is on bridging the gap in enrollment between the states and between boys and girls; increasing the quality of education including teachers training; reducing illiteracy; and achieving full coverage of schools with textbooks and seating. On health, water supply and sanitation, the IPRSP emphasized improving access, equity and coverage.

*However, major efforts are needed to strengthen states' capacity to deliver basic services.* The capacity for data collection and information management within the decentralized framework of service delivery remains weak. The weak capacity leads to incomplete reporting/monitoring of expenditure and inadequate evaluation of related results at these levels (i.e., inadequate M&E). This challenges evidence base planning and targeting service delivery.

## Education

*Public education spending and student enrollment has grown sharply since 2012, signaling the Government of Sudan's commitment to expand and improve education opportunities.* Enrollment has increased at all levels of the education system, but basic education is the level that accounts for the largest absolute increase in enrollments.

*Increasing levels of education expenditures are encouraging, but improved service delivery to the poor requires an appropriate balance between current and development expenditures.* Education expenditure performance continued to reflect strict priority for release of funds to wages and salaries compared to development expenditures which exhibit the lowest execution rate. Low level development expenditure has serious repercussions for effective implementation of state's pro-poor programs and development efforts more generally. Improved service delivery to states and local areas requires large development expenditures, given the poor infrastructure and low level of socioeconomic development in these areas. This urges actions that aim at improving

resource allocation, given that the primary responsibility for basic services delivery lies with the state governments.

*Despite progress made, basic school enrollment is falling short of achieving universal access.* Only three out of four children of basic school age are receiving a formal education and about three million are out of school. The secondary school gross enrollment rate is about 34 percent or less than half the basic level. However, these average enrollment rates mask wide variation across states and gender.

*Education performance varies considerably by state and gender, necessitating further effort to consolidate and improve progress.* While the increase in education spending and fiscal decentralization are expected to redistribute resources to match public service delivery responsibilities, and hence improve interstate equity, education performance disparities across gender and states have not yet been fully addressed. This necessitates further effort to consolidate and improve progress.

*Given the increased enrollment in basic education, demand for secondary education is expected to rise.* The Government will need to address the allocation and efficiency of education subsectors to accommodate growing demand for post-basic education in the medium- to-long term.

*Whereas the policy of the Government is free basic education, household out-of-pocket spending is significant and poses a barrier to education, especially for poor households.* Available data suggests that households pay for the running of schools in addition to other costs for uniforms, textbooks and meals for their children. For poorest households, out-of-pocket basic education spending poses a real barrier to education, and even more so when a family has many children, with implications for student attendance and dropouts.

## Health

*Sudan is committed to supporting decentralization in health, and state level spending share for health is increasing.* This is consistent with delegating the primary responsibility for basic service delivery to state governments. Public Health spending at the state level has increased since 2012 and almost all of total public health spending now takes place at the state level.

*The composition of health spending is broadly similar to education.* The increase in health expenditure since 2012 has been largely directed to current spending. The high level of current spending raises concerns as improving service delivery in the sector requires investment in health facilities, medical equipment, staff training and capacity building.

*Some progress was made in the health indicators, but Sudan is not meeting the health Millennium Development Goal (MDG) targets.* Child and maternal mortality rates improved during the review period, but they remain high. The maternal mortality ratio is high (well above the 2015 MDG target of 180) and the under five mortality rate also exceeds the MDG target.

*Health outcome disparities across states have not yet been fully addressed, necessitating further effort to consolidate and improve progress.* These disparities reflect the large differences in the allocation of resources across states as well as states' ability to track and monitor budgetary allocations, including evaluating expenditure outcomes. Fiscal decentralization is expected to help address these state disparities by redistributing resources to match public service delivery responsibilities, and thus improve equity, responsiveness in public services to local level demand, subnational autonomy and accountability and state development more generally. In addition to resource allocation, improving the efficiency in applying these resources is important for effective service delivery.

## Water and Sanitation

*Despite the commitments and targets defined in the IPRSP and related water and sanitation sector plans, the sector performance is still far from reaching the MDGs targets. The percentage of household members using improved sources of drinking water reached 68 percent in 2014 while the percent of household members using improved sanitation facilities only reached 33 percent in 2014, indicating considerable efforts are required to achieve these targets. Around 50 percent of the existing basic schools don't have access to improved drinking water and sanitation facilities. The large number of internally displaced people adds to this challenge.*

*There is a large variation in access to water and sanitation among states. Water and sanitation access in West Kordofan State, for example, stands at 60 percent and 23 percent respectively, which are below national average of 68 percent and 33 percent.*

*Water and sanitation sector has to be given adequate funding commensurate with its important role in the livelihood of the population. Adequate funding is required to improve overall quality and access as well as address states' disparities.*

*Attention has to be given to the information of the water sector as a separate sector, particularly at state and locality levels to allow for better planning. Lack of monitoring reflects poor quality of available data concerning actual coverage of water supply and sanitation. The water and sanitation sector should be supported with better capacity and training particularly at the state level.*

*Efforts are required to integrate water, sanitation and hygiene within other sectors—mainly education, nutrition and health. Schools, health and nutrition centers are useful entry points for such interventions. Specific attention is to be given for water quality.*

*Institutional reform for sustainability of water facilities is a concern that needs to be addressed. There should be clarity in defining the roles and responsibilities between the federal, state and locality levels and communities, in terms of managing and operating projects, and ensuring sustainability.*

*Meeting the multiple demands for water for domestic, farming and livestock, in an integrated manner, is crucial for maintaining local economic development within a peaceful and stable society. Moreover, the resources in the sector have to be used efficiently so that the service is delivered at an affordable price for the poor.*

## Social Welfare, Security and Protection

*Social protection is included under the IPRSP pillar of developing human resources. Aware of the social problems created by vulnerability factors (e.g., environmental, economic, and conflict and displacement), the Government of Sudan has set a fairly extensive social protection system, involving several institutions.*

*Significant increase in coverage for most of the social protection programs has been made but there is room for further improvements. Despite the increased coverage, Sudan has a long way to go to reach adequate coverage in certain programs like health insurance due to the magnitude of vulnerability and widespread poverty as well as the low base from which these programs started.*

*The coverage of social protection needs to be expanded and the performance of outlets that provide treatment services for health insurance need to be improved. Many remote areas in which poverty is higher are not well served with health services outlets. The health facilities providing services to the health insurance in rural areas suffer from the shortages of the medical staff and there are*

weaknesses in the availability of all the packages covered by the health insurance in the health centers. A strong monitoring is needed as there is an emerging black market trade in the freely distributed medicines including for children less than five years.

*Due to Sudan's widespread poverty and vulnerability, social protection cannot reach all the poor, necessitating further improvements in targeting mechanisms.* There is a need to focus on the poorest and most vulnerable to ensure maximum influence and affordability. Targeting mechanisms for the cash transfers need further improvements and have to be supported by a transparent data base and a monitoring system. This should be based on a rigorous evaluation of the current experience.

*There should be more equity considerations in delivering social protection programs.* A large variation in the coverage among states is clear with some poorest states getting the least benefit. Improving social protection and welfare mechanisms, particularly for most vulnerable and at-risk populations including women, youth, and internally displaced persons will be a key priority to reduce situations of acute vulnerability among these groups. This will also help to promote stability and social cohesion in areas affected by conflict.

*Several institutions are responsible for the social protection network and coordination needs further improvements.* Reviewing of the existing institutional setup is particularly crucial to enhance the coordination aspects. Several ministries and non-government institutions are responsible for social protection safety net activities with overlapping mandates and little coordination among them. The fragmentation of social programs and involvement of multiple ministries and institutions creates inefficiencies and confusion about the roles and responsibilities of the actors involved. There is a need to review the institutional architecture for effective and efficient social protection policy design and program implementation.

*The Government's social protection system is supported by donor community and informal networks including substantial remittances transferred by Sudanese migrants abroad.* However, U.S. economic sanctions and 'over-compliance' by non-U.S. commercial banks severely affects remittances to Sudan. The social protection system is also supported by the donor community with an extensive program targeting IDPs and other vulnerable populations.

## Governance

*Fiscal federal transfers have not yet succeeded in narrowing service delivery disparities among the states that necessitate a review of the formula for distributing federal resources among states.* There is an urgent need to review formulas and consider other transfer options such as blocked and specific purpose grants to address the disparities in certain critical areas like education. However, this should be accompanied by strict adherence to prudent financial management by the states. Allocation of resources between wages, running expenses and development is a concern.

*There is an urgent need to direct resources to development at the state level, where responsibility for basic service delivery has been devolved.* The low level of development expenditures at the state level is a cause for concern, and there is a need to direct resources to development at the state level, where it will directly benefit the poor. Improving service delivery to the poor requires investment in schools, clinics, roads and so on. The relative emphasis on current spending also leaves meager resources devoted to running expenses with the consequent result of poor sustainability and maintenance of development projects.

*Making development planning more effective through better coordination between federal and state levels.* Better coordination involves information sharing (e.g., budget and execution data); developing guidelines for more streamlined procedures; and strengthening capacity in budget

planning, prioritizing and execution at the state level. As more pro-poor expenditures occur at the subnational level, it is imperative to gather information at the state/locality level on the use of funds to ensure effective utilization of resources.

*Capacities in all financial management aspects are weak invariably in all states, requiring a comprehensive capacity building program funded and supervised by the federal Government.* The weakness of staff capacities is a major reason for the poor public financial management (PFM). States lack electronic networking systems linking all departments, let alone localities. None of the states have an electronic archiving system in place. States do not prepare their budgets within a medium-term expenditures framework, but rather formulate incremental budgeting. Localities budgets are not fully integrated into the states budgets. The Auditor General indicated in his last report that retention and extra budgetary practices still exist in the states, but there are improvements in 2013 compared to 2012. Internal auditing in the states suffers from lack of uniform legislation between the federal Government and the states and weak capacities (e.g., there are rarely certified auditors in states). Procurement staff in most of the states is unqualified.

## Other Issues

*The informal sector in Sudan seems to have significant contribution to employment.* However, the information about the sector is insufficient to allow for analysing its impact on the poor. For example, artisanal gold mining is becoming a major economic activity that employs a significant number of people. Estimates show that about one million persons are directly engaged in direct mining activities and around 3 million are indirectly depending on this sector through the provision of goods and services. The artisanal gold mining extends over 10 states. The PRSP should give special consideration to this emerging sector in terms of its impact on poverty reduction.

*Adequate material related to the private sector and its role in growth, employment and poverty reduction exists.* The PRSP needs to synthesize the role to be played by the private sector.



## CHAPTER 1

# Background

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**S**udan adopted an interim poverty reduction strategy to be implemented during the period 2012–2014. Preparation of the IPRSP featured extensive consultations with Government, non-government organizations, civil society organizations as well as members of the international community. The IPRSP was approved by the Council of Ministers and Parliament in July 2012. The Government has stated that priorities in the IPRSP informed the 2012 budget as much as possible.

*The IPRSP was based on the 2009 National Baseline Household Survey (NBHS) that provided the base for a first comprehensive assessment of living conditions in Sudan since 1978. The household survey data provided a rare opportunity for analyzing poverty and inequality profile of the country, establishing a sound benchmark for poverty monitoring, and evaluating the welfare impacts of policies and programs.*

*According to the IPRSP, poverty is high and largely a rural phenomenon. Based on the 2009 National Baseline Household Survey (NBHS) the poverty incidence was estimated at 46.5 percent. About one in two Sudanese, close to 14 million people, lived in poverty in 2009. The consumption of the poor was, on average, SDG 74 per capita, or 65 percent of the national poverty line set at SDG 114 per month per capita. The figure signals that poverty is deep in Sudan with most of the poor relatively far below the national poverty line. The poverty rate is significantly higher in rural areas (58 percent) than in urban areas (26 percent), highlighting the inverse relationship between poverty and urbanization in Sudan. While rural areas account for about two-thirds (64.4 percent) of the population, they account for almost 80 percent of Sudan's poor.*

*Poverty varies markedly across states. The poverty rate varies from 26 percent in Khartoum state; to above 60 percent in some states such as North Darfur. Poverty also varies markedly across localities/Mahalyias. For example, in Darfur, where the largest poverty rates are recorded, there are still better off Mahalyias: El Geneina (19 percent), Nyala (24 percent), and Azoom (33 percent). Similarly, in parts of the country where poverty rates are quite low at the state level, such as River Nile, and Northern and Kassala, we find Mahalyias which witness high levels of poverty: El Damar (40 percent), Algolid (46 percent), Aldaba (52 percent), Talkook (63 percent), and Hamashkoreeb (79 percent).*

*Several lessons were drawn in the IPRSP regarding correlates of poverty. Agriculture is the main source of livelihood for the Sudanese poor. More than 60 percent of households in the poorest quintile rely on agriculture as their main livelihood in contrast to only 20 percent of households*

in the wealthiest quintile. Poverty rates also correlate highly with education levels. Poverty rates are highest for those living in households whose head has no education and are also high for those whose heads have only some primary education and those who report that khalwa (pre-school) is their highest level of education completed. Besides direct linkages with poverty, education outcomes are closely linked with employment outcomes. The 2009 NBHS data shows that individuals who attain higher education are significantly more likely to be employed than individuals who have attained primary or secondary education. Employment is essential for reducing poverty. Lack of vibrant private sector is one of the main contributing factors to scarcity of jobs.

*Many poor households lack adequate access to some basic health services as well as infrastructure and utilities.* The NBHS data suggest that many poor Sudanese households lack adequate access to public utilities and infrastructure. Access to improved water, electricity and mobile phone by the poorest 20 percent of the population is limited at 20 percent. Even for the richest 20 percent, accessibility is below 50 percent. Most of the Sudanese households rely exclusively on firewood for cooking and heating. Moreover, the poorest 20 percent spend almost 8 percent of their total consumption on utilities, compared to less than 5 percent for the richest 20 percent.

*There is no appreciable difference in poverty by gender.* The incidence of poverty is not statistically different between men and women and female-headed and male-headed households. This finding makes Sudan unique and different from many developing countries where women and female-headed households are more vulnerable to poverty. However, this finding is based on income poverty and does not take into account many other important dimensions of poverty and gender disparities in Sudan.

*Based on the analysis of the poverty situation as outlined above, the IPRSP suggested rapid and sustainable shared economic growth to reduce poverty.* It focuses on actions to build the foundation for rapid broad-based economic growth, structural transformation, and diversification of the economy over the medium and long term. The actions include establishing a capable state, with good governance and capacity for effective public actions; stabilizing the population and communities destabilized by conflicts; building human resources as an important pillar of the foundation for development; and provide an enabling environment for rapid and sustainable economic growth. The strategy is clustered under four broad pillars: (i) promote economic growth and employment creation; (ii) develop human resources; (iii) reintegrate IDPs and other displaced populations; and (iv) strengthen governance and institutional capacity of the public sector (Box 1.1).

*Although the IPRS design called for four pillars, the scope of the IPRSP program was ambitious in relations to allocated time, resources, and available capacity.* The IPRSP program focus was fairly broad, covering 19 objectives/sectors (e.g. agriculture, education, health infrastructure water safety net, natural resources, business environment, PFM, property rights, human rights, decentralization, and conflict resolution) each with several sub-objectives. This in turn led to proliferation of objectives and policy measures. The IPRSP Policy Matrix included some 30 objectives and sub-objectives as well as about 100 policy measures (Annex 1, IPRSP Policy Matrix). This ambitious program is expected to be implemented within a three year period (2012–2014), with limited domestic resources, following the loss of oil and uncertain international community support as well as weak implementation capacity.

*More than three years have passed since the inception of the IPRSP and several changes took place.* National, state, and sub-state level poverty estimates based on 2008 Census and 2009 (NBHS) need to be updated to reflect recent developments. While these estimates are useful for subsequent poverty analysis, they do not convey a valid picture of the country in 2015. Many developments have taken place since 2011, when Sudan's economic fortunes have changed with the secession of South Sudan and the loss of a larger share of the oil revenues that fueled Sudan's economic growth during the 2000s. The conflict in Darfur, Blue Nile and South Kordofan has

### Box 1.1: IPRSP Pillars

**I. Promotion of Economic Growth and Employment Creation:** The emphasis is on growth in agriculture and livestock, manufacturing and services, and the role of the private sector. Building on the key pillars of governance, reintegration and human resources, the IPRSP discusses its strategy for employment creation growth under four sub-pillars: enabling macroeconomic environment for growth; enabling environment for private sector growth; enhancing productivity and growth in agriculture; strengthening economic services for recovery and growth; and protection of natural resources and the environment.

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

**III. Reintegration of IDPs and Other Displaced Populations:** Support systematic approach to end the dependent status of these displaced populations by providing permanent access to shelter and sustainable livelihoods, to economic and social opportunities such as land, credit, market places, schools and health facilities, and participation in civic activities and decision-making in the communities.

**IV. Strengthening Governance and Institutional Capacity:** Priority on building a strong, inclusive, transparent and effective state and the institutional capacity to govern and deliver public services to the population. Important elements of this good governance include effective public financial management and decentralization, peace and security, fighting corruption, promoting human rights, and improving justice and law enforcement.

interrupted development efforts, aggravated service delivery function, and affected main sources of livelihood. All of these factors have adversely affected the poverty situation and necessitated updating poverty estimates.

*The Government in its continuous endeavor to address the poverty in the country is moving toward updating the NBHS and preparing a PRSP. Work has already started in conducting a new household survey with assistance from the AfDB. In line with the National Statistical Development Strategy, Central Bureau of Statistics, the new household survey was designed in 2012. The survey started after a good preparation and statistical capacity building. The survey covers all the states and planned to be completed by February 2015. However, it has faced several constraints that have delayed its completion.*

*Prior to embarking on the PRSP, the Government in collaboration with developing partners decided to assess the status of implementation of the IPRSP and the progress towards poverty reduction during the implementation period of the IPRSP (2012–2014) with a focus on all levels of the results chain. The IPRSP status report which is expected to cover achievements and obstacles towards poverty reduction will draw lessons learned to inform the preparation of the PRSP.*

## 1.1 Approach

*This Study is carried out in fulfillment of the above objectives. It assesses the context within which IPRSP was implemented, tracks the pro-poor expenditures and assesses the performance and outcomes for sectors/pillars against the objectives set, identifying constraints and shortcomings to inform the PRSP preparation. The time period of the evaluation is confined to the years 2012–2014.*

*The study assesses the macroeconomic context within which IPRSP was implemented, as growth is considered the single most important factor in poverty reduction. The study also reviews the political environment that supports governance during the IPRSP period. The performance of the pro-poor sectors/pillars and pro-poor expenditures including agriculture, human development, social protection and welfare, and governance were then assessed. Outcomes for sectors/pillars against set objectives were established, and constraints and shortcomings to inform the PRSP preparation were identified.*

*The study adopted a specific definition for pro-poor expenditures building on the IPRSP policies for priority actions for growth and poverty reduction (see Box 4.1). Attention was also given for comprehensiveness of the definition by adding non budgetary public expenditures from Zakat Fund and microfinance. Comparison is also made with other pro-poor expenditure definitions in other studies like the last Sudan's Public Expenditure Review (PER-World Bank 2007) as well as with Sub Saharan African countries.*

*Pro-poor expenditures data comprised federal and state level public expenditures. Comprehensive pro-poor expenditure data was compiled from MoFEP budgeted and actual expenditures of the spending units at federal level. Budgeted and actual expenditures of the states and localities were compiled from the states yearly closed accounts. Data for social protection institutions was compiled from the annual reports of Zakat Fund, Social Insurance Fund, National Pension Fund and National Health Insurance for the period 2012 to 2014.*

*There are severe data problems in Sudan which constitutes a limitation to the analysis of certain aspects of poverty. Future efforts should be exerted to improve the data collection (Annex 2).*

*The status report approach involves:*

- (i) a desk review of available documentation on country-level strategies and analytical work including the IPRSP, Education Sector Strategic Plan (2012–2016), Status of Education Sector (2012), Darfur Development Strategy (2013), Social Initiative Program, and so on;
- (ii) consultations with: (a) Government team for IPRSP and PRSP staff; (b) key world Bank Group staff involved in the consultation process of the IPRSP; and (c) development partners;
- (iii) presentation of earlier drafts of this report to ministries staff at the federal and state levels as well as at the meeting of the *Poverty Reduction Strategy Paper High-Level Working Group* held on December 13th, 2015, based on the preliminary assessment of topics developed during the desk review, with the view to test preliminary assumptions/hypotheses, and deepen our joint understanding of key issues.

The remainder of the status report is structured as follows. Following the background of the IPRSP and the rationale and objective of the report, the second chapter describes the political and external environment setting within which the IPRSP was implemented. Chapter 3 assesses the macroeconomic framework performance of the IPRSP. Chapter 4 defines and tracks pro-poor expenditures. Chapter 5 analyses challenges and opportunities of the pro-poor sectors. The last chapter presents conclusions and implications for the PRSP considerations.

## CHAPTER 2

# Country Context

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### 2.1 Overview

*Sudan has suffered from prolonged years of conflict, volatile security situation, political transition, unsustainable debt burden, economic and financial sanctions and fragile relations with the international community, all of which have severely constrained the country's broad-based growth prospects and poverty reduction efforts.* In spite of Sudan rising to lower middle income status in the last decade due to oil wealth, the country has high poverty and inequality.

*Yet, Sudan holds tremendous potentials, much of it unrealized.* Some of this potential was realized in earlier decades, including in early industrialization, in large scale irrigation in support of food and export crop agriculture, and in investments from recent natural resources discoveries (e.g., oil and gold). Sudan is still a large country, being now the second largest country in Africa, even in its diminished state after having lost 33 percent of its territory, 23 percent of its population, and 70 percent of its recent oil-driven revenues due to secession of South Sudan. Sudan holds the potential to be an economic powerhouse. Sudan is located at the crossroads of Sub-Saharan Africa and the Middle East, with fertile lands, abundant livestock, large mineral reserves and manufacturing that make it the third largest economy in North Africa (after Egypt and Morocco) and the largest economy in the greater eastern Africa region.

### 2.2 Political and Security Development and Their Impacts on Poverty

#### 2.2.1 Agreements with South Sudan and Post Secession Issues

*Sudan ended the longest civil war in Africa.* Conflict in Southern Sudan started in 1955, one year before Sudan achieved independence. Sudan has signed on the 9th of January 2005 the Comprehensive Peace Agreement (CPA), ending Africa's longest civil war that lasted for more than 50 years. The agreement was described by many as a bold and courageous step. Sudan has accepted giving South Sudan the right of self-determination, an unprecedented achievement in the history of Sudanese politics. A Referendum was held in January 2011, resulting in the secession of South Sudan. The Government of Sudan, accepted the will of the Southern Sudanese population, adhered to the results of the referendum, allowing for a peaceful secession despite the political, economic and social implications. Furthermore, Sudan became the first state in the world to recognize South Sudan when the Republic of South Sudan was formed on July 9, 2011.

Although the referendum and secession were achieved peacefully, the CPA-mandated process nevertheless left many contentious post secession issues unresolved. These include an agreed boundary demarcation of the 2,000 km border between Sudan and South Sudan, the determination of oil transit fees to be paid by South Sudan for using the 3,000 kilometers long Sudan's oil pipelines,<sup>1</sup> and status of Abyei. Negotiations on post secession issues brokered by an AUHIP chaired by former President Thabo Mbeki were successful in brokering an agreement in late September 2012.

*On 27 September 2012, Sudan and South Sudan successfully signed nine agreements on a range of pending issues that they have been negotiating since 2010, initially in accordance with the post-referendum agreement negotiations.* The agreements covered the following. The Agreement on Security Issues in which the two states agree to immediately operationalize the Safe Demilitarized Border Zone (SDBZ) in accordance with the administrative and security map, presented to them by the AUHIP in November 2011. The Agreement on Border Issues (including demarcation) which specified managing the borders with the “soft borders” and “integrated border management approach” principles including ways of dealing with nomadic movements. The Agreement on Economic Certain Matters (division of assets and liabilities) where the two states agreed that Sudan would retain all external debts and assets (“The Zero Option”) on condition that Sudan obtains debt relief, within two years, through the highly indebted poor countries initiative (HIPC). The Framework Agreement to Facilitate Payment of Post-Service Benefit. The Agreement on Trade and Trade-Related Issues where the parties have agreed, that they will cooperate but each state shall pursue an independent trade policy. The Framework Agreement on Nationality which gives nationals of each State the right to enjoy “the four freedoms” of: residence, movement, undertake economic activity and to acquire and dispose of property. The agreements also included Oil Agreement where South Sudan will pay oil transit fees and Transitional Financial Assistance (TFA) to Sudan over a period of 3 1/2 years to cover one third of Sudan's financial gap resulting from the loss of South Sudan's oil.

*The conflict in South Sudan, which erupted in December 2013, has affected the implementation progress of the agreements with Sudan and forced many South Sudanese to seek refuge in Sudan.* Sudan has granted unrestricted access to its territory to refugees from South Sudan and has received more than 196,000 of them by mid-2015.

### 2.2.2 South Kordofan, Blue Nile States and Abyei Area

*Although the referendum and South Sudan secession were achieved peacefully, not all conflict has been arrested.* Renewed conflict in ‘the Three Protocol Areas: Blue Nile and South Kordofan states and Abyei area’ is disruptive. Protocols for all three areas have not yet been fully implemented. Abyei final borders position is not yet settled. Although the CPA stipulates a referendum for this contested area, this has yet to be conducted. Negotiations between the two governments in Addis Ababa and Juba led to an agreement in December 2011. This agreement allowed UN-mandated Ethiopian peacekeepers into the region to oversee the withdrawal of both the Sudan Armed Forces (SAF) and armed groups aligned with, or part of, South Sudan's SPLA. Sudan Armed Forces withdrew from the region in adherence to UNSC Resolution 2046 on Sudan and South Sudan in May 2012.

*Popular consultations in the States of South Kordofan and Blue Nile, as set forth in the CPA, have not been finalized.* Armed conflicts erupted in both States between the Government of Sudan and the SPLM-North. Tensions in both areas have heightened following the creation in November

<sup>1</sup> The two main pipelines are the longest in Africa, extending from the production centres in the South to the Northern coast around Port Sudan. The “Greater Nile Oil Pipeline” is 1,610 Km long and serves Nile blend crude; the “Petrodar Oil Pipeline” is 1,400 km long and transports Dar crude.

2011 of the Sudan Revolutionary Front—an armed coalition against the Government comprising SPLM Northern Sector and all Darfur rebel movements that advocates for the removal of the Government. Several attempts to negotiate a peace agreement have failed so far. A new round of talks is expected to resume.

### 2.2.3 Implementation of the Eastern Sudan Peace Agreement

*Eastern Sudan Peace Agreement (ESPA) between the Government of Sudan (GoS) and the Eastern Sudan Front in 2006 has created a positive environment for returning to the path of development.* Eastern Sudan remains one of the poorest regions among the northern States of Sudan. East Sudan is also a “host community” to refugees from Ethiopia and Eritrea. The ESPA was politically supported by the donor community and “The International Donors and Investors Conference for East Sudan” was held in Kuwait, 1–2 December 2010. Out of the total pledges of US\$3.5 billion few development partners pledged significant amounts. Sudan Government pledged US\$1.5 billion, and Kuwait Government pledged US\$500. A Special Fund for Rehabilitation and Development of Eastern Sudan was created as an implementation mechanism. Several projects were implemented since then including Setiet and Upper Atbara Dam (total cost of around US\$2 billion funded by loans from the Arab Funds), rehabilitation of Toker Delta Irrigation Projects, rehabilitation of New Halfa Irrigation Scheme, schools, hospitals and water supply projects. Most of these projects were funded by the Government.

### 2.2.4 Doha Document for Peace in Darfur

*Another important peace agreement signaling Government’s willingness to resolve conflict and permit development to re-start is the 2011 Doha Document for Peace in Darfur.* A credible window of opportunity for sustainable peace has opened in Darfur since the signing of the Doha Document for Peace in Darfur (DDPD). The establishment of the Darfur Regional Authority (DRA), the start of voluntary returns, and the engagement of the Government of Sudan in implementing the DDPD present an important opportunity to the international community to support recovery and development efforts. For the first time in a decade, these developments offer opportunities to transition away from the current humanitarian strategy (which costs about US\$10 billion over the last 10 years), which development partners now recognize to be unsustainable and cost-ineffective, towards engagement in early recovery and development. This can positively impact the lives of millions of people in dire poverty and enhance chances for sustainability by building institutional capacity.

*More than 150 countries, international financial institutions (IFIs), development organizations and INGOs attended the Doha Conference.* Pledges towards the Darfur Development Strategy mainly came from Qatar contributing US\$500 million and the Government of Sudan’s commitment of US\$2.6 billion (as part of the DDPD agreement) to be disbursed over a six year period.

*Darfur Development Strategy is being slowly implemented as the security situation is volatile.* The slow start in the implementation of the DDPD agreement has prompted the President of Sudan to extend the life of DRA for a year effective July 15, 2015 to complete the processes stipulated in the DDPD. The security situation in certain parts of Darfur is volatile, mainly due to recent inter-tribal fighting over land that is posing a serious threat to the security and stability in the region.

*A study of conflict drivers that threaten stability in Sudan was commissioned by the World Bank to help deepen understanding of conflict factors.* The main conclusion of the study is that inequalities in allocation of public resources and in access to natural resources are the main drivers of conflict, and they feed into ethnic divide.

### 2.2.5 The Internal Political Dialogue

*In January 2014, the President of Sudan initiated an internal “National Dialogue” to address issues of war, peace, national identity and the economic and political situation.* The dialogue was initiated as an inclusive process for all political parties and all rebel groups. A group of “7+7 Committee” consisting of government ruling parties and opposition parties was formed and has set a road map for the procedures and modalities of the dialogue. The elections which took place during April 2015 interrupted the process. The dialogue resumed in October 2015 and the Government declared its intention that all the process will be inside the country. A two-month ceasefire was unilaterally declared by the Government, and was reciprocated by the rebel movements; amnesty was also given for arms bearers who will join the process and the Government offered guarantees to rebel delegations during the national conference to allow them to leave the country if no agreement is reached. The major rebel movements and some of the political parties boycotted the dialogue but a committee from the participating political parties was formed to convince the holdout political forces to join the process.

## 2.3 Adverse Conditions Facing Sudan Affecting the Ability of the Government to Reduce Poverty

*Several adverse conditions face Sudan.* The country is facing the combined difficulties of the economic shock created by the oil revenues loss as a result of the secession of South Sudan, the absence of debt relief and consequently low level concessional financing, and the economic sanctions. These constraints have had adverse impact on the economic stability; trade; banking and business climate; private sector economic activity and employment; and poverty reduction.

### 2.3.1 Impact of South Sudan Secession on the Development Agenda of Sudan

*The South’s secession and the loss of the oil revenues has had fundamental repercussions on Sudan as evidenced by significant stresses in the macrofiscal situation, the structure of the economy, and the political economy.* Between 2010 and 2012, annual oil production dropped from 168 million barrels to 38 million barrels, budgetary oil revenues from 11.5 percent of GDP to 1.5 percent of GDP, and oil exports from US\$11 billion to US\$2 billion (IMF Article IV Consultation, Dec. 2014). These losses affected all sectors of the economy and resulted in slower growth, inflation rising to high double digits, and deteriorating fiscal and current account balances. The shock led to the economy contracting by 0.3 percent in 2011 (compared to positive growth of 7.1 in 2010) and by a further 2.2 percent in 2012. The productive sectors of the economy, mainly agriculture and industry, after a decade of neglect and unfavorable exchange rate, were not able to offset the fall in oil production. Gold production and export almost tripled, but only partially compensating for the loss of oil. The trade balance deteriorated, going from a substantial surplus to a large deficit of US\$700 million in the first quarter of 2012. The current account balance also recorded a deficit of US\$900 million in the same period. The market exchange rate dropped first from 3 SDG/US\$ to around SDG 5 and then later to SDG 7.1, following the official exchange rate devaluation (of about 66 percent) in June 2012. Prices skyrocketed, inflation reaching an annual average of 37 percent in 2013 (three-fold the pre-secession rate of inflation of 13 percent in 2010).

*The Government of Sudan asked for assistance to bridge the financial gap created by the loss of the oil.* The Government of Sudan and South Sudan with assistance from the African Union High Implementation Panel (AUHIP) in their effort for the joint outreach to the international community asked the assistance of the IMF to determine the financial gap for Sudan resulting from the loss of oil revenues. The IMF estimated that the oil loss will result in a fiscal gap for Sudan amounting to almost US\$8 billion over five years, and a balance of payments gap of US\$16 billion. In the spirit of establishing two viable States living in mutual peace and prosperity, the Government of Sudan and South Sudan agreed on transitional financial arrangements, whereby: a) Sudan would implement policy measures to fill at least one-third of the gap; b) South Sudan

would contribute just over US\$3.028 billion over three and a half years to cover another one-third of the gap through TFA; and c) The two countries would make a joint request to the international community for approximately US\$3 billion in resources to cover the remainder of the gap. The Government has implemented economic measures that filled the one third of the gap, and South Sudan started to actually transfer the amounts due in fulfilment of the TFA. However, there was no positive response from the international community.

*Before fully adjusting to South Sudan secession implications, Sudan confronted another shock of reduction in the oil fees from South Sudan.* The decline of the oil revenues from South Sudan were the result of the decline in production due to the conflict in the South and decline in international oil prices. South Sudanese conflict erupted in December 2013 affecting the oil sector. Oil flow from the South through Sudan's pipelines declined to about 165,000 barrels per day compared to 245,000 barrels per day before the conflict. The situation was aggregated further by the sharp drop in international oil prices. The fairly stable oil prices during 2010 until mid-2014 at US\$110/b started to decline until it reached its current low level of US\$48/b (early August 2015). Consequently the transfers of oil fees and the TFA dropped and revenues payments by South Sudan amounted to only US\$900 million by mid-2015 compared to a target of US\$3.0 billion.

### 2.3.2 External Debt Burden

*The external debt burden remains a contentious issue.* Sudan is highly indebted country that has accumulated sizable arrears and the external debt burden weighs heavily on Sudan's development. As of end-2014, its public and publicly-guaranteed debt stood at US\$45 billion of which about 85 percent was in arrears. The structure of external debt has not changed over the last decade. Sudan's creditors include multilateral institutions (15 percent), Paris Club (37 percent), non-Paris Club (36 percent), and private creditors (14 percent). Arrears with IDA amounted to US\$700 million whereas arrears with IMF reached US\$2 billion. According to the IMF report (Debt Sustainability Analysis 2013) Sudan remains in debt distress, all external debt ratios were well above the indicative thresholds with the Net Present Value of debt to GDP of 166 percent (compared to a threshold of 36 percent), and debt service to exports of 36 percent (compared to a threshold of 15 percent). The 2013 DSA showed deterioration in all indicators following a significant decline in GDP, exports and government revenue, underscoring the need for debt relief beyond traditional mechanisms.

*As part of fulfilling the technical requirements for the HIPC, Sudan has demonstrated a commitment to economic reforms and poverty reduction.* Sudan had successfully implemented 14 IMF Staff Monitored Programs (SMPs) since 1997. These programs greatly helped in designing and implementing reforms in monetary policy operations, tax policy, and public financial management. The Government of Sudan also articulated a poverty strategy (IPRSP) to address poverty and equality issues. The agreement signed between Sudan and South Sudan on September 27, 2012 included the zero option whereby Sudan will retain all external debt liabilities if the two countries committed to a joint outreach strategy to secure from international creditors a firm commitment to provide comprehensive debt relief of Sudan's external debt, resulting in reaching the HIPC decision point within two years of signing (i.e. September 2014), or a later date as agreed by the two countries. As progress in resolving the debt issue fell short of expectations, the two countries agreed to extend the "zero option" by two years.

*In 2010, some leading creditors asked the World Bank and IMF to co-lead a Technical Working Group.* The Group would help to clarify the understanding on the extent and composition of Sudan's external debt, and on the technical requirements for Sudan to benefit under the HIPC and MDRI debt relief processes. That group has met five times, and does not seem to have much to offer now, where the matter of the debt relief will be decided upon on political grounds, including direct engagement with all major creditors.

*Despite all these efforts more substantive progress towards debt relief did not come through. Resolving Sudan's unsustainable external debt is of paramount importance for the successful adjustment to the impact of South Sudan's secession, implementation of the Government's poverty reduction policies, and for supporting inclusive growth and reducing poverty.*

### 2.3.3 US Sanctions

*American sanctions on Sudan began in 1997 when President Clinton issued Executive Order 1306 that imposed a comprehensive trade embargo on Sudan and blocked assets of the Government of Sudan. Comprehensive and far reaching as it is, the sanctions regime harmed, and continued to harm, Sudan dearly. Moreover, the sanctions regime started to intensify by the year as pressure from the US Office of Foreign Assets Control (OFAC) on countries, business entities, and international financial institutions to comply with the American embargo. Many governments and business entities would rather abandon doing business with Sudan, even for goods that are exempted under the sanctions regime like food and medicine, rather than risk being scrutinized by the American Treasury, or face the danger of financial transactional blockage or even confiscation. This created what has been referred to as "reputational sanctions" meaning that business with Sudan is attached to bad fame and should be avoided even if it is allowed under the sanctions regime.*

*Sanctions affected Sudan's access to debt relief and consequently access to concessional loans needed for infrastructure, basic services such as health, education, and food security. Sanctions affected foreign direct investments, which contribute to growth and employment opportunities. Remittances of Sudanese abroad to their families' which are fundamental informal safety net mechanisms in Sudan were also affected. The Sudanese Government's ability to monitor illicit flows directed to finance terrorism, drug trade, money laundry and human trafficking is increasingly hampered by the sanctions of commercial corresponding banks leading most Sudanese to move money in cash.*

*A recent devastating development for the Sudanese economy as a result of the sanctions was the breakdown of the relations with correspondent foreign banks. As observed by the IMF, this was a result of the prosecution by the U.S. of BNP Paribas in early 2014 for breaking U.S. sanction against Sudan and other countries under sanctions and was fined US\$8.9 billion by the U.S. authorities.*

*As a result, trade and foreign exchange situation deteriorated in Sudan. Furthermore, importers are unable to obtain trade financing or transfer payments and the impacts are sweeping. This situation will devastate the economy where; as noted by the IMF: "(i) growth will be affected because exports and imports will decline. The lower imports of foodstuffs, intermediate goods, and raw materials will result in lower domestic consumption and production; (ii) inflation will rise as a result of shrinkage of supplies and higher cost of imports; and (iii) shortage of foreign exchange will contribute to depreciation of the exchange rate on the parallel market, thereby fueling inflation and undermining macroeconomic stability. These adverse developments will impact the poor and the most vulnerable segments of the population and will most likely increase poverty rates in Sudan.<sup>2</sup> Further studies are required to improve the understanding of the devastating impacts of sanctions on the Sudanese.*

<sup>2</sup> Sudan; IMF Staff Report for the 2014 Article IV Consultation and Second Review under the SMP, November 21, 2014, Box 1, page 6.

### Implications for PRSP

*The importance of reaching a lasting peace for the conflict in Darfur and in the two states of Blue Nile and South Kordofan is inevitable for poverty reduction and should not be overlooked. Meanwhile, to sustain peace, the role of implementation of the peace agreements is to be considered. The role of Sudan in the peace process of South Sudan and the implementation of the September 2012 agreements is vital in achieving peace and stability in the country. These are prerequisite for improving economic performance and reducing poverty. Community based peace initiatives are to be encouraged by the Government.*

*The study of conflict drivers carried by the World Bank recommends four main focus areas: The areas are: (i) the operational mechanism of transfers of funds between central and state governments; (ii) opportunities and modalities of equitable exploitation of economic opportunities at the local levels; (iii) assessment of priority needs and concerns about service delivery at the local level; and (iv) key barriers to, and opportunities for building peace and social cohesion in high risk areas. The study proposes risk mitigation measures including: (i) balancing the needs for macroeconomic adjustment with poverty reduction and meeting demand for social protection; (ii) improving governance i.e. build more capable, transparent, accountable and inclusive government institutions; and (iii) addressing demand for power and/or wealth sharing and delays and/or ineffective implementation of peace agreements.*



## CHAPTER 3

# IPRSP Medium-Term Macroeconomic Framework (2013–2015)

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**T**he IPRSP is built on a medium-term framework that emphasizes the importance of appropriate policies in favor of macroeconomic stability, sustained growth and poverty reduction. The macroeconomic objectives for the 2013–15 period set in the IPRSP aim at: (i) sustaining an average growth rate of about 4 percent; (ii) bringing down inflation to 10 percent; (iii) reducing the overall budget deficit to 3 percent; and (iv) containing the current account deficit to 3.1 percent of GDP.

### 3.1 Government Macroeconomic Performance

*Sudan made remarkable progress toward recovering from the shock created by the secession of South Sudan. This was achieved despite the lack of access to external financing for development; challenges of the sanctions; breakdown of relations with corresponding banks; the burden of external debt; the drop in oil production in both Sudan and South Sudan; and the drop in transit fees and transitional financial arrangement (TFA) payments by South Sudan.*

*The Government formulated a three year emergency recovery program, the “Salvation Economic Program” (2012–2014), to address these challenges. The Government implemented austerity measures in June 2012 and September 2013. In June 2012 the Government adopted painful but necessary policy reform measures, marking a pronounced change in policy direction. The June 2012 reform program included an exchange rate devaluation of about 66 percent, tax increases, a reduction in fuel subsidies, cuts in non-priority public expenditures, and a strengthening of social safety nets to cushion the impact of these reforms.*

*In September 2013 the Government implemented further difficult reform/austerity measures to overcome challenges facing the 2013 budget. Key among these measures is the amendment of the 2013 budget that realized a deficit of SDG3.96 billion (33 percent of total revenue) in the first half of 2013. The corrective measures entailed a sharp reduction in fuel subsidies, a unification of all official exchange rates, and exchange rate devaluation. The adoption of these measures was facilitated by improved relations with South Sudan and the resumption of oil production in mid-2013. The fuel subsidy reductions resulted in almost doubling prices of fuel and cooking gas (i.e., 68 percent petrol increase and a gallon of petrol cost the equivalent of US\$3; a 65 percent increase in gasoline and a 67 percent increase in cooking gas). These price adjustments are substantial in both magnitude and speed. For example, the September 2013 adjustments exceeded*

**Table 3:1** Sudan's IPRSP Macroeconomic Objectives for 2013–15 and Actual Performance

	2011	2012	2013	2014	2015 proj.	IPRSP targets (average)
GDP growth	-0.3	1.2	3.5	3.7	3.7	4.0
Inflation (end of period)	18.9	44.4	41.9	28.7	15.5	10
Public finance (in percent of GDP)						
Total government revenue	18.0	9.8	9.9	11.4	12.0	
w/o tax revenue	6.4	6.1	6.1	6.1	6.6	
w/o grants	0.3	0.4	0.7	0.5	0.7	
Government expenditure and net lending	17.8	13.5	12.1	12.4	13.3	
Current expenditure	16.3	11.7	12.0	11.6	10.5	
w/o wages and salaries	5.4	4.8	4.3	3.7	3.5	
w/o interest			1.4	0.9		
Capital expenditure	1.7	1.6	1.1	1.1	1.2	
Net lending						
Primary fiscal balance, incl. grants	1.3	-2.2	-1.8	-0.3	-1.1	
Overall fiscal balance, incl. grants	0.2	-3.7	-2.3	-1.0	-1.2	-3.0
Domestic			1.9	0.9		
External			0.4	0.1		
Current account balance (in percent of GDP)	-0.4	-9.2	-8.6	-6.5	-6.3	-3.1

Source: IMF Article IV Consultations Report 2014 and Ministry of Finance data.

IMF' expectations of adopting a gradual/incremental approach to fuel prices increase. However, the austerity measures did not include removing subsidies on wheat and electricity.

*Sudan restored the growth from as low as 1.2 percent in 2012 to 3.7 percent in 2014.* Inflation was drastically reduced from around 44.4 percent in December 2012 to 28.7 percent in December 2014 and further to 15.5 percent in July 2015 with prices increasing by only 6.2 percent in the last nine months. The exchange rate in the parallel market remained stable between 2013 and 2014 albeit the high margin compared to the official rate. These achievements were the result of the reform programs and the hard measures implemented by the Government during 2012–2014.

### Economic Growth

*Economic activity for 2014 has been broadly recovering.* GDP growth is estimated to reach 3.7 percent in 2014 compared to -0.3 percent in 2011. This growth was mainly driven by the good agriculture seasons and recovery in Gum Arabic, and cotton and the positive growth in sesame and livestock, as well as growth in the trade and services sectors. However, the pattern of Sudan's recent growth prospects underscore the need for economic diversification to help improve growth prospects through a revitalization of sectors such as agriculture and livestock, and the export sector, particularly in light manufacturing, driven by agro-processing.

### Fiscal Policy and Inflation

*Sudan's fiscal performance improved during the review period.* The overall deficit dropped to about 1 percent of GDP in 2014 compared to over 2 percent in 2013 and nearly 4 percent in 2012. The fiscal improvements have reflected reform measures taken in September 2013 including substantial increases in domestic fuel prices and an increase in tax revenue. As a result, central bank financing of the deficit dropped to 0.4 percent of GDP in 2014 compared to 0.7 percent of GDP in 2013. Reducing the deficit has helped to curb monetization through the central bank, which would ultimately bring about more price stability.

**Table 3.2** World Bank Doing Business—Paying Taxes: Sudan and Comparator African Countries

	Paying taxes rank	Payments (number per year)	Time (hours per year)	Profit tax (%)	Labor tax and contributions (%)	Other taxes (%)	Total tax rate (%)
Sudan	101	42	180	13.8	19.2	3.1	36.1
Botswana	39	32	152	21.7	0.0	3.6	25.3
Ghana	89	32	224	18.5	14.7	0.4	33.5
Lesotho	95	33	324	13.1	0.0	3.0	16.0
Liberia	45	33	158	18.3	5.4	3.7	27.4
Malawi	58	26	175	23.6	7.7	3.5	34.7
Rwanda	25	17	134	21.2	5.6	4.4	31.3
Uganda	93	31	213	25.0	11.3	0.8	37.1

*Note:* *Doing Business* records the taxes and mandatory contributions that a medium size company must pay in a given year as well as measures of the administrative burden of paying taxes and contributions. Taxes and contributions measured include the profit or corporate income tax, social contributions and labor taxes paid by the employer, property taxes, property transfer taxes, dividend tax, capital gains tax, financial transactions tax, waste collection taxes, vehicle and road taxes, and any other small taxes or fees. The ranking on the ease of paying taxes is the simple average of the percentile rankings on its component indicators, with a threshold being applied to one of the component indicators, the total tax rate.

*Source:* World Bank (2013) *Doing Business in the East African Community 2013*.

*Fuel subsidy reform yielded additional revenue of 1.2 percent of GDP in 2014.* Revenue has increased to 11.4 percent of GDP in 2014 compared to 9.8 percent of the GDP in 2012. On the other hand, current spending was limited to 11.6 percent of GDP in 2014, reflecting contained wage bill and subsidy reform, while public investment and social spending were each increased by 0.3 percentage points of GDP to mitigate the negative impacts of fuel subsidy elimination.

*Sudan's efforts to strengthen tax revenue collection remained unchanged in 2014.* Tax revenue is still very low compared with neighboring countries due to exemptions and extensive tax incentives. Sudan's tax revenue collection was only 6.1 percent of the GDP in 2014, similar to what was realized in 2013; this is very low compared to regional levels. Sudan needs to exert effort to improve tax revenue collection through expanding the tax base and raising efficiency in tax collections as well as reviewing the exemptions.

*Simplify tax collection procedures with the view to achieve significant reduction in the processing of taxes and enhance tax compliance.* According to the 2013 World Bank *Doing Business* Report, Sudan trailed other Sub-Saharan African countries in terms of ease of paying taxes, ranking 101 out of 185 countries. The report noted that Rwanda is the easiest country to pay taxes in, with just 17 payments annually, followed by Burundi, 25, with Uganda businesses having to make 31 payments, and Sudan makes it harder for taxpayers with 42 payments. Complying with taxes takes 180 hours a year in Sudan (Table 3.2). The World Bank Report advised governments to not only choose appropriate tax rates within a broad based, fair and transparent tax system, but also design a tax compliance system which does not discourage taxpayers from participation. Some measures such as reducing tax payments frequency and introducing an electronic filing system would make paying taxes faster for taxpayers.

### Monetary and Exchange Rate Policies

*The fiscal consolidation path that was initiated in 2014 led to an improvement in fiscal performance and further lowered central bank financing of the Government and reduced reserve money growth.* The money supply growth rate was 12 percent in 2014 compared to 13 percent in 2013. However, monetary policy management remains weak, including the Central Bank of Sudan (CBOS) involvement in quasi-fiscal operations such as the provision of foreign exchange at the official

rate to the Government for fuel and wheat imports. The exchange rate policy is also inconsistent with current external imbalances and exchange rate instability. The CBOS has managed to limit the multiplicity of the exchange rate by unifying the official rate and the custom rate (used for valuing the imports and exports), yet a special rate is still used for importation of some goods (e.g., medicine). The foreign exchange market is also still not fully liberalized and a parallel market exists with a rate that significantly differs from the official exchange rate.

*Foreign exchange market remains volatile.* The gap between the official market and the parallel market narrowed to 47 percent in mid-November 2014, but recently rose. Given the foreign exchange shortage on the official market, the parallel market has almost completely replaced the official market as a source of foreign exchange for private transactions. Intervention policies to keep the official exchange rate at fixed level inevitably leads to shortage of foreign exchange. These measures have provided a temporary “breathing space,” but have not addressed the source of the foreign exchange shortfall, which is likely to be structural in nature.

### Current Account Balance

Current account deficit narrowed to 6.5 percent of GDP in 2014 from nearly 9 percent in 2012 and 2013—reflecting an increase in exports and fiscal consolidation efforts. Despite progress, the current account deficit remained higher than the target of 3 percent of GDP. Exports grew by 18 percent in 2014, while imports increased by only 1.8 percent. Exports covered 65 percent of imports value in 2014 compared to 54 percent in 2013. However, the export sector remains facing critical structural rigidities and constrained supply capacity.

## 3.2 IMF Program

*Sudan and IMF agreed on a new Staff-Monitored Program, SMP, covering the period January–December 2014 and the program was approved by the IMF Managing Director on March 2014.* IMF conducted the third review for Sudan’s Staff-Monitored Program (SMP) on December 8–17 and concluded that performance under the authorities’ reform program is broadly satisfactory. All end-September quantitative targets were met except for minor deviations on the net domestic assets of the Central Bank and reserve money growth reflecting additional credit to the agricultural sector.

*Sudan has implemented previous SMPs over 14 years (1997–2010) and performance under these programs has been broadly satisfactory.* Notable achievements under these programs include the maintenance of macroeconomic stability and the implementation of a reform agenda to improve capacity in economic management. However, some problems persist, including weak build-up of international reserves due to an insufficiently flexible exchange rate, rising expenditure pressures, slow implementation of reforms in domestic financing, arrears clearance, and public financial management.

### Implications for PRSP

*Growth remains as the most powerful and effective way of reducing poverty,* though growth alone is not enough for reducing poverty. Sudan diversification of its economic sources of growth remains a challenge.

*Economic stability is essential for sustaining growth.* The signaling effect of the government taking strong policy measures was also important in shoring the confidence in the economy. In the absence of these measures, the country would have likely experienced a strong inflation—a vicious depreciation cycle, a stronger loss of confidence, and a more extreme depletion of foreign

reserves, which would have led to an even bigger economic recession and hardship and will deepen poverty rather than reducing it.

*The fundamentals of economic stability have to be maintained.* The exchange rate should be market determined. In fact, there are no realistic alternatives to address the foreign exchange shortage in the short term. Therefore, there is a need to use a combination of structural reforms and demonstrate exchange rate flexibility to commercial banks in foreign exchange transactions. Shorter-term strategy—greater exchange rate flexibility is essential to reduce the gap between official and parallel market rates. Longer-term strategy—need to focus on the structural source of the foreign exchange shortfall. Containment of growth in the money supply consistent with the growth rate and inflation target is essential. Possible measures could include: (i) tightening monetary policy and further lowering central bank's financing of the Government to help further lower inflation; (ii) enhancing the operational independence of the CBOS and to mandate it to maintain price stability; (iii) sterilizing gold purchases by the CBOS to contain reserve money growth; (iv) enhancing coordination between the CBOS and MoFEP to improve liquidity forecasts and management; and (v) using reserve money as the nominal anchor. Building foreign reserves is among the essential measures that have to be undertaken and sustained.



## CHAPTER 4

# Tracking Pro-Poor Expenditures

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### 4.1 Defining Pro-Poor Expenditures—Sudan Experience

*A poverty reduction strategy that identifies priority public policies for growth and poverty reduction is the appropriate basis for the definition of pro-poor expenditures.* A pro-poor expenditures framework is defined as the one that addresses the main roots/correlates of poverty and identifies priority public actions for economic growth and poverty reduction. This includes spending on critical poverty reducing and welfare, improving economic and social services that tackle the deficiencies of the educational and health care system including the poor access and quality of education and health care; improving survival indicators (e.g., infant and maternal mortality); accelerating the process of recovery from conflict and integration; enhancing access to basic infrastructure; and reviving the stagnant agriculture sector, with services to improve the productivity and incomes of the associated labor force. Given the role that the state governments have in the provision of critical poverty reducing and welfare improving economic and social services, consideration should be given to examining resources available to state governments through the national revenue sharing mechanisms (Box 4.1). Measuring progress on pro-poor spending at the sub-national/state level is therefore key to understanding pro-poor expenditure overall.

*The definition of pro-poor spending adopted in this study builds on the IPRSP policies for priority actions for growth and poverty reduction.* These priorities represent public policy on governance, national reconciliation and integration, gender, education, health and water supply and sanitation, agriculture and infrastructure classified under the IPRSP four pillars of governance, reintegration of IDPs, human resource development, and economic growth promotion. Box 4.1 summarizes how estimates for pro-poor budgetary expenditures at the federal and state level are derived.

*Non-budgetary expenditures such as Zakat and the Central Bank of Sudan micro-finance scheme are integral parts of pro-poor spending.* Zakat, which is an Islamic charity managed by the Chamber of Zakat, is a major social protection program. The IPRSP recognizes the importance of social protection, but does not identify challenges, strategy and priority actions. There is no known assessment of Zakat and the Government of Sudan has identified the need to conduct a diagnostic analysis of the social protection sector as a first step to understand the strength and weakness of the current activities in the sector and to make an informed decision in social protection programming. The World Bank Group is providing support to the Government of Sudan to review the capacity and capability of current programming as well as gaps in benefits

### Box 4.1: Defining Pro-Poor Expenditures

Without sustainable broad-based economic growth poverty cannot be reduced. However, growth that bypasses the poor will not by itself reduce poverty. The choice is therefore for sectors that facilitate growth and reduce poverty in a sustainable manner. Public policy and public expenditures has to support the twin objectives of growth and poverty reduction. Hence the pro-poor expenditure is the one that gives priority to: (i) Agriculture and Natural Resources; (ii) Infrastructure (roads and rail); (iii) Education; (iv) Health; (v) Water; and (vi) Social Protection. This definition of pro-poor expenditures is consistent with the IPRSP and follows its four pillars of governance, reintegration of IDPs, human resource development and economic growth promotion.

#### Source of expenditures

##### Budgetary expenditures

Federal Ministry of Finance and Economic Planning  
States

##### Non-budgetary expenditures

Central Bank of Sudan: Microfinance Unit  
Zakat Fund

#### Budgetary pro-poor components:

Items tracked in the budget and actual expenditures data produced by the Ministry of Finance and Economic Planning	
<b>Federal</b>	
Current: wages and salaries	Ministry of Agriculture, Ministry of Irrigation and Water Resources, Ministry of Animal Wealth Fisheries and Rangeland, Ministry of Environment and Forests, High Council for Environment, Ministry of Transport, Roads and Bridges, Ministry of Health, Ministry of General Education, Ministry of Welfare and Social Security, Ministry of Higher Education and Scientific Research, Agriculture Research Corporation, Livestock Research Corporation, Gum Arabic Council, Vocational Training Council, Humanitarian Affairs Commission, National Council for Illiteracy Eradication, High Council for Development of Nomads, Transfers to the National Pension Fund, and Support to current expenses of the National Health Insurance
Current: centralized obligations	Social transfers (cash transfers, transfers for free medical care, transfers to National Fund for Students Support, transfers to the National health Insurance Fund) Subsidies
Development	Development projects of: Agriculture subsector, Irrigation subsector, Animal wealth subsector, paved and feeder roads, railways rehabilitation. Irrigation dams, National Forestry Corporation projects, Vocational Training Projects, DDR, Nomadic communities development projects, general education subsector, higher education subsector, health subsector, IDPs assistance projects
<b>States</b>	<b>Closed accounts of the states</b>
Current	Ministries of: Agriculture and Livestock, Health, General Education, Social Welfare, Engineering Affairs (feeder roads, water harvesting, water supply)
Development	Agriculture and livestock subsector, and bridges, feeder roads, health subsector, general education subsector, social sector subsector (social protection, food security, governance, IDPs), energy projects (mainly solar energy), water supply subsector, Reconstruction Funds Projects (East Sudan, Darfur Additional support for Blue Nile, South Kordofan and Abyie)

provided. The central Bank of Sudan is supporting micro-finance targeted toward small enterprise as a means of employment generation and poverty reduction.

*Data issues.* There are data constraints related to misclassification and disaggregation of pro-poor data in public expenditures at both the Federal Ministry of Finance and Economic Planning level and the states. Most of these problems were resolved in this report without significant negative impact on the quality of public expenditures data used. However, further improvements are required in the public expenditures data recording by the Ministry of Finance and more importantly by the states. A note on the data issue is annexed in this report (Annex 2).

*The last Sudan's Public Expenditure Review (PER—World Bank 2007) developed a pro-poor spending definition.* The 2007 PER defined pro-poor spending as “expenditures that benefit the poor more than the non-poor; expenditures that actually reach the poor; and expenditures expected to have an impact on the welfare of the poor over time” (PER page 36). The report derived a definition for pro-poor spending for Sudan, which includes both federal expenditures (current and development) and states' poverty reduction efforts. Federal expenditures include spending on basic health care; primary education; water supply and sanitation; parts of agriculture, irrigation and livestock; infrastructure (roads and bridges); energy and electricity (excluding Merowe Dam); and the social subsidy. The states' efforts on poverty reduction are captured by including three-quarters of current and block transfers plus all development transfers including to war affected areas.

*The pro-poor expenditures framework adopted in this status report is more comprehensive than the 2007 PER definition.* While the PER definition is confined to budgetary expenditures at the federal and state level, the current definition extends its scope to include non-budgetary expenditures (e.g., Zakat and microfinance). Comprehensive pro-poor expenditure data was compiled from MoFEP's budgeted and actual expenditures of the spending units at federal level. Budgeted and actual expenditures of the states and localities were compiled from the states yearly closed accounts. Data for social protection institutions was compiled from the annual reports of Zakat Fund, Social Insurance Fund, National Pension Fund and National Health Insurance for the period 2012 to 2014.

## 4.2 Defining Pro-Poor Expenditures—Sub-Saharan African Experience

*Poverty in Sudan has similar features to poverty in Sub-Saharan countries, highlighting the importance of drawing on their experience in pro-poor growth and poverty reduction.* Most of the Sudanese poor live in rural areas. They are characterized by poor education and health standards, and lack access to other basic services and facilities. Most rural households rely on agriculture and productivity in their major occupation—agriculture—is low and declining. Growing out of poverty requires sustainable economic growth; improvements in the quality of growth to ensure broader participation; along with poverty targeting. The choice is therefore to promote pro-poor growth in places and sectors where the poor live and work. Promoting pro-poor growth requires a strategy that is deliberately biased in favor of the poor so that the poor benefit proportionally more than the rich.

*The HIPC Initiative and Poverty Reduction Strategy Papers (PRSPs) resulted in sharper focus on poverty and human development in Sub-Saharan African countries.* In these countries the Poverty Reduction Strategy Paper (PRSP) provides a rationale for classifying certain types of expenditure as pro-poor and enables monitoring of government efforts. Although Sudan does not yet have a full-fledged PRSP, it is possible to point to a set of policies and priorities developed in the IPRSP that would anchor a definition of poverty-reducing allocations. Further improvements

**Table 4.1:** Components of Pro-Poor Expenditures for Sub-Saharan African Countries

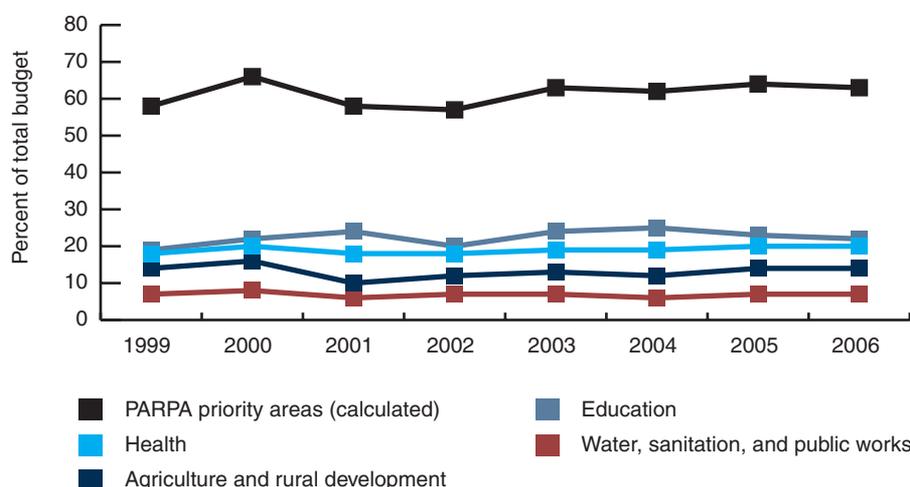
	Education	Health	Infrastructure	Agriculture	Water and sanitation	Other
Sudan	✓	✓	✓	✓	✓	✓
Mozambique <sup>1</sup>	✓	✓	✓	✓	✓	✓
Tanzania <sup>2</sup>	✓	✓	✓	✓	✓	✓
Uganda <sup>3</sup>	✓	✓	✓	✓	✓	✓
Chad <sup>4</sup>	✓	✓	✓	✓		✓
Ethiopia <sup>5</sup>	✓	✓	✓	✓		✓
Ghana <sup>6</sup>	✓	✓	✓	✓		
Burkina Faso <sup>7</sup>	✓	✓	✓		✓	✓
Benin	✓	✓				
Cameroon	✓	✓				
Madagascar	✓	✓				
Niger	✓	✓				
Senegal	✓	✓				
Democratic Rep. of Congo	✓	✓				
Sierra Leone	✓	✓				
Mali <sup>8</sup>	✓	✓	✓			✓
Malawi <sup>9</sup>	✓	✓	✓			✓
Zambia			✓	✓		✓
Number of countries	<b>18</b>	<b>18</b>	<b>11</b>	<b>8</b>	<b>5</b>	<b>10</b>

Source: Based on *Heavily Indebted Poor Countries (HIPC) Initiative—Status of Implementation* (IMF and World Bank 2006, Appendix Table 3). Other includes social safety net, food assistance, promotion of women employment, governance. 1\ for Mozambique infrastructure includes roads; other includes public works, governance and judicial system, and rural development. 2\ for Tanzania, agriculture includes research and extension, land; infrastructure refers to roads; and other to judiciary. 3\ for Uganda, infrastructure includes roads; other includes public order. 4\ for Chad pro-poor spending covers domestically financed expenditures on health, education, rural development, infrastructure, and other (good governance). 5\ for Ethiopia, infrastructure includes rural roads. 6\ for Ghana, poverty-focused expenditures on primary education, basic health, and agriculture and infrastructure. 7\ for Burkina Faso, pro-poor spending includes current and capital expenditure on health, education, rural roads, other includes promotion of women, employment and youth, water resources, environment, justice and communication. 8\ for Mali, other includes social safety net. 9\ for Malawi other includes social safety net.

are expected during the process of the full PRSP preparation, including better monitoring of the actual use of the funds classified as pro-poor.

*The Sub-Saharan African experience has shown that what is typically included in pro-poor expenditures are funds allocated to basic health, primary education, and infrastructure. Other pro-poor expenditures components include agriculture, water and sanitation, and other (mainly social safety net, food assistance, promotion of women employment, governance) as illustrated in Table 4.1.<sup>3</sup> The variation in identifying what sector to include in pro-poor expenditures is evident in SSA countries experience.*

<sup>3</sup> It is important to underline that focusing on pro-poor does not necessarily imply that other expenditures are “anti-poor” (e.g., growth-enhancing expenditure on the regulatory framework for the private sector, expenditures on anti-corruption efforts, etc.), but rather that pro-poor spending has the most direct returns.

**Figure 1:** Mozambique—Public Expenditures Directed at Priority Sectors (% of total budget)

Source: World Bank (2011): Mozambique Country Partnership Evaluation.

**Table 4.2:** Zambia—Percentage Public Expenditure Allocations in Pro-Poor Sectors (2008–2012)

	2008	2009	2010	2011	2012
Agriculture, Forestry and Fishing	5.82	7.18	6.81	6.0	6.13
Transport	8.58	9.87	9.11	16.13	16.82
Tourism	0.48	0.51	0.72	0.31	0.19

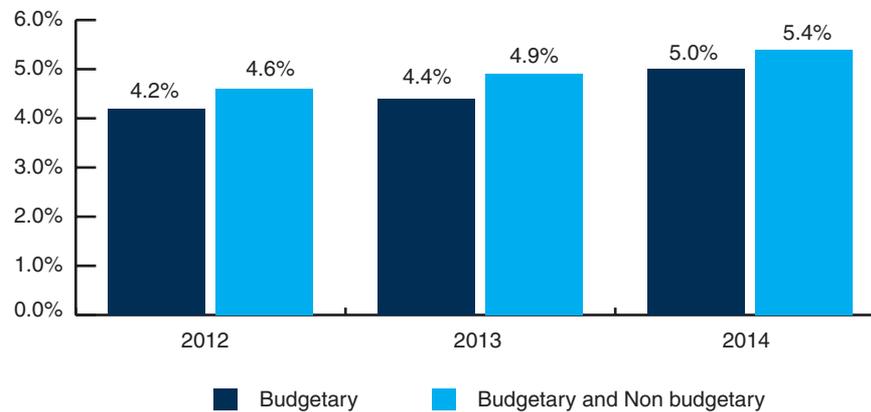
Source: World Bank (2012) Zambia CAS Completion Report.

*Identification of pro-poor spending is of course highly context dependent, and is most useful when country-driven, developed through a wide participatory discussion, and used as a means to help guide and track government efforts.* The IPRSP Status Report is expected to motivate the government to improve on the definition of pro-poor expenditures. A government working definition derived through the PRSP is an important step to formalizing monitoring in budget reporting and should be incorporated in the next budget preparation process.

*Ownership of this process is necessary for meaningful pro-poor expenditure management.* While identifying pro-poor expenditures is the first step, applying a working definition is vital towards formalizing monitoring in budget reporting, implementation and execution. The experience of some SSA countries in applying a pro-poor expenditures definition is discussed below.

*Implementation of the PRSP in Mozambique resulted in allocating/maintaining 65 percent of the budget to the priority/pro-poor sectors* These sectors are education, health, agriculture, water and public works (Figure 1). However, it should be noted that agriculture and rural development received the lowest share of total expenditures.

*Similarly public expenditure allocation to pro-poor sectors shows a real increase in Zambia.* Overall budget allocation to pro-poor sectors (agriculture, tourism and transport) increased during the period 2008–12 (Table 4.2). The increase is reflected in transport and agriculture, while tourism remains stagnant. The share of transport increased from 8.5 percent of the budget in 2008 to 16.8 percent in 2012 whereas that of agriculture increased only from 5.8 percent to 6.1 percent. Tourism declined from 0.5 percent of the budget to 0.2 percent.

**Figure 2:** Pro-Poor Expenditures as Percent of GDP

Source: Ministry of Finance and Economic Planning and authors' calculations.

### 4.3 Trends of Pro-Poor Budgeting and Expenditures in Sudan

*The Government's pro-poor expenditures have increased since 2012.* The share of budgetary pro-poor expenditures as percent of GDP has increased over the post-secession period. Pro-poor expenditures as percent of GDP reached 5 percent of GDP in 2014 compared to 4.2 percent in 2012. Both federal and state levels expenditures as share of GDP have increased during the period in question as detailed (Table 4.3 and Figure 2). The share of budgetary and non-budgetary pro-poor expenditures also increased from 4.6 percent of GDP in 2012 to 5.4 percent of GDP in 2014. These percentages do not include subsidies.

*Maintaining government pro-poor spending, hovering around 5 percent of GDP (or nearly half of total public expenditures) is a significant achievement given the adverse conditions facing the government.* These factors alluded to previously greatly weaken the fiscal capacity of the government. Public expenditures in Sudan have benefited from the advent of oil in the economy since the late 1990s that generated substantial revenues and resulted in an increase of public expenditures as a share of GDP from 8.2 percent in 1997 to reach around 23 percent on average during 2005–2010. In 2009 and 2010, prior to secession a decline in public expenditures already started to emerge, due to the global financial crises, through a sharp decline in oil receipts. This was followed by the secession of South Sudan in July 2011, which affected public expenditures that declined to around 17 percent of GDP in 2011. A package of corrective measures which were implemented in June 2012 and September 2013 averted an economic collapse and started to gradually bring the economic performance back in the path of sustained positive growth. Public expenditures started to recover and increased to 13.8 percent of GDP in 2013. Despite the fluctuations in total public expenditures, pro-poor expenditures have been protected. While Figure 3 shows a bell shape for total public expenditures, pro-poor expenditures shows a slightly rising trend (Figure 2). These efforts were taken by the government despite sanctions, external debt burden and the lack of significant assistance from the donor community, which confined their efforts more in the humanitarian assistance rather than development and public investments.

*It should be noted that the IPRSP did not spell out specific targets for poverty reducing expenditures over its implementation timeframe and comparisons with other countries should be interpreted with care.* The lack of specific targets in the poverty reduction interim strategy precludes a comparison between actual and targeted poverty reducing expenditures. A comparison with African countries that reached the HIPC decision point shows the average for poverty reducing expenditures is 9 percent of GDP. However, this average hides wide variation, for example, Ethiopia (15 percent of GDP), Uganda (10 percent of GDP), Mozambique (16 percent of GDP) while Chad, Zambia and Sierra Leone have much lower ratios than the HIPC average (about 5 percent of GDP). A substantial financial assistance was behind these figures for countries that benefited from HIPC countries, unlike Sudan with low level financial assistance. Therefore, it should also

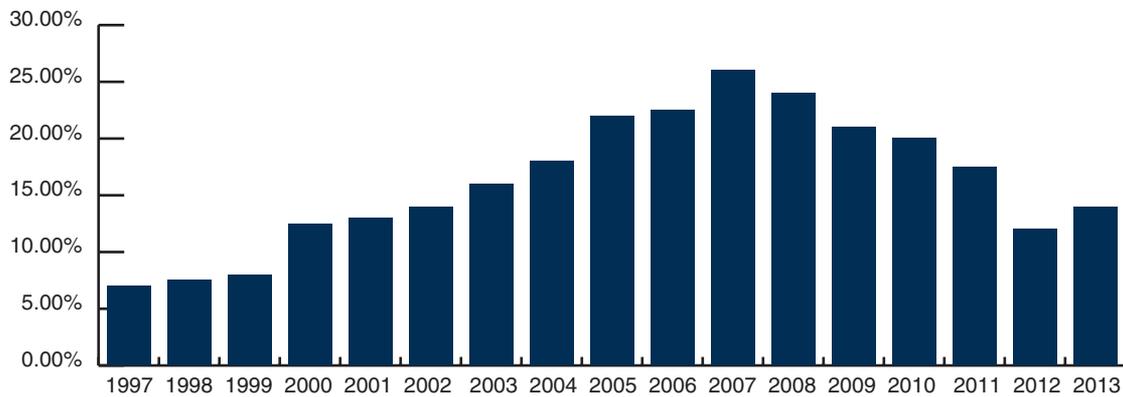
**Table 4.3:** Overall Pro-Poor Expenditures (% of GDP)

Public Funds	2012		2013		2014	
	Budget	Actual	Budget	Actual	Budget	Actual
<b>Overall public funding pro-poor expenditure (without subsidies) (I and II)—Budgetary and non-budgetary</b>		<b>4.56</b>		<b>4.84</b>		<b>5.42</b>
I. Budgetary poverty reducing expenditures (fed/states)	6.30	4.18	5.53	4.39	5.03	5.02
Current poverty reducing expenditures of which:	3.96	3.03	3.67	2.68	3.41	3.19
Wage expenditures	2.69	2.32	2.98	2.06	2.55	2.38
Non-wage expenditures	1.27	0.71	0.70	0.62	0.86	0.81
Development reducing expenditure	2.34	1.15	1.86	1.71	1.62	1.83
Federal poverty reducing expenditures	2.69	1.68	2.67	1.84	1.96	2.17
Current poverty reducing expenditures of which:	1.45	1.15	1.82	0.99	1.38	1.38
Wage expenditures	0.86	0.75	1.51	0.69	0.91	0.91
Non-wage expenditures	0.59	0.40	0.31	0.30	0.47	0.46
Development reducing expenditure	1.24	0.53	0.85	0.85	0.58	0.79
States poverty reducing expenditures	3.60	2.50	2.87	2.55	3.07	2.85
Current poverty reducing expenditures of which:	2.50	1.88	1.86	1.69	2.03	1.81
Wage expenditures	1.82	1.57	1.46	1.36	1.63	1.46
Non-wage expenditures	0.68	0.31	0.39	0.32	0.39	0.35
Development reducing expenditure	1.10	0.62	1.01	0.86	1.04	1.04
II. Non-budgetary reducing expenditures		0.38		0.45		0.40
Zakat		0.32		0.34		0.31
Microfinancing		0.06		0.11		0.09
III. Subsidies		1.88		2.27		2.42
Overall pro-poor expenditure with subsidies (I, II and III)		6.44		7.11		7.84
IV. Nonpublic funds		0.83		0.68		0.60
National Social Security Fund		0.38		0.27		0.26
Food and nutrition assistance (WFP/ UNICEF)		0.45		0.41		0.34
Total pro-poor without subsidies (public and nonpublic funding) (I, II, IV)		5.39		5.52		6.02
Total pro-poor with subsidies (public and nonpublic funding) (I, II, III, IV)		7.27		7.79		8.44

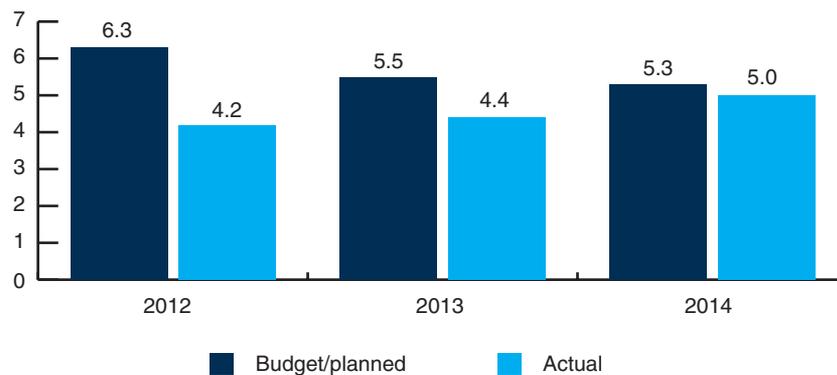
Source: Authors' calculations.

be noted that Sudan could hardly be compared with other African or HIPC countries because they are not facing comparable conditions. Poverty reducing expenditures are also defined according to each country's poverty reduction strategy, which is highly context-dependent, thus comparisons should be interpreted with care.

*Actual pro-poor expenditures represent a commendable increase, but further efforts are still needed given the magnitude of the poverty and the repercussions of the long standing conflicts in the country.* Although there was a clear increase in actual pro-poor expenditures, planned/budgeted pro-poor expenditures have shown a declining trend since 2012 (Figure 4). This highlights the

**Figure 3:** Total Public Expenditures as Percent of GDP (1997–2013)

Source: Central Bank of Sudan Annual Reports and IMF-Sudan, Article IV Consultations Reports.

**Figure 4:** Budgeted versus Actual Share of Pro-Poor Public Expenditures as Percent of GDP, 2012–2014

Source: Ministry of Finance and Economic Planning and authors' calculations.

need for improving the mechanisms for further prioritizing pro-poor expenditures during the budget preparation. The PRSP should ensure that expenditures directed toward the poor be better planned.

*Pro-poor budget credibility remains, however, a challenge, imposing a serious implication for effective implementation of IPRSP.* Figure 4 shows a budget execution rate averaging only 80 percent of planned amount. The low budget credibility is largely explained by the shortfall on development pro-poor spending; reflecting strict priority for release of funds to recurrent activities—such as wages and salaries—compared to development projects during resource envelope shortfalls. Development pro-poor spending had fallen far short of plans to less than 60 percent of the budgeted plan in 2012 and 2013. This highlights the need for improving the mechanisms for further prioritizing development expenditures during budget preparation and execution processes.

*The quality of budget data and classification used presented a challenge.* Although the Government Finance Statistics (GFS) budget classification is being used since 2008, yet the budget system does not provide actual executions of government expenditures according to their function. A key issue has been the misclassification of several expenditure categories at both federal and state levels. As a result the study examined the detailed expenditures items under expenditure categories and subcategories and the detailed items under government units of each state based on the closed accounts to determine/monitor pro-poor expenditures during the review period.

In addition, the study analyzed development projects to determine the actual level and functional classification (sectoral shares) of spending achieved. This constituted a very detailed review currently hitherto unavailable in Sudan.

#### 4.4 Composition of Pro-Poor Budgeting and Expenditures in Sudan

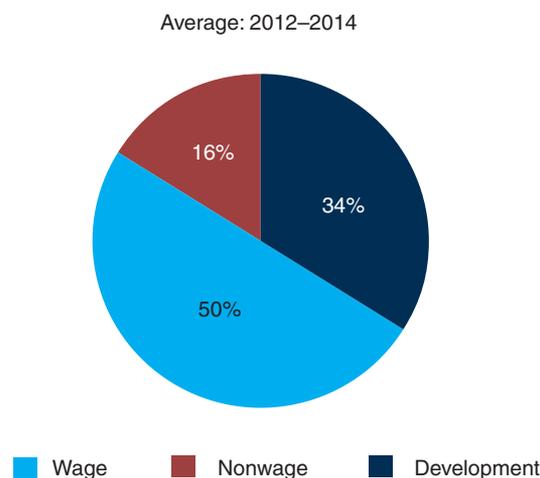
*The composition of pro-poor expenditures is analyzed to determine the underlying factors behind the aggregate trends noted above. The level of government (federal vs. state expenditure) and economic classification (current vs. development expenditure) are analyzed here while the following chapter examines sectoral pro-poor expenditures.*

*The composition of federal versus state expenditures shows that on average 58 percent of pro-poor expenditures occur at the state level. This expenditure pattern indicates an overall trend in pro-poor expenditures which is increasingly skewed toward the state level, where the responsibility of delivering basic services (including education, health and water) has been transferred to the subnational/state level since 2005 fiscal decentralization. The increasing state level pro-poor efforts over the period are largely explained by higher federal transfers to states (though declined as share of total expenditures in 2012–2014 compared to the CPA period (2005–2011), reflecting the government's commitment to fiscal decentralization.*

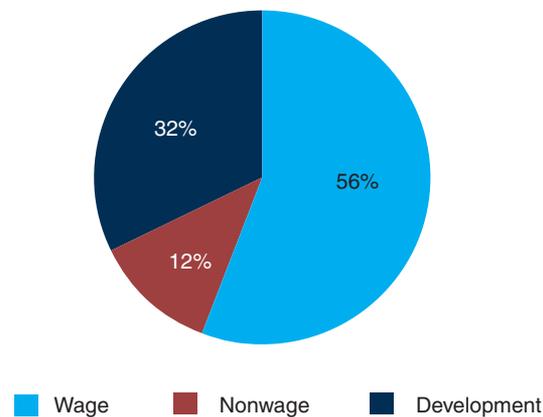
*The economic classification of current versus development expenditures shows that total pro-poor expenditures are dominated by current expenditures. Current expenditures (wage and nonwage) amounted to 66 percent of the total during the period 2012–2014. Within current expenditures wages constitute the largest share, about 50 percent, leaving only 16 percent for running expenses such as operations and maintenance and supplies (Figure 5).*

*The breakdown of pro-poor expenditures into current and development support differs at the state level where the emphasis is on current spending. Current expenditures account for more than two thirds of state level spending, including 56 percent devoted to wages (Figure 6). A low share goes to pro-poor development spending on basic services including education, health and water, which states are entrusted to provide according to the fiscal decentralization policy. Within current expenditures the share allocated to nonwage is small (about 12 percent). This pattern of*

**Figure 5:** Current versus Development Pro-Poor Expenditures at Federal and State Levels



Source: Ministry of Finance and Economic Planning and authors' calculations.

**Figure 6:** Current versus Development Pro-Poor Expenditures at the State Level

Source: Authors' calculations based on collected data.

expenditures leaves meager resources devoted to running expenses with the consequent result of poor sustainability and maintenance of development projects.

*The dominance of current pro-poor spending over development spending, especially at the state level, raises concerns.* Improving service delivery to the poor in the longer term requires investment in schools, clinics, roads and so on and the relative emphasis on current spending leaves little room for items that have a direct impact on the quality and sustainability of services (e.g., investments in facilities, equipment and capacity development).

*In addition to budgeted pro-poor expenditures, safety net programs such as Zakat and microfinance programs are non-budgetary expenditures targeting the poor and administered by independent bodies outside the jurisdiction of the Ministry of Finance and Economic Planning.* Zakat is an Islamic system, in which a compulsory religious tax is imposed on certain activities and the revenues are mainly distributed to poor and vulnerable groups. Zakat revenue is administered by an independent body (Zakat Chamber). Similarly the microfinance program which is targeting the poor, being under the jurisdiction of the Central Bank, is also outside the jurisdiction of Ministry of Finance and Economic planning. Zakat and microfinance expenditures have hovered around 0.4 percent of GDP as shown in Table 4.3.

*Besides the public funds, budgetary and non-budgetary, there are other nonpublic funds expenditures.* The two major sources considered here are the expenditures by the National Social Security Fund (NSSF), which is a contributory fund by the private sector and the workers, and the food and nutrition direct assistance provided mainly by the WFP and UNICEF targeting the internally displaced persons and the vulnerable population affected by the war. Both sources constitute around 0.7 percent of GDP during 2012–2014.

*The above figures do not contain subsidies which will be discussed in details in the section related to social protection expenditures.* Subsidies constitute a very significant share of GDP amounting to 2.2 percent on average during 2012–2014 which if added to the pro-poor public expenditures (budgetary and non-budgetary) will bring the total expenditures on pro-poor to around 6.0–7.0 percent of GDP.

### Implications for PRSP

*There is a need for a measurable definition of pro-poor spending that effectively captures expenditures directed to the poor, and enable monitoring of government efforts.* While identifying pro-poor spending is the first step, applying a measurable/working definition is vital towards formalizing monitoring in budget planning, implementation and execution, and reporting. The set of policies and priorities developed in the IPRSP anchored a definition of poverty-reducing allocations.

Further improvements are expected during the process of the PRSP preparation, including better monitoring of the actual use of the funds classified as pro-poor. Identification of pro-poor expenditures is highly context-dependent, and is most useful as a means to help guide and track government efforts when the conceptual framework is developed through a wide participatory discussion and is country-owned, underscoring the desirability for the PRSP to provide the framework. This report and the experience of some SSA countries in applying a pro-poor expenditures definition can also provide guidance.

*The growth in pro-poor spending is a commendable achievement as it has occurred in the context of rapidly declining total expenditures. It will be important to protect and strengthen pro-poor spending as a policy reflected in the budget, especially given fiscal pressures. The formulation of a national poverty reduction strategy (PRSP) should help in this regard.*

*The need for improving the mechanisms for prioritizing pro-poor expenditures during the budget preparation and execution processes is vital for effective implementation of IPRSP. Pro-poor budget execution rates average only 80 percent of the planned amount. The low budget credibility is largely explained by the shortfall on development pro-poor spending. It seems that expenditures on development projects at both federal and state levels are treated as residual, depending on the availability of the resources after meeting current expenses. This highlights the need for improving the mechanisms for further prioritizing development expenditures during the budget preparation and execution processes.*

*There is an urgent need to direct resources to development at the state and local levels, where responsibility for basic service delivery has been devolved. The low level of development expenditures at the state level is a cause for concern, and there is a need to direct resources to development at the state level, where it will directly benefit the poor. Improving service delivery to the poor requires investment in schools, clinics, roads and so on. The relative emphasis on wages also leaves meager resources devoted to running expenses with the consequent result of poor sustainability and maintenance of development projects. These efforts are to be guided by poverty mapping to ensure equity.*

*The current fiscal constraints in Sudan, following the loss of oil windfall underscore the importance of increasing expenditure efficiency and effective use of scarce resources. The growth in pro-poor expenditures have occurred in the contest of rapidly declining total expenditures and revenues. The fiscal space created by the oil boom has been rapidly declining. Within this constrained fiscal environment, an improvement in the efficiency of expenditures, including pro-poor spending should be supported. The M&E system is required to follow up the implementation of the PRSP.*



## CHAPTER 5

# Sectoral Pro-Poor Expenditures Analysis: Challenges and Opportunities

### 5.1 Overall

General education claims the highest share in pro-poor expenditures. Among the pro-poor sectors, education accounts for 28 percent followed by social protection and health around 22 percent each and infrastructure about 16 percent. Higher education has the lowest share of pro-poor expenditures around 4 percent on average. A striking feature is the extremely low share of agriculture out of the total pro-poor expenditures, which is 5.6 percent on average, despite the fact that agriculture is the key sector to a broad base growth and the reduction of poverty.

**Table 5.1:** Pro-Poor Expenditures by Sector (Billion SDG)

	2012		2013		2014	
	Budget	Actual	Budget	Actual	Budget	Actual
<b>Pro-poor expenditures in SDG billion</b>						
Agriculture, Livestock and Natural Resources	1,294	784	2,596	778	2,205	1,226
Infrastructures: Irrigation Dams, Roads and Rail	2,446	1,116	2,390	2,728	2,164	3,425
Health	2,922	2,198	3,234	3,097	4,729	4,531
Education—General	3,973	2,760	4,213	3,949	5,850	6,070
Education—Higher	878	438	551	496	871	860
Social Protection	2,696	2,144	4,587	2,882	6,056	5,718
Total	14,209	9,440	17,572	13,929	21,875	21,829
<b>In percent of total pro-poor expenditures</b>						
Agriculture, Livestock and Natural Resources	9.1%	8.3%	14.8%	5.6%	10.1%	5.6%
Infrastructures: Irrigation Dams, Roads and Rail	17.2%	11.8%	13.6%	19.6%	9.9%	15.7%
Health	20.6%	23.3%	18.4%	22.2%	21.6%	20.8%
Education—General	28.0%	29.2%	24.0%	28.3%	26.7%	27.8%
Education—Higher	6.2%	4.6%	3.1%	3.6%	4.0%	3.9%
Social Protection	19.0%	22.7%	26.1%	20.7%	27.7%	26.2%

Source: Compiled by authors from Ministry of Finance and Economic Planning data.

## 5.2 Growth and Development with Employment Creation: Agriculture and Agriculture Related Infrastructure

### Introduction

*Public agriculture expenditure (PAE) is defined to include agriculture as well as agriculture related sectors like dams, and infrastructure.* The definition of PAE adopted in this study draws on a technical note by AU-NEPAD issued in 2005 to assist countries in defining what to include in Public Agriculture Expenditures for measuring progress in Maputo Declaration of July 2003 that commits the African countries to agree to allocate at least 10 percent of national budgetary resources for agricultural and rural development.<sup>4</sup> To allow for further analysis, a distinction is made between the core agriculture sub sectors and the agriculture related infrastructure.

*Agriculture is largely traditional and subsistent with low yields as evidenced by long term crop production trends, as well as low livestock productivity and off-take rates.* Traditional farmers expand horizontally by increasing area planted to compensate for the low yields. Meanwhile, nomadic livestock herders continue to increase their herd numbers beyond the grazing capacity as a coping mechanism against the risks of diseases and drought. Livestock farming is dominated by traditional management systems that lack business orientation, thus limiting breeding, exploitation of markets and improved value chains. There is little use of improved varieties of seed with little fertilizer application in crops. Access to technology or extension services is poor and research is crippled by the small funding. The land tenure system—besides being a source of conflict—does not encourage sustainable use of land. The modern irrigated sector is at the brink of collapse due mainly to mismanagement, lack of institutional reforms and the deteriorated irrigation facilities. This situation is exacerbated by weak market access due to poor infrastructure and high taxes particularly at the sub national governments level. The agro industrial base is loaded with constraints and most agriculture is exported as raw materials to limited markets. This situation does not serve the poor.

*One of the blows to agriculture was the negligence of this sector during the oil period.* The oil has shifted the structure of the economy in Sudan from an agrarian base where most of the population earns their livelihood to an oil growth driven economy. Following the oil boom, the share of agriculture in GDP declined from 48 percent in 1997 to about 30 percent by 2010, while the services sectors share in the GDP started to increase gradually from around 40 percent in 1996/97 to peak at 48–50 percent in 2009–2011. Sudan did not use the oil windfall to invest in improvement of agriculture.

*All indicators derived from Sudan National Baseline Household Survey (NBHS) of 2009 point to the importance of agriculture to poverty in Sudan.* About 57.6 percent of the households below the poverty line live in the rural areas that are dominated by agriculture as the main source of livelihood. States at the bottom of the poverty rely on agriculture. For example, about 74 percent of North Darfur population, being the poorest state (with 69.4 percent of its population live below the poverty line) derives their livelihood from agriculture and livestock. About seventy per cent of the labor force is principally employed in agricultural or agriculture related activities.

*The importance of agriculture was recognized by the IPRSP.* Agriculture was part of the “promotion of economic growth and employment creation” pillar of the IPRSP. The actions proposed by

<sup>4</sup>The FAO has developed common indicators for monitoring key commodities and public expenditure in agriculture through Monitoring and Analysis of Food Agricultural Policies MAFAP, which is more comprehensive including agriculture specific investments and general sector support like roads, training, research, infrastructure, storage, marketing and also agriculture supportive policies like rural education and rural health and it includes all public institutions like state public enterprises and state banks. It also measures both budgeted and actual expenditures. In this study what constitutes agriculture in Sudan is defined in such a way as to include more than what is contained in the narrow definition of the COFOG/AU-NEPAD but not as broad as the MAFAP. The definition will include agriculture and agriculture related sectors like dams for irrigation, railways, agroindustry and paved roads. To allow for any further analysis distinction will be made between the core agriculture sub sectors and the agriculture related infrastructure.

the IPRSP relied on the Government plan “Agriculture Revitalization Program”. The main objectives of agriculture development were ambitious given time and resource availability and existing capacity: (i) increase agriculture growth (ii) increase agriculture productivity (iii) increase exports, particularly livestock and (iv) make agriculture production environmentally sustainable. To achieve these objectives, the actions proposed were: assisting smallholder to become more productive by strengthening land rights, investing in research, providing access to financial services and link producers to modern supply chains for higher-value urban markets, rehabilitating the irrigated sector, improving quality of exports, improving livestock marketing and the quality of stock routes, improving access to credit, handling facilities and veterinary inspection and vaccination services; addressing environmental degradation and making agricultural systems more environmentally sustainable, rehabilitating the Gum Arabic Belt; and building the capacities of agro-industries. The strategy calls for more public investments for agriculture sector, particularly research.

*The IPRSP also recognized the paucity of infrastructure as one of major impediments to growth, particularly to agriculture.* As stated in the IPRSP, poor infrastructure is also impediment to national integration and the spreading of the benefits of growth to all parts of the country. Outcomes like integration of the nation, making growth inclusive, moving bottlenecks to production, promoting competitiveness will have positive impacts on the poor and therefore, infrastructure will require sustained investments, which is a major challenge facing the country. Within the investment portfolio for infrastructure, maintenance should be given priority along with roads in lagging regions and rural areas and rehabilitation of the railways especially sections passing through the conflict areas. It was obvious that many of the proposed actions will not be fully implemented during the period mentioned. However, what was required is working towards meeting these objectives.

### **Agriculture Public Expenditures (2012–2014)**

*The total expenditures on agriculture and infrastructure-related spending amounted to 8.2 percent of total public expenditures on average during 2012–2014.* This is close to Sudan’s commitment to the Maputo Declaration.<sup>5</sup> The following table shows the actual public expenditures allocated for the agriculture sector and related infrastructure.<sup>6</sup> The share of agriculture and related infrastructure out of total public expenditures has consistently increased from 6.4 percent in 2011 to 8.2 percent. The increase in agriculture and agriculture related expenditures is mainly due to the government’s investments in infrastructure like dams and roads, indicating the high priority accorded by the government to infrastructure investments. However, if agriculture spending is considered in a narrower context, i.e. less infrastructure spending, the public expenditure in agriculture as a ratio to the total public expenditure is 2.2 percent over the same period, which is disappointing given the role that has to be played by the agriculture sector in poverty reduction.

*The bulk of federal development spending in agriculture and agriculture related sectors is directed towards dams (around 60 percent of total agriculture expenditures), paved roads and rail (22 percent), indicating the government priority of investing in infrastructure.* Within the core agriculture activities, most federal development resources are spent on irrigated agriculture. Livestock and rain fed agriculture receive meager resources (Figure 7). Expenditures on services like plant protection, technology transfers and research, receive a small allocations. Although natural resources are showing small amounts of expenditures, but it is to be noted that forestry, receives additional resources from the Forestry Public Corporation which are not recorded here (the public corporations are excluded from the definition of agriculture in this study).

<sup>5</sup> In 2003, 53 African countries have met and issued what is known as Maputo Declaration in which they have committed themselves to accord agriculture investments a high priority and a target of 10 percent of public expenditures should be devoted to agriculture. Agriculture definition by African Countries varies but all African countries defined agriculture to include other related sectors.

<sup>6</sup> Infrastructure includes roads, irrigation dams and water harvesting.

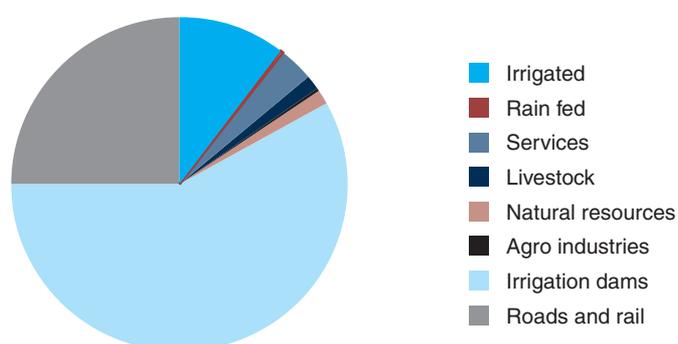
**Table 5.2:** Agriculture and Infrastructure Public Expenditures (2012–2014)

	2012	2013	2014	Average 2012–2014
In SDG million				
Agriculture and infrastructure	1,899	3,505	4,650	
Agriculture	(783)	(777)	(1,225)	
Infrastructure	(1,116)	(2,728)	(3,425)	
As % of total public expenditures				
Agriculture and infrastructure	6.4%	8.5%	8.2%	7.7%
Agriculture	(2.6%)	(1.9%)	(2.1%)	(2.2%)
Infrastructure	(3.8%)	(6.6%)	(6.1%)	(5.5%)
As % of GDP				
Agriculture and infrastructure	0.8%	1.1%	1.1%	1.0%
Agriculture	(0.3%)	(0.2%)	(0.3%)	(0.3%)
Infrastructure	(0.5%)	(0.9%)	(0.8%)	(0.7%)
Federal versus states expenditures ratios				
Agriculture: Federal	59%	49%	64%	57%
States	41%	51%	36%	43%
Infrastructure: Federal	69%	78%	76%	74%
States	31%	22%	24%	26%
Current expenditures versus development expenditures				
Agriculture: Current	37%	38%	33%	36%
Development	63%	62%	67%	64%
Infrastructure: Current	17%	11%	13%	14%
Development	83%	89%	87%	86%

Source: Authors' calculations.

**Figure 7:** Composition of Agriculture Development Expenditures by Category

Sub sectoral composition of agriculture and agriculture related development expenditures (federal and states): average 2012–2014



Source: Sudan Ministry of Agriculture and NAIP.

Sudan's public agriculture expenditures though close but have not met the 10 percent target after a decade has passed since Maputo Declaration was launched in 2003. Only 13 countries out of the 53 African countries have met or surpassed the 10 percent target in one or more years. Sudan performs within the average of its neighbors (except for Ethiopia) and the continent, which is less than the 10 percent target, but not within its IGAD Region (Table 5.3).

**Table 5.3:** Public Agriculture Expenditures as Percentage of Total Expenditures—Sudan and Comparators

Egypt	Ethiopia	Chad	Central Africa	Sudan	Africa	IGAD Region
1.8%	21.2%	6.2%	2.3%	8.2%	3.9%	10.7%

Source: Re SAKKS, Annual Trends and Outlook Report (2012).

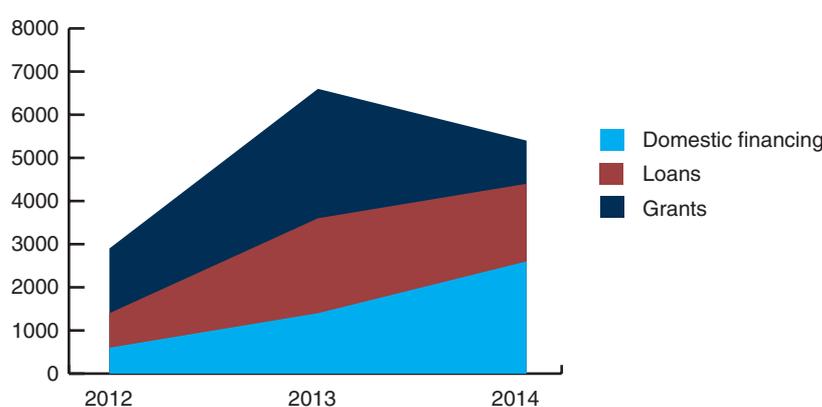
### Domestic Development Expenditures versus Foreign Expenditures

The government has met 97 percent of the financing for the agriculture and agriculture related development during 2012–2014 from domestic resources and loans. Grants by the international community covered the remaining balance. Out of the 97 percent financing, 50 percent was met from domestic resources and 47 percent from loans. Most of the loans were directed for the agriculture related expenditures (dams, rail and paved roads) as reflected in Figure 8.

For more than two decades, Sudan has received extremely low level of development assistance from the donor's community. This is mainly attributed to the political tensions between Sudan and the western countries. Sudan's access to concessional financing for development is aggravated by the unilateral economic sanctions of the USA since 1997, and the inability of Sudan to access the international debt initiatives like HIPC. Therefore, Sudan has to depend on other sources, which are mainly loans from the Arab institutions and China to implement its major development projects, particularly dams for irrigated agriculture and roads.

**Figure 8:** Public Agriculture Expenditures by Source of Financing

Composition of agriculture public expenditures by source of financing

**Table 5.4:** Sudan-Public Agriculture Loans by Source in US\$

Donor	2012	2013	2014
Islamic Development Bank	37,166,745	53,331,878	10,460,927
International Fund for Agriculture Development	5,338,071	5,712,935	897,269
Arab Fund for Economic and Social Development	55,113,961	98,651,363	104,235,712
Abu Dhabi Fund for Economic Development	4,341,083	2,322,100	0
Kuwait Fund for Economic Development	13,819,593	44,273,055	49,145,859
Saudi Fund for Development	45,530,337	41,517,822	55,903,320
OPEC Fund	14,245,268	16,626,767	11,804,941
China	61,595,233	0	0
India	134,793	0	0
Total Loans	237,285,084	262,435,920	232,448,028

Source: Central Bank of Sudan, External Debt Unit.

**Table 5.5:** Sudan—Grants Covering Public Agriculture Expenditures Classified by Development Partners—US\$

	2012	2013	2014
UNDP	1,421,621	2,761,394	1,498,909
FAO	8,008,319	7,071,907	2,352,489
World Bank/MDTF	4,369,000	2,785,000	0
EU	3,220,079	415,439	7,653,886
Total grants	17,019,019	13,033,740	11,505,284

Source: Ministry of Finance, Planning Secretariat, International Cooperation Directorate.

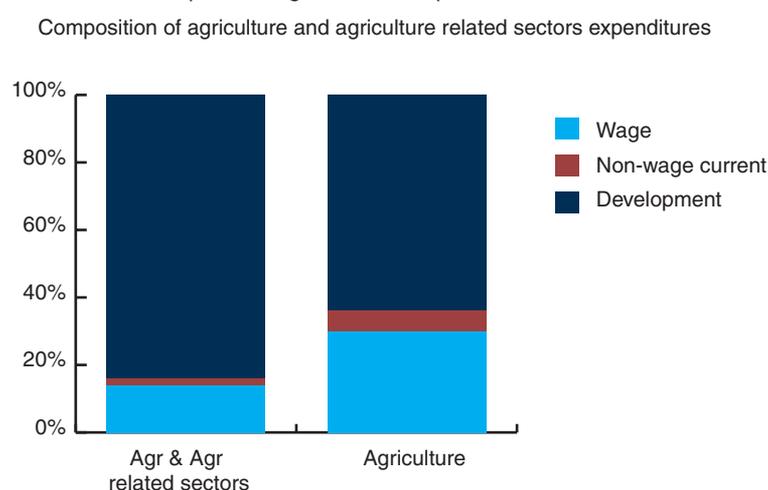
### Current Expenditures versus Development Expenditures

Current expenditures constitute around 15 percent of the agriculture and agriculture related sectors on average during 2012–2014, while the bulk of expenditures amounting to 85 percent are development expenditures. However, this situation largely changes in case of only considering agriculture without related sectors. Average current expenditures for agriculture expenditures during the same period amounted to 30 percent while development expenditures declined to about 60 percent (Figure 9). A noticeable feature in both cases (with or without related sectors) is the meager resources devoted to the running expenses which ranged between 3–9 percent, with the consequent result of poor sustainability and maintenance of agriculture development projects.

### Federal Expenditures versus States Expenditures

States spend on average an equivalent of around 16 percent of the total public resources spent on agriculture and agriculture related sector nationwide. Table 5.6 shows the distribution of public agriculture expenditures at the federal and state level, where the federal level claims the largest share. The state share of agriculture expenditures to total public expenditures average 16 percent during 2012–2014, but with a declining trend. Moreover, within the current expenditures, the substantial part is directed to meet wages and salaries at the expense of providing running cost and surpluses for development.

Wages and salaries constitute the largest current spending component in agriculture. Out of the 16 percent expenditures on agriculture at the state level, about half of it (46 percent) is current expenditures, of which 70 percent is spent on wages and salaries i.e. around 30 percent. Agriculture expenditures at the federal level as a percentage of total expenditures on agriculture show a similar trend. The share of expenditures on federal agriculture amount, on average, to 19 percent of which about one third (35 percent) are current expenditures, out of which 80 percent are spent on wages and salaries.

**Figure 9:** Recurrent and Development Agriculture Expenditures Shares

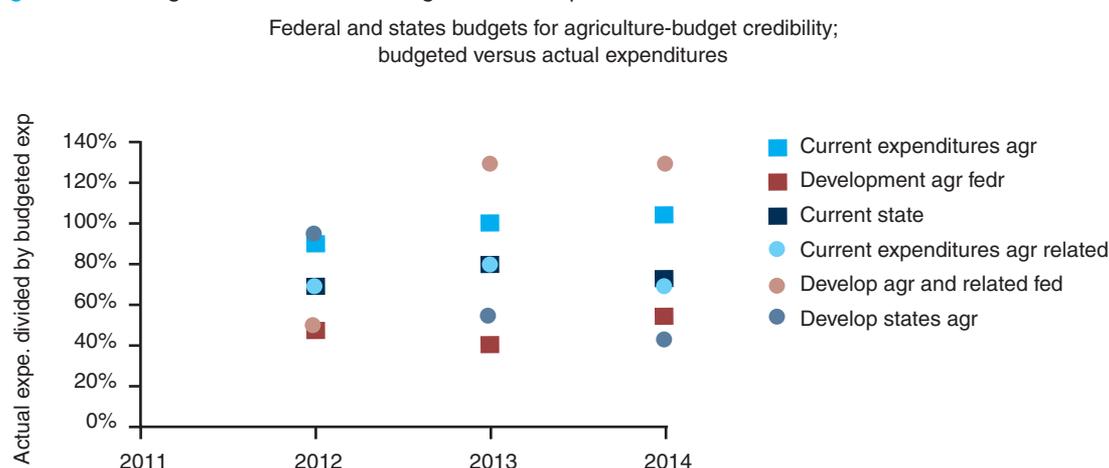
**Table 5.6:** Sudan: Federal and States Agriculture and Infrastructure Expenditures as a Share of Total Agriculture and Infrastructure Expenditures

	2012	2013	2014	Average 2012–2013
Federal agriculture	27%	12%	19%	19%
Federal infrastructure	52%	74%	69%	65%
States agriculture and infrastructure	21%	14%	12%	16%
Total	100%	100%	100%	100%

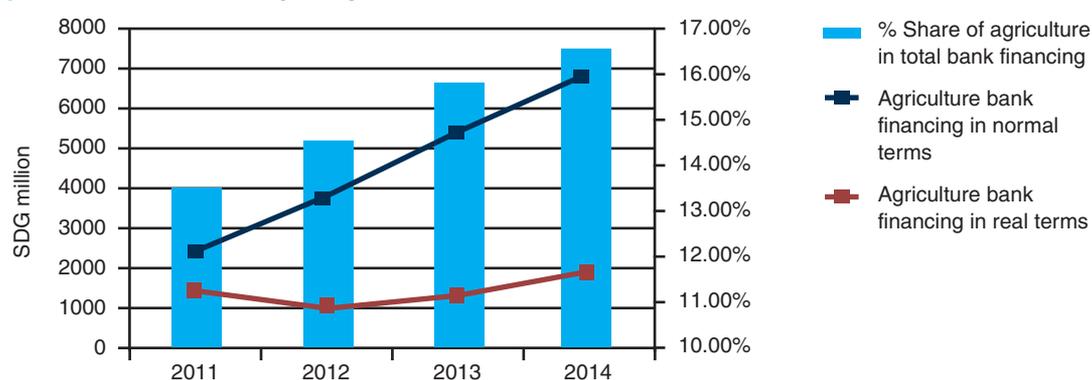
**Budget Execution: Budget Allocations versus Actual Expenditures**

The credibility of development expenditures is poor, imposing serious implications for effective implementation of agricultural projects/investments. It seems that expenditures on development projects in agriculture at both federal and state levels are treated as residual, hinging on the availability of the resources after meeting current expenses. This is clear from the deviation of over 50 percent between budgeted and actual figures for development expenditures, which is poor by international standards. The extent of deviation is shown in Figure 10 below. As expected, the degree to which actual expenditures deviate from budgeted level has been reasonable by international standards for the agriculture current expenditures at the federal level (deviation of less than 4 percent between budget and actual expenditures) and to a lesser degree at state level (due to overestimation of running expenditures).

**Figure 10:** Budgeted versus Actual Agriculture Expenditures at Federal and State Levels



**Figure 11:** Bank Financing to Agriculture



Source: Central Bank of Sudan Annual Reports 2011–2014 and author’s compilations.

## Seasonal Financing

*The agriculture public expenditures were supported by noticeable increase in banks financing to agriculture, both in nominal and real terms.* The share of agriculture in total banks financing has also increased from around 13 percent in 2011 to around 17 percent in 2014, which contributed to the financing of the agriculture seasons during 2012–2014.

## Achievements

### *Recovery of Production, Productivity and Exports*

*Several actions identified by the IPRSP were implemented.* Beside the huge investments in infrastructure, particularly roads and water harvesting in rain fed areas, considerable efforts were made in the livestock sector. Investment in this sector included the successful health program of vaccination and inspection for livestock exports of sheep and investments in quarantines that resulted in remarkable recovery of live animal's exports. Suitable policies in the area of liberalizing and investments in the Gum Arabic and oilseeds led to increased production and exports of those commodities. Investments in technological improvement—genetically modified cotton—resulted in the recovery for cotton.

*These efforts had positive results on agriculture production.* Output and yields started to recover particularly oil seeds and cotton. A positive achievement in the agriculture sector is the clear rising trend in yields and quantities exported as shown in Figure 12. The rising trend is also driven by non-crop production, livestock sector, which shows a remarkable recovery with virtually no exports in 2008 that grew to a multi-million business and earned about US\$682 million in 2013, compared to total agriculture exports of US\$1,626 (Bank of Sudan Annual Reports and Trade Digest).

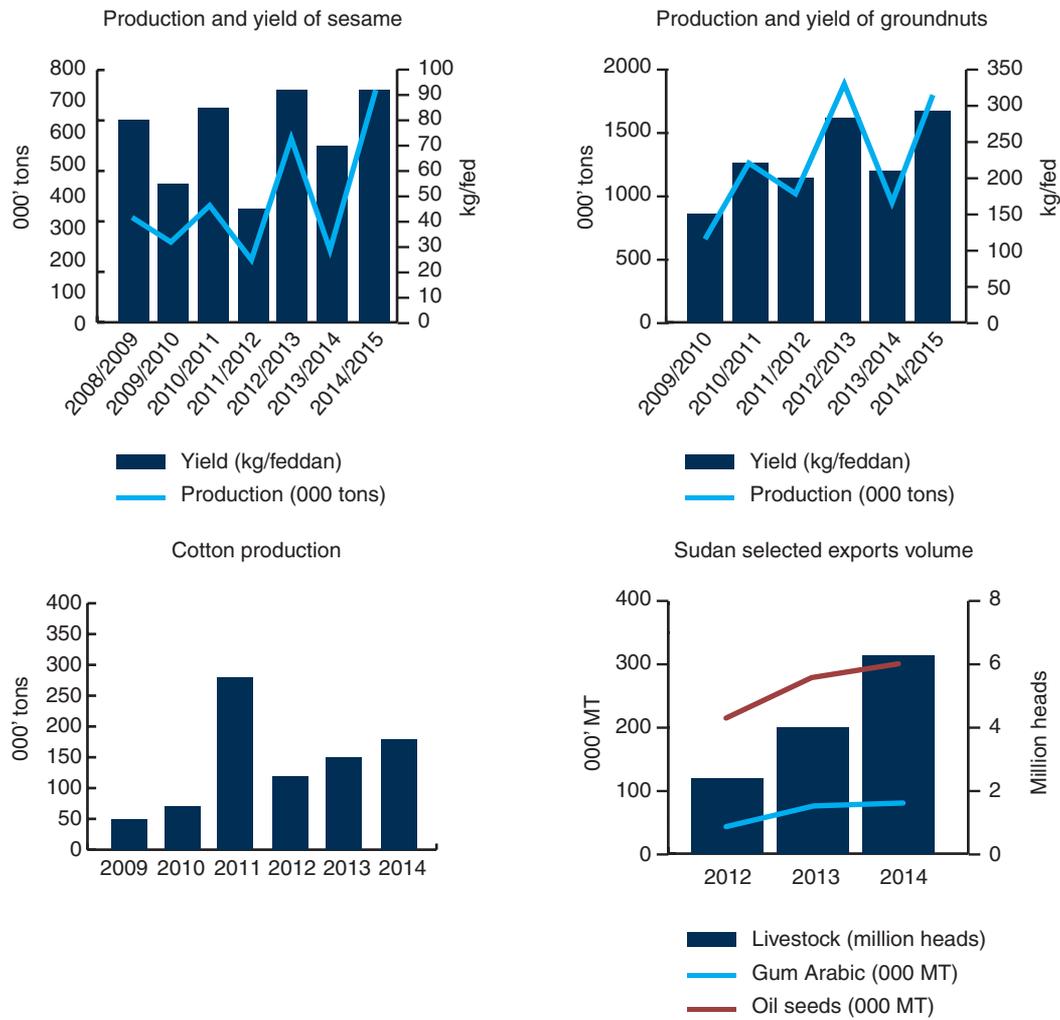
*The livestock sector—that accounts for half of total agricultural GDP in Sudan—has been much stronger in contrast to crop production.* The national herd and exports have seen significant growth over the past decade, exporting over 6 million heads in 2014 (Figure 12). Sudan's recent export values of livestock products indicate that the growth is led by the increase of sheep exports from \$44 million in 2008 to \$477 in 2013, primarily to Arab countries. The backbone of this success is pastoral livestock production.

*Cotton production and yields have recovered over the past years.* After a number of years with declining yield and production of cotton, cotton production is on the rise again since 2010 (Figure 12). Cotton average yields doubled from 500 kg/feddan in 2009 to 1014 kg/feddan 2014, following the introduction of genetically modified cotton. However, current cotton production is far below its 1960's level, when Sudan was one of the world's largest producers of cotton.

*Gum Arabic production has also shown a remarkable recovery, but there is considerable scope to expand production.* The Gum Arabic trade was liberalized with the removal of the Gum Arabic Company (GAC) concessions on the marketing and export of raw gum Arabic and the suspension of the floor price system. Production increased to 50 thousand tons between 2009 and 2012, after a sharp drop in the 1990s where annual production averaged 15 to 20 thousand tons.<sup>7</sup> The current production level is closer to the average of the 1960s, when Sudan was the world's largest producer of gum Arabic, but its domination has declined over time. Latest estimates available for 2014 suggest that production reached 75 thousand tons and this is probably far below potential output of gum Arabic. The production potential with current gum Arabic trees as speculated by the Secretary General of the Gum Arabic Council can reach about 200 thousand tons. Farm

<sup>7</sup> The sector was supported by 2010 Gum Arabic project, known as “as ‘Revitalizing the Sudan Gum Arabic Production & Marketing Project” financed by the World Bank (Multi-Donor Trust Fund) and the International Fund for Agricultural Development (IFAD).

**Figure 12:** Agriculture Production and Yields for Selected Crops and Agriculture Exports



Source: Central Bank of Sudan: foreign trade statistical bulletin (2008–2014) and Agriculture Economics Department MOAI.

reach results have shown that productivity per tree can be considerably increased by 47 to 60 percent. Thus there is considerable scope to expand production.

*Sesame is a relatively high value crop, with a stable world market in which Sudan plays a relatively strong role.* Sesame yields slightly improved during the review period (Figure 12). Sudan exports about two-thirds of its sesame production, and is among the main exporters of sesame seeds worldwide with a 10 percent share in total world export of sesame, Sudan’s ranked fourth after Nigeria, India, and Ethiopia who had, respectively, 38, 20, and 16 percent shares of the market. Sesame exports in 2008–2013 accounted, on average, about 32 percent of agricultural exports, ranking next to livestock that accounts for 42 percent. However, sesame productivity levels are low relative to other major producing countries (Table 5.8). Increasing productivity through adopting improved production and using higher quality inputs will create jobs and increase incomes in the rural area.

**Agriculture Supply and Improved Food Security Situation**

*Household food security in Sudan is strongly linked with the performance of the agricultural sector.* However, taking the food security in its broad definition other factors like prices and access and food utilization matter. Moreover, food security situation varies in terms of locations, being worse in conflict affected areas.

*The outcome of the increased production had positive impacts on food security.* It has enhanced one pillar of the food security situation in the country which is food availability. The three agriculture seasons 2012–2014 had good harvest (except for 2013). In 2014/2015 season cereals production reached 7.84 million tons which is 86 percent above the average of the last five years 2008–2012 and so was the agriculture season 2012 in which cereals production amounted to about 6 million tons.<sup>8</sup> Generally food security conditions have significantly improved as cereal crop production increased local supply and reduced most vulnerable households' dependence on markets.

*However, the stability of food supply was affected by the increase in prices in the first half of 2012, where average cereal prices were about 2 to 3 times their level in 2008.* But prices remained stable through 2013 and 2014, yet still higher than average of the last five years.<sup>9</sup> High inflation has affected the general price levels including food. Inflation rates continued to hike from 18 percent in 2011 to 35.1 percent in 2012 to 37 percent in 2013 and 2014. However, bread prices were not affected by any price increase due to maintaining wheat subsidies. Inflation started to come down in late 2014 and the first half of 2015 (14 percent in July 2015). The decline in the inflation rates coupled with the good agriculture season, is expected to improve food security situation in 2015.

*On the other hand, unemployment also has negative impacts on accessibility.* Unemployment rate, which was around 14.8 in 2009 as estimated by the CBoS, increased to 18.8 percent in 2013 as noted by the Ministry of Manpower based on a survey that was conducted in collaboration with the ILO.

*In conflict affected areas food security was adversely influenced by the increase in displacement.* About 400,000 new internally displaced people (IDPs) were registered between January and August 2014 in the country, particularly in Darfur mainly due to tribal conflicts whereas resources of UNOCHA for Sudan program have been going down since 2011, thereby affecting access to food security. In Darfur, a decline in food security (from November 2012 to November 2014) was seen in all five states, but was most pronounced in South and West Darfur, where the proportion of the population classified as food secure shrank by 24 and 22 percentage points, respectively.<sup>10</sup>

### **Increased Market Access**

*Sudan invested heavily in roads construction during 2012–2014, with noticeable achievements.*<sup>11</sup> In the period 2012–2014 around 1,262 km of roads or about 20 percent of the network were added to the road network bringing the total paved roads network in 2014 to 8,706 km. The distribution of the new roads constructed gave due consideration to the regional balance where several roads were completed or near completion in Darfur, like Zaling/Algeniena (178 km) in the far west, and Nyala/Idd Al Firsan (158 km) and Nyala-Kass-Zalingi (146 km) in South Darfur.

## **Challenges**

### **Low Agricultural Growth Compared to Potential**

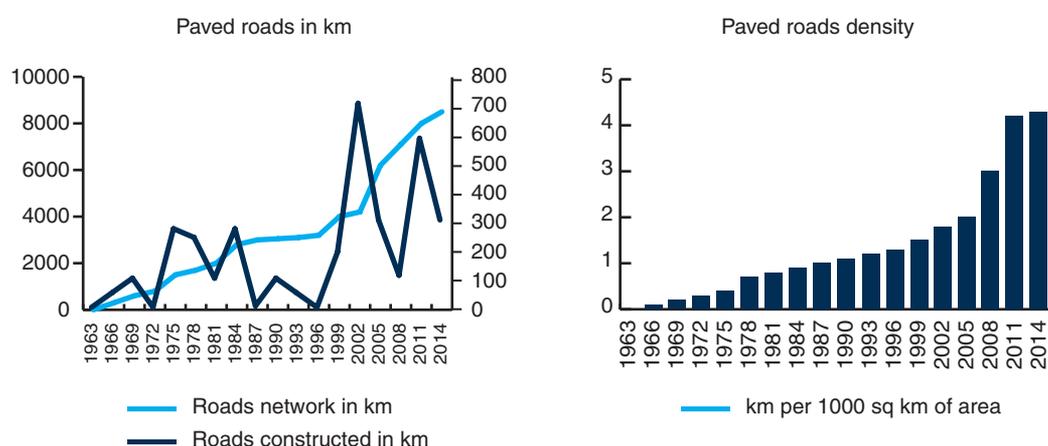
*Sudan is producing far below its potential.* Total area under irrigation declined to about 2 million feddan compared to a potential of 4.7 million feddan. Irrigation intensity of Gezira Scheme is currently around 37 percent from a level of 75 percent in the 1970s. Sudan is now producing

<sup>8</sup> Food Security Cluster—FAO/WFP Sudan Report 2015.

<sup>9</sup> FAO Country Brief: Sudan 2015.

<sup>10</sup> Food Security Cluster—FAO/WFP Sudan Report 2015.

<sup>11</sup> Sudan has made considerable investments in paved roads. The paved roads network has expanded considerably from around 3,358 km in 2000 to 6,444 km in 2011.

**Figure 13:** Roads Lengths and Density

Source: Roads and Bridges Public Corporation.

one tenth the cotton it used to produce in the 1970s. Current cotton production is 130,000 bales whereas its production reached 1,300,000 bales in mid-seventies. Sesame production is one fifth of the level attained in the early 1960s. Growth of agriculture is still volatile and is largely influenced by rains and follows the volatility of the rainfall. Moreover, production from the irrigated sector is weak. Areas under irrigation fell from 2.9 million feddan in 2010/2011 to 2.4 million feddan in 2013/2014. Irrigation schemes still suffer from poor management and lack of institutional reforms, which have been the main reasons behind the deterioration of production and productivity in the irrigated sector.

**Agriculture sector annual growth rates**

Source: CBoS

### Low Productivity

Productivity is still extremely low. Sudan is not investing well in research. The following table reveals that expenditures on research during the IPRSP period are about 0.08 percent of agriculture GDP. Brazil invests in research 1.8 percent of agriculture GDP, China 0.5, India 0.4.<sup>12</sup>

**Table 5.7:** Agriculture and Livestock Research Public Expenditures, 2012–2014

Ratios of research expenditures	2012	2013	2014	Average
As % of agriculture GDP	0.09%	0.07%	0.08%	0.08%
As % of total public expenditures	0.22%	0.19%	0.23%	0.21%
As % of federal agriculture expenditures	14%	20%	14%	16%
Share of wages	84.4%	81.3%	67.6%	77.8%
Share of nonwage	7.1%	8.8%	18.6%	11.5%
Share of development	8.5%	9.9%	13.8%	10.7%

Source: Authors' calculations.

<sup>12</sup> Agriculture and R&D in South Asia. Gert Jan Stads and Micheal Rahija 2012.

**Table 5.8:** Sudan Yields for Some Crops Compared to Selected Countries

Sesame		Cotton		Cereals	
Country	Kg/ha	Country	Kg/ha	Country	Kg/ha
Ethiopia	750	Egypt	737	Sudan	589
Sudan	259	Sudan	422	Brazil	4826
China	1200	Brazil	1563	China	5891
Nigeria	500	China	1484	Malaysia	3889
India	422	India	554	Ghana	1678
Myanmar	580	Pakistan	757	Zimbabwe	724

Source: Getahun Bikora, oilseed production and marketing situation in Ethiopia, Ministry of Trade, Nov. 14, 2015, US Department of Agriculture; World Bank data and FAO STAT.

*Yields of cereals in countries with high investments in research are higher than Sudan.* Yields of cereals in Brazil are 4826 kg per hectare, 5891 kg per hectare in China and 3889 kg per hectare in India while in Sudan they are only 589 kg per hectare. Fertilizer use is limited in Sudan. Urea is used at an average of 5 kg per feddan placing Sudan among the lowest in the world. Table 5.8 compares yields of selected crops with some countries and Sudan is at the bottom of this comparison in almost all crops.

*Low productivity is also associated with low agricultural inputs usage and support service in the country.* Fertilizer use is limited and has experienced a declining trend since 1970. For example, in 2009 the average fertilizer use per hectare of cropland was 7.3 kg, which ranked Sudan at 129 among 155 countries, far behind Ethiopia, which used 17 kg (ranking 115). Available statistics indicate that Sudan used as much as 80 kg/ha in the mid-1970s, and 70 kg/ha in the 1980s (2015 World Bank CEM). While it is not entirely clear how the low fertilizer usage came about, it is clear that the decline in agriculture is associated to fertilizer usage. Similarly improved seed technology is essential for bridging the gap between yields in demonstration trials and farmers' fields. Agricultural research, which is under the responsibility of the federal government, has been under-funded as shown in Table 5.7.<sup>13</sup> Agriculture support services receive meager public resources compared to other investment program as noted earlier in Figure 7. Without increased agricultural inputs usage, crop yields will remain at unacceptable levels. On the other hand, the declining productivity under rain-fed agriculture is also attributed to low and fluctuating rainfall, necessitating the use of drought-tolerant varieties, water harvesting techniques or appropriate crop rotations.

### Value Added in Trade and High Taxes

*Almost all agriculture products are exported as raw material except few semi-processed and processed items like skins, ethanol, oil cake and meat.* During 2012–2014 about 92 percent of the total agricultural exports were raw materials. Exports are concentrated in few markets; about 75–80 percent of Sudan agriculture exports are concentrated in three foreign markets; Saudi Arabia (sheep), Egypt (camels and meat), China (oil seeds). This situation puts the Sudanese exports under great risks.

*While there was considerable improvement in the policy environment for agriculture, taxes still impede competitiveness of the sector.* In the past the Government has used a variety of instruments

<sup>13</sup> The allocation of resources across various lines of research is primarily a policy decision. The Agricultural Research Corporation (ARC) is the principal research arm of the government on agriculture, in addition to the universities. Agricultural extension services in Sudan are provided by the government through the Ministry of Agriculture and Irrigation and the Ministry of Livestock and Fisheries. The Technology Transfer and Extension Administration (TTEA) is responsible technical body for agriculture extension services. But the government delivery of Livestock and Fishery extension services do not appear to be contributing to significant increases in productivity.

to intervene in the markets which distorted the price incentives like distorted exchange rates, export taxation, tariff policies, incentive payments, and trading monopolies. Most of these policies were corrected and the major policy change that needs to be reviewed is the taxation system for crops and livestock particularly the sub national taxes, which greatly impedes competitiveness of agriculture.

### Market Access

*Despite the remarkable achievement of expanding the road network, particularly over the last three years, road density is low. Sudan paved road density is only 4.6 km per 1000 km square of land area. Road density in Sudan is low even when compared to Sub Sahara Africa with 20.4 km per 1000 km square of land area.*<sup>14</sup>

*A basic challenge for infrastructure, particularly roads is maintenance. Out of the total 8,000 km, about 3,500 km or 43 percent of the network needs maintenance of which 1,400 km or 18 percent is in extremely critical condition as of 2014. The Roads and Bridges Corporation although allowed to retain the proceeds of the road tolls for maintenance, but these resources currently cover only 12 percent of maintenance cost. That is, the revenue from tolls (being recently adjusted upwards) covers only 168 km of overlay and rehabilitation per year. With this rate, it will take the Roads and Bridges Corporation about 8 years to rehabilitate the roads which are in critical conditions and 20 years for all the Roads that require maintenance. The underfunding of the Roads and Bridges Corporation could lead to serious deterioration in the roads network.*

*A sizable share of the country lacks roads, particularly rural connectivity and linkages between agriculture areas and the main road network. This situation poses serious threat for agriculture market and greatly reduces farmers' prices when agriculture areas are completely cut off during the rainy season due to lack of roads connectivity.*

*Moreover, infrastructure development requires addressing a variety of constraints. These include pricing/toll, regulatory framework and governance.*

### Implications for PRSP

*Despite recovery of production in certain basic crops over the past three years and the good performance of agriculture in total exports partially compensating for the loss of oil; the main problems faced by agriculture are still prevailing. Besides improving the macroeconomic environment for agriculture growth, Sudan has to make strategic choices to address the constraints facing agriculture, particularly the structural issues. The PRSP will be an opportunity to start working in these choices, mostly being of a medium to long nature. While pragmatic actions are needed in terms of policy and investment to increase agriculture growth and remove impediments to production in the short run, steps are to be taken towards long term solution of structural problems facing the sector.*

*Transformation of traditional agriculture:* Implementing the strategic choices of transforming the traditional sector to economically viable commercial businesses has to be looked into. The transformation will have certain policy choices and requisites that the government has to take. The transformation is linked to the change in land rights and access to services such as modern and innovative technology, extension, improved seeds, rural credit, and development of infrastructure. The current level of investments and institutional arrangement in agriculture will not achieve these objectives, an issue that needs to be considered in the PRSP.

<sup>14</sup> African Development Bank—Economic Brief, Volume 1, September 2011.

*Land rights:* Sustainable production in rain fed agriculture is critically dependent on resolving land issues and land rights. However, land reform in Sudan is difficult to manage and if not carefully designed could result in massive conflicts and social disintegration. Nevertheless, strategic choices are required to address the dichotomy between the statutory and customary land laws and the dichotomy between tribal management of land and civil administration of land. The challenge is how to initiate a gradual approach to reform the land rights issue with the least disruptions to the social system and without fueling further conflicts.

*Steps towards modernizing livestock sector:* Fundamental issues related to the nomadic livestock sector needs to be addressed. On one hand, livestock shows remarkable performance in terms of production and resilience in response to climate change. However, on the other hand, it is facing serious challenges that threaten its existence. The mobile system of nomadic livestock production often leads to conflicts among parties competing for grazing, water and space. Pastoralists are being driven into more remote areas through the gradual expansion of agriculture, minerals explorations and the situation is exacerbated by the land degradation. The secession of the South resulted in loss of pastures and grazing space. While the livestock population fell by only 28 percent due to secession, the natural rangeland resources upon which they depend fell by 40 percent. The normal wet land areas in South Sudan in which grazing was practiced by Northern Sudan tribes for centuries is now considered trespassing by the South. Moreover, the inherent volatility of the sector, being exposed to frequent drought and diseases, is apparent. Issues of quality are also a concern that affects commercialization and competitiveness of the sector. When pastoralists come up against highly efficient modern livestock industries they face major threat. Live sheep exports which dominate the livestock exports in Sudan have limited markets which are risky. The future demand for livestock products is based on food quality, including food safety and animal welfare, while modern systems of production greatly benefit from genetic improvement in grass and animals which are both difficult to meet in traditional production systems. Therefore, the future is for the modern livestock production rather than the mobile system of nomadic livestock production. Although the change seems inevitable, but the last thing the current volatile livestock sector in Sudan needs is an abrupt change. Meanwhile, the traditional livestock sector has to be provided with the required services of water, veterinary, education, rangelands rehabilitation and stock route demarcation.

*Irrigated agriculture as strategic choice:* Rainfall in Sudan is erratic and varies from one location to the other. Drought episodes occur from time to time. Dependence on rain fed agriculture may pose great risks and increase vulnerability of the poor and puts the economy under volatility pressures. Actions to reduce volatility in the rain fed areas like use of water harvesting and other measures will be needed. Revitalization of the irrigated sector remains a strategic choice despite the substantial investments it requires. The challenge will be how to develop the irrigated sector that is located in the centre and northern parts of Sudan, without neglecting the rain fed sector in which the majority of the poor live and in such a way as not to turn the rest of the country into resource poor areas.

*Food self-sufficiency versus food security:* The policy choice of food self-sufficiency and food security should be addressed. To what extent should the government through informed policy redirect the crop mix? Wheat, for example, is draining a considerable foreign exchange resource which is a justification to increase its production as import substitution commodity. However, climatic conditions do not favor this crop. Another example is the direction (i.e. import substitution versus exports) that should be taken in the production of sugar taking into consideration availability of irrigation water. The role of adequate storage facility in food security, and other pillars of food security, which are weak, needs to be considered.

*Agro industrialization and diversification:* Sudan cannot afford continuing relying on exports of agricultural raw material from mainly traditional and subsistence economy. Industrialization and modernization of agriculture are inevitable for sustaining poverty reduction and economic development. But Sudan has a long way to go to reach this goal. The large scale agro-processing

factories in the Sudan are either not working or working far below capacity. The constraints inhibiting the growth of agro industry include: weak integration between agriculture, manufacturing and trade, irregular supply of raw materials, outdated technology, high cost of electricity and interrupted power supply, unskilled manpower and unstable supply of foreign exchange to buy inputs. Nevertheless, initial steps have to start to achieve this medium to long term goal. Meanwhile, reform and actions to increase production and growth from the existing systems have to continue. Industrialization of agriculture raw materials issues should be looked into as a medium to long term solution. Meanwhile, diversification of exports is essential in the short run. Emerging sectors like horticulture should receive the appropriate attention particularly in the area of varieties suitable for exports, better farming practices and better post-harvest preparations like appearance, careful grading, packaging and labeling.

*The role of women and youth in agriculture:* Consideration regarding the youth and women roles in agriculture has to be observed. Several developments have changed the population dynamics in Sudan. The 1983–85 drought catastrophe and the prolonged internal conflicts have led to mass exodus of rural males to urban areas in search of food and off farm employment. This has resulted in women constituting the overwhelming majority of the rural population and with more responsibilities. Also Sudan has about 35 million people, and young people (less than 25 years of age) account for 62 percent of the population. About 20 percent of youth are unemployed.

*Infrastructure priorities:* Poor transport infrastructure is the main cause of high transport costs in Sudan and, therefore, is a major factor in weak competitiveness of Sudanese agriculture. The poor quality of roads as a result of lack of maintenance in Sudan significantly lowers the efficiency of transport services. Poor maintenance will reduce the life-span of the existing stock of infrastructure and will result in higher operating costs.

### 5.3 Basic Service Delivery: Education, Health and Water and Sanitation

*With the implementation of the decentralization policy, primary responsibilities for basic services such as education, health and water have shifted to sub-national governments.* There are three tiers of government in Sudan—federal, state and local. Whereas the federal government is responsible for policy and stewardship, state and local governments are responsible for the delivery of basic services. To support decentralized delivery of basic services, fiscal federal transfers to states have increased as noted earlier. Currently, fiscal federal transfers finance about two thirds of states' expenditure.

*This section provides an overview and analysis of public spending on education, health, and water supply and sanitation with the objective of measuring and monitoring pro-poor expenditures and examining progress in human capital development and MDG-related indicators.* This is particularly important in the context of Sudan where the basic service system is decentralized with varying capacities to deliver services across states, and where there are significant state differences in education, health and water inputs, outputs and outcomes. With data on financing, access and quality of service, the section contextualizes valuable information about the challenges and emerging priorities for Sudan's education, health and water sectors.

#### 5.3.1 Education

*As indicated in the IPRSP, "Scientific research and studies have shown that education makes significant contributions to the welfare of individuals and sustained economic growth through increased productivity, including in agriculture."* The IPRSP called for bridging the gap in enrollment between the states and between boys and girls; increase the quality of education including

teachers training; reduce illiteracy; and achieve full coverage of schools with textbooks and seating. For tertiary education, the IPRSP stated that the main challenge for tertiary education is the improvement of its quality.

*The Government has committed to achieving the Education for All (EFA) targets and the education-related Millennium Development Goals (MDG) by 2015. This signals the Government's readiness to continue to invest in education and expand education opportunities. The Five Year Education Sector Strategic Plan (ESSP) for 2007–2011 expresses the country's commitment to the EFA goals and outlines activities to meet the MDG education targets (i.e. achieve universal primary education and promote gender equality). The ESSP forms part of the government's longer-term vision (i.e. Quarter Century Strategic Plan 2007–2031) and feeds into policy documents prepared by the government, including the IPRSP. The current ESSP for 2012–2016, is designed to supplement the earlier plan and identify priority areas for development in the sector.*

### Public Education Expenditure: Size Structure, Trend and Sector Performance

*There has been a substantial increase in public education expenditure since 2012, reflecting the government's commitment to education. Total public education expenditure more than doubled in nominal terms during the review period (Table 5.9). As a share of total public expenditures, education spending has increased by more than 2 percentage points to 11 percent, indicating the importance the government attaches to the education system.*

*Despite the increase in education spending, Sudan spends less as a share of total public spending than do comparable countries. In 2014, Sudan's education spending as a share of total public spending was nearly 11 percent (Table 5.10). By comparison, other countries with similar dependency ratio (i.e. school age population as a share of the total population) spent more—including*

**Table 5.9:** Total (Federal and State) Public Education Expenditures, 2012–2014

	2012		2013		2014	
	Budget	Actual	Budget	Actual	Budget	Actual
<i>SDG Millions</i>						
<b>General education expenditure</b>	<b>3,973</b>	<b>2,760</b>	<b>4,213</b>	<b>3,949</b>	<b>5,850</b>	<b>6,070</b>
Current	2,882	2,172	2,787	2,618	4,227	3,832
Development	1,090	588	1,426	1,331	1,623	2,238
<b>Federal expenditure</b>	<b>62</b>	<b>54</b>	<b>151</b>	<b>98</b>	<b>150</b>	<b>103</b>
Current	60	54	76	81	105	94
Wage	22	22	26	27	33	32
Nonwage	37	31	50	54	72	62
Development	2	0	76	17	45	9
<b>States expenditure</b>	<b>3,911</b>	<b>2,706</b>	<b>4,062</b>	<b>3,851</b>	<b>5,700</b>	<b>5,967</b>
Current	2,832	2,118	2,711	2,537	4,122	3,737
Wage	2,154	1,889	2,340	2,230	3,608	3,308
Nonwage	668	229	371	307	514	429
Development	1,088	588	1,350	1,314	1,578	2,230
<i>Education spending shares (%)</i>						
Education sending as % of total public spending	11.6	9.3	10.5	9.5	11.4	10.6
Education sending % of GDP	1.8	1.2	1.3	1.2	1.3	1.4
<b>Memo item: Higher education expenditures (SDG million)</b>	<b>878</b>	<b>438</b>	<b>551</b>	<b>496</b>	<b>871</b>	<b>860</b>

Source: Authors' estimations based on data collected at federal and state level.

**Table 5.10:** Public Education Expenditures: Regional Comparison

	Public expenditure on education % of total public expenditure	Primary school enrollment (% net)	Primary school enrollment (% gross)
<b>Sudan</b>	<b>10.6</b>	<b>54</b>	<b>70</b>
<i>Neighboring countries</i>			
Ethiopia	22.0	NA	98
Kenya	20.6	84	114
Uganda	14.0	91	107
<i>Other SSA lower middle-income countries</i>			
Cape Verde	15.0	98	114
Benin	22.3	95	124
Senegal	20.7	84	73
<i>MENA lower middle-income countries</i>			
Egypt	12.6	115	98
Morocco	18.5	118	98
Tunisia	21.2	110	99

Source: World Bank; World Bank Development Indicators. Data refer to latest year available for 2010–2014.

neighboring Ethiopia, and Kenya. Other lower-middle-income such as Morocco and Tunisia each spent more by this measure.

*The bulk of the growth in education spending occurs at the state level, which is consistent with the fact that the primary responsibility for basic service delivery lies with state governments.* About 98 percent of total public spending now takes place at state level (Table 5.9). State level education expenditure more than doubled in nominal terms during the review period. Spending at the federal level also increased over the period, but at a slower rate.

*Increases in education spending have been almost entirely absorbed by current spending both at the federal and state levels, raising concerns about further expanding education services.* Current education spending, mostly wages, accounts for over 60 percent of state and federal-level total education spending. The dominance of wage spending over development spending at the state level raises concerns about the quality and sustainability of education. Improving service delivery in the sector requires investment in schools, equipment, teacher training, and capacity building.<sup>15</sup>

*Within current spending, teacher salaries account for the largest share at an average of 60 percent, with little resources to cover other running expenses.*<sup>16</sup> Spending on goods and services is generally low, and particularly so for basic education, which means that households have to contribute towards school running costs such as school maintenance, water and electricity.

*Although basic education is supposed to be provided for free, household out-of-pocket spending is significant and poses a barrier to education, especially for poor households.* According to the 2011 World Bank report entitled, “*The Status of the Education Sector in Sudan*,” out-of-pocket spending averaged SDG15 per student for basic education, which is higher than government spending per student for school running expenses that amounts to SDG12. Thus household out-of-pocket

<sup>15</sup> Many schools in Sudan are of poor quality. According to the baseline survey (MoGE/UNICEF 2008), 42 percent of classrooms in basic schools were in need of repairs and 9 percent required replacement. In addition, in some schools teaching only takes place in the non-rainy season since schools are built of tree branches and hay and get destroyed during the rainy season.

<sup>16</sup> World Bank (2011), *The Status of the Education Sector in Sudan*, The World Bank, Washington DC. 2012.

payments provide the main source of financing for every-day school running costs. In addition, households also pay for school uniforms, meals and textbooks. According to the report, urban households reported spending an average of SDG 84 and rural households SDG 24 per person on education per year. For the poorest households, out-of-pocket education spending poses a real barrier to education, and even more so when a family has many children, with implications for student attendance and drop-outs.

*Budget credibility is low but improved since 2012.* The overall execution rate of education budget has been low, but has improved during the review period. In 2012, actual education expenditure was only 70 percent of planned expenditures. However the rate of execution has improved since 2012. Current expenditures were relatively better executed, reflecting higher priority for wages and salaries in terms of budget execution. This finding is also confirmed by the previous chapter that examines overall pro-poor budget execution.

### Achievements

*Student enrollments have grown sharply since 2005/06.* Enrollments have increased at all four levels of the education system: pre-school, basic, secondary and higher education. However, basic education is the level that accounts for the largest absolute increase in enrollments. Basic school enrollments grew from 4 million in academic year 2005/06 to 5 million students in 2013/14 (Table 5.11 and Figure 14). The growth in enrollments for basic education is evidence of both strong demand for education and commitment by the Government to achieving the MDGs and the EFA goals. At the state level, evidence points to a positive impact of peace (i.e., 2005 CPA) on basic school enrollments for the populations that were affected by conflict prior to 2005. Secondary education also grew driven by an increase in enrollments in the academic track, but enrollments in the much smaller technical track contracted. Higher education enrollments increased from 453,866 students in 2007/08 to 681,130 students in 2013/014. On the other hand, literacy and adult education experienced a declining trend during the review period.

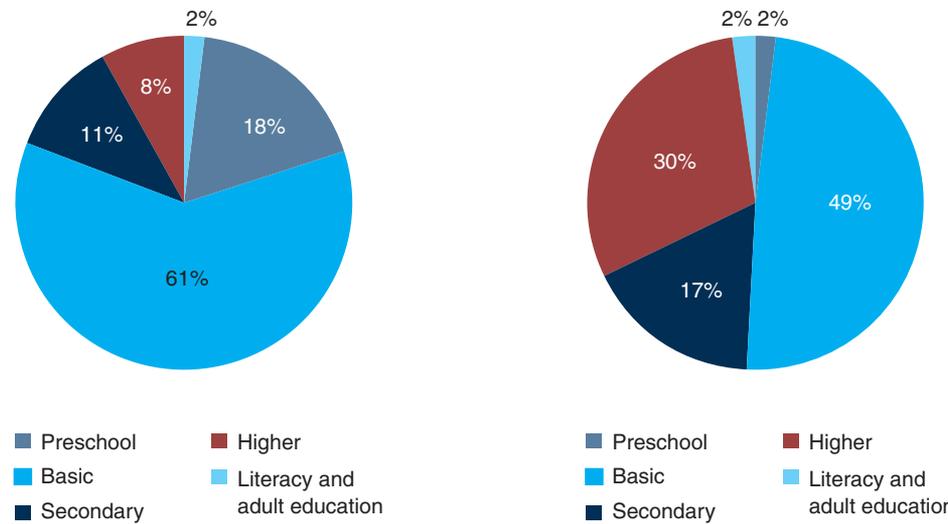
*Basic education dominates budget allocation and enrollment share.* The composition of enrollment by the level of education and the budget allocation by sub-sectors is given in Figure 14. Basic education accounts for nearly half of the education budget and 60 percent of total enrollment. On the other hand, higher education absorbs, on average about 30 percent of total education expenditure and accounts for 8 percent of the total enrollment.

**Table 5.11:** Trends in Student Enrollments by Level of Education, 2005/06–2013/14

Education level	2005–06	2006–07	2007–08	2008–09	2009–10	2010–11	2011–12	2012–13	2013–14
Preschool	471,189	470,928	592,399	725,113	797,624	877,387	816,074	897,681	1,490,080
Basic	4,193,939	4,237,907	4,688,685	4,870,464	4,851,468	4,832,473	5,037,617	5,289,498	5,231,155
Secondary	613,863	615,534	657,802	734,859	762,621	791,526	822,955	872,332	902,627
Academic	569,735	585,266	628,295	707,654	735,960	765,399	797,850	846,725	884,756
Technical	44,128	30,268	29,507	27,205	26,661	26,128	25,105	25,607	17,871
Higher Education			453,866	485,636	519,631	556,005	594,925	636,570	681,130
Literacy and adult education	422,576	288,256	301,903	181,465			204,859	186,422	169,644

*Source:* Ministry of General Education Educational Statistics, and the World Bank (2012), the Status of the Education Sector in Sudan.

**Figure 14:** Student Enrollments by Level of Education and Public Education Expenditures 2013/2014



Source: Author's own calculations based on Table 4.11.

Source: World Bank (2012). The Status of the Education Sector—Sudan.

*The steady rise in enrollment in basic education is expected to continue and will generate rising demand for secondary education and exert pressures on education expenditure. The increase in enrollment in basic education will put pressure on secondary education spending to accommodate rising demand for secondary education over the next few years. This is an area that requires closer monitoring by government at all levels and further improvements in the level, efficiency as well as composition of expenditures need to be pursued.*

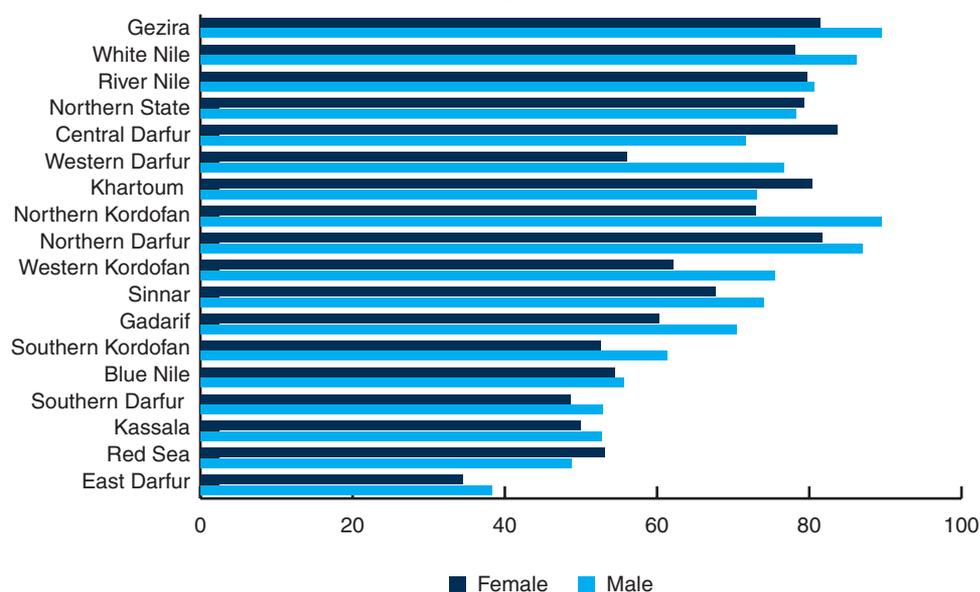
### Challenges

*Despite progress in overall access to all levels of education, access still remains a substantial challenge for basic and secondary education. Sudan's basic education system provides education opportunities for three-quarters of the age group (i.e. the gross enrollment rate (GER) is less than 75 percent). Only three out of four children of basic school age are receiving a formal education. A recent UNICEF report (Sudan: Country Report on Out-of-School Children, 2014) noted, "Significantly, there are still more than 3 million children aged 5–13 years out of school."<sup>17</sup> The secondary school gross enrollment rate is about 34 percent or less than half the basic GER (Education Sector Strategic Plan 2012–2016, Interim Plan 2015/16–2016/17, Ministry of Education, Feb. 2015).<sup>18</sup>*

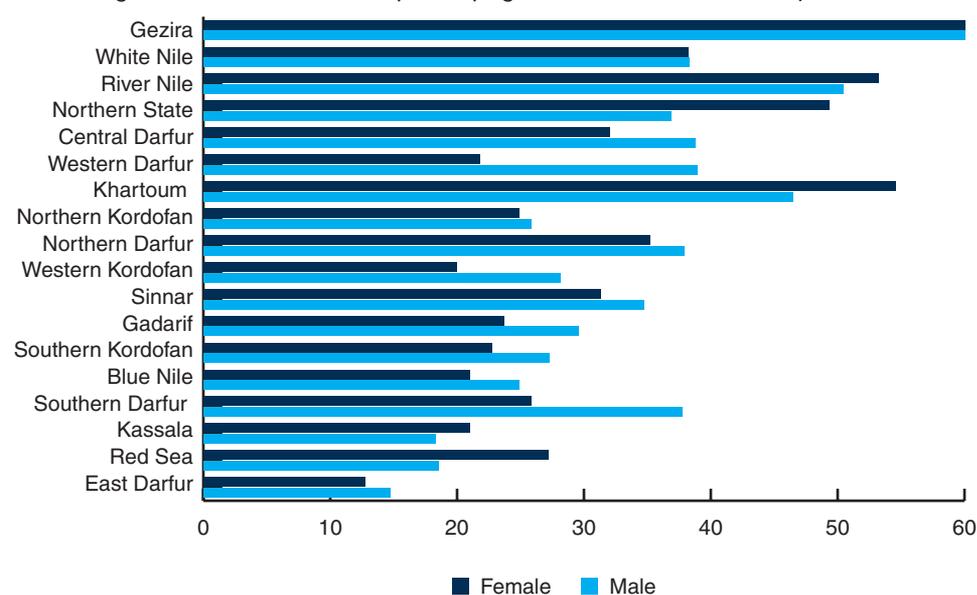
*Education performance varies markedly by state and gender. Access to basic education varies enormously from one state to another with the range of GER spanning from less than 40 percent to over 90 percent (Figure 15). Conflict affected and poor states such as East Darfur, Red Sea, and Blue Nile lack behind central states such as Gezira, River Nile and White Nile. On gender, despite relative parity in enrollment and retention rates in basic education, significant variation exists across states. Khartoum State has a Gender Parity Index of 1.1 in favor of girls; whereas conflict affected states of Darfur have on average, a low GPI of 0.7 in favor of male. Similarly access to secondary education is subject to significant state and gender disparities (Figure 16).*

<sup>17</sup> UNICEF (2015): Sudan—Country Report on Out-of-School Children. 2015 UNICEF Sudan Country Office, page 1.

<sup>18</sup> According to the Ministry of Education's Statistics for 2008–2009, 1,981,839 children between the ages of 6 and 13 are out of primary school and 1,336,006 children between the ages of 14 and 16 are out of secondary schools. Also the World Bank (2012), The Status of the Education Sector in Sudan also reported the data.

**Figure 15:** Basic Education Enrollment Rate (GER %) by State and Gender, 2013/14

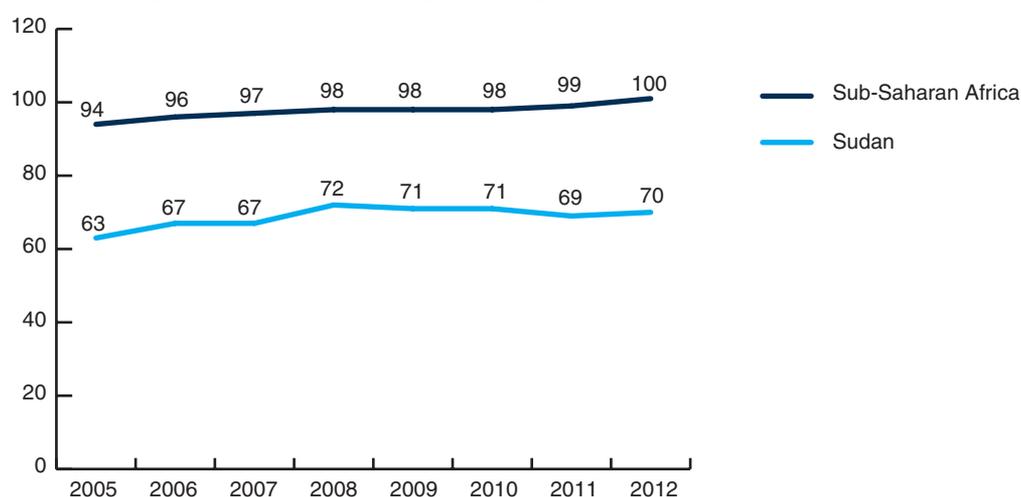
Source: Education Sector Strategic Plan 2012–2016, Interim Plan 2015/16–2016/17, Ministry of Education, Feb. 2015.

**Figure 16:** Secondary Education Enrollment (GER %) by State and Gender, 2013/14

Source: Education Sector Strategic Plan 2012–2016, Interim Plan 2015/16–2016/17, Ministry of Education, Feb. 2015.

*Many students drop out, a serious concern.* According to the Education Sector Strategic Plan 2012–2016, Interim Plan 2015/16–2016/17, Ministry of Education, Feb. 2015, about 80 percent of children enroll in the first grade of basic school in 2008, only 54 percent of them reached grade 8, indicating a drop-out rate that averages 6 percent per grade—a serious concern for basic education. The number of drop-outs in secondary education is even higher than basic education, amounting to a 13 percent drop-out rate for the first two years of the cycle (The Education Sector Strategic Plan 2012–2016, Interim Plan 2015/16–2016/17, Ministry of Education, page 11). There are several reasons that cause this phenomenon such as early marriage of girls, child labor, and lack of water and latrines in some schools.

*Sudan's education outcome indicators lag behind comparable countries and MDG targets.* Sudan has made progress since 2005, albeit from a low base compared to other African countries

**Figure 17:** Primary School Enrollment (% gross of age group) Sudan and Sub-Saharan Africa

Source: World Bank, World Development Indicators.

(Figure 17 and Table 5.10). These comparable African countries have attained or are likely to attain the goal of universal education. Given that Sudan's school enrollment is lagging with regards to universal access, there is scope for increasing the level and efficiency of spending in this sector.

While the federal government has progressively increased budget transfers to states, the capacity for data collection and information management within the decentralized framework of service delivery remains weak, challenging evidence base planning and targeting service delivery. According to the Education Sector Strategic Plan 2012–2016, Interim Plan 2015/16–2016/17, the number of schools and enrollment rates reported differently by locality, State and Federal Ministries of Education (Ministry of Education, Feb. 2015, page 12). Similarly, a World Bank Public Expenditure Track Survey conducted in the health sector, found that the number and type of health facilities reported by localities, states and the federal ministry were different.

### Implications for PRSP

The substantial increase in current education expenditures is encouraging, but improved service delivery to the poor requires an appropriate balance between current expenditure and development investment in schools. Education expenditure performance continued to reflect strict priority for release of funds to wages and salaries compared to development expenditures, which exhibit the lowest execution rate. Low level development expenditure has serious repercussions for effective implementation of state's pro-poor programs and development efforts more generally. Improved services delivery to states and local areas requires large development spending, given the poor infrastructure and low level of socioeconomic development in these areas. Government expenditures have to be coordinated with spending from NGOs and other sources. This urges actions that aim at improving resource allocation, given that the primary responsibility for basic services delivery lies with the state governments.

The brunt of low budget creditability is borne by development expenditure. The overall execution rate of education expenditure is low. On the other hand, current expenditures were relatively better executed, reflecting higher priority for wages and salaries in terms of budget execution.

Despite progress made, school enrollment remained low, falling short of achieving the MDG of universal access. Only three out of four children of basic school age are receiving a formal education. Among the children who are of basic school age (6 to 13 years old), almost 2 million are out of school. This number increases to more than 3.3 million of children of secondary school age

(14 to 16 years old) are included. The secondary school gross enrollment rate is about 34 percent or less than half the basic level. However, these average enrollment rates masks wide variation across states and gender. The declining trend in the number of technical education needs to be studied in order to implement the necessary remedial measures.

*Education performance disparities across states and gender have not yet been fully addressed, necessitating further effort to consolidate and improve progress.* While the increase in education spending and fiscal decentralization are expected to redistribute resources to match public service delivery responsibilities, and hence improve inter-state equity, education performance disparities across states and gender have not yet been fully addressed. This necessitates further effort to consolidate and improve progress. Education facilities should in particular be extended to war affected areas which are witnessing stability lately.

*Given the increase enrollment in basic education, demand for secondary education is expected to rise.* The government will need to address the allocation and efficiency of education subsectors to accommodate growing demand for post-basic education in the medium-to-long-term.

*Whereas the policy of the government is free basic education, household out-of-pocket spending is significant and poses a barrier to education, especially for poor households.* Available data suggests that households pay for the running of schools in addition to other costs for uniforms, textbooks and meals for their children. For poorest households, out-of-pocket basic education spending poses a real barrier to education, and even more so when a family has many children, with implications for student attendance and drop-outs.

*Drop outs remains as a serious issue in the education sector.* There are several reasons that cause this phenomenon like early marriage of girls, child labor, and high household out-of-pocket spending on education. The World Bank Group and the EU are funding programs to address this concern. More government efforts are required in this respect.

*Food for education should continue to be encouraged.* Considerable efforts are being carried out by the WFP to implement food for education programs, especially for poor households.

*Teachers training is an issue that needs to be looked into.* Poor teachers skills affect the quality of education.

*Technical and vocational education is neglected despite its importance.* Efforts are needed to expand the technical and vocational education.

### 5.3.2 Health

#### *Trends in Public Health Expenditures*

*The IPRSP emphasized primary and first-referral health care services and improve access, equity and coverage.* The IPRSP based its priorities on the Ministry of Health four pillars: control of communicable diseases, improved maternal and child health and nutrition, human resource development and an improved health care management system based on decentralization, extended coverage and accessibility. These priorities will require increased public spending and creation of partnership with NGOs.

*During the review period, federal expenditures on public health programs have been supplemented by increasingly higher levels of State levels expenditures.* Table 5.12 summarizes a comprehensive picture of federal and state expenditures on health, which has grown reaching around 1.0 percent of GDP. The growth in state health spending is driven by rising federal transfers to states, which is in line with the decentralization policy of delegating the primary responsibility for basic service delivery to state governments. States' actual spending on health has doubled since 2012, rising from SDG 2.2 billion to SDG 4.5 billion (US\$789 million) in 2014 (Table 5.12).

**Table 5.12:** Federal and State Health Expenditures, 2012–2014

	2012		2013		2014	
	Budget	Actual	Budget	Actual	Budget	Actual
SDG millions						
<b>Total health expenditure</b>	<b>2,922</b>	<b>2,198</b>	<b>3,233</b>	<b>3,097</b>	<b>4,729</b>	<b>4,531</b>
Current	2,278	1,824	2,416	2,294	3,508	3,213
Development	644	374	817	803	1,221	1,318
<b>Federal expenditure</b>	<b>401</b>	<b>363</b>	<b>394</b>	<b>389</b>	<b>471</b>	<b>476</b>
Current	366	349	382	388	456	471
wage	253	243	263	279	305	322
nonwage	113	106	119	109	151	150
Development	36	14	13	1	15	5
<b>States expenditure</b>	<b>2,521</b>	<b>1,835</b>	<b>2,839</b>	<b>2,707</b>	<b>4,258</b>	<b>4,055</b>
Current	1,913	1,475	2,035	1,906	3,052	2,742
wage	1,378	1,199	1,577	1,477	2,412	2,173
nonwage	535	276	458	429	640	569
Development	608	360	804	801	1,206	1,313
Breakdown of total health expenditure (%)						
Current	77.9	83.0	74.7	74.1	74.2	70.9
Development	22.1	17.0	25.3	25.9	25.8	29.1
Breakdown of federal health expenditure (%)						
Current	91.1	96.1	96.8	99.7	96.8	99.0
Development	8.9	3.9	3.2	0.3	3.2	1.0
Breakdown of state health expenditure (%)						
Current	75.9	80.4	71.7	70.4	71.7	67.6
Development	24.1	19.6	28.3	29.6	28.3	32.4
Health spending shares (%)						
Health spending as % of total public spending	8.6	7.4	8.0	7.5	9.2	8.0
Health spending % of GDP	1.3	1.0	1.0	1.0	1.1	1.0

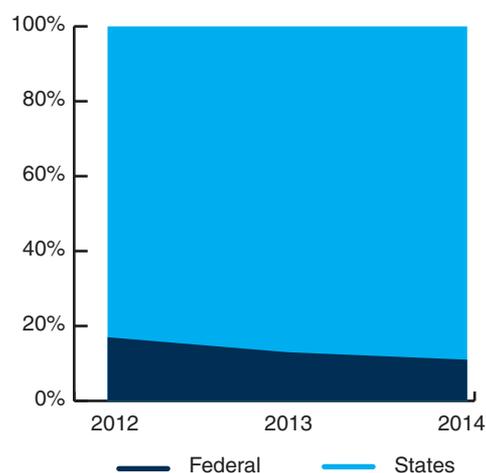
Note: Development expenditure refers to new investment, rehabilitation or construction of existing development facilities.

Source: Authors' estimation based on data collected at federal and state levels.

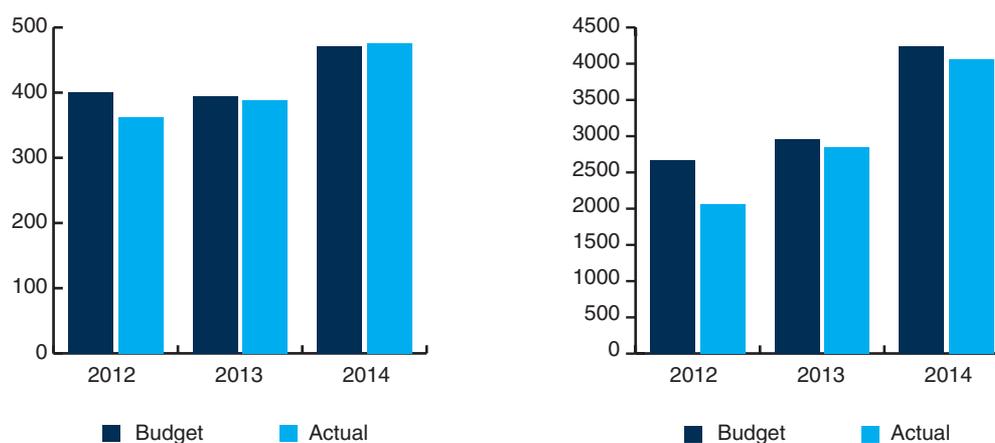
*Like education, the bulk of the growth in health expenditures takes place at the state level, consistent with the fact that the primary responsibility for basic service delivery lies with state governments. Around 87 percent of the health expenditures occur at the state level (Figure 18). The share of expenditures at the federal level shows a declining trend (Figure 18).*

*A major concern is the extremely low level of development/investment spending in the health sector, with about 75 percent going for current expenditure. Improved service delivery to the poor in the longer term will require larger investment in health infrastructure. In 2014, development spending rose to nearly 30 percent of health expenditure, but from negligible levels and in both absolute and relative terms remains very low. Assessing the appropriate balance between development and current expenditures is warranted given that health-MDGs have not yet been met.*

*The health budget at federal and state levels enjoys good credibility unlike many sectors in the economy. There is insignificant deviation between planned and executed expenditures (Figure 19). Even the small deviation in 2012 almost disappeared in the next two years making planned budget execution close to 100 percent.*

**Figure 18:** Public Health Expenditures at the Federal and State Levels, 2012–2014

Source: Authors' calculations based on health sector data given in Table 5.9 above.

**Figure 19:** Expenditures for Health for Federal and States in Millions SDG

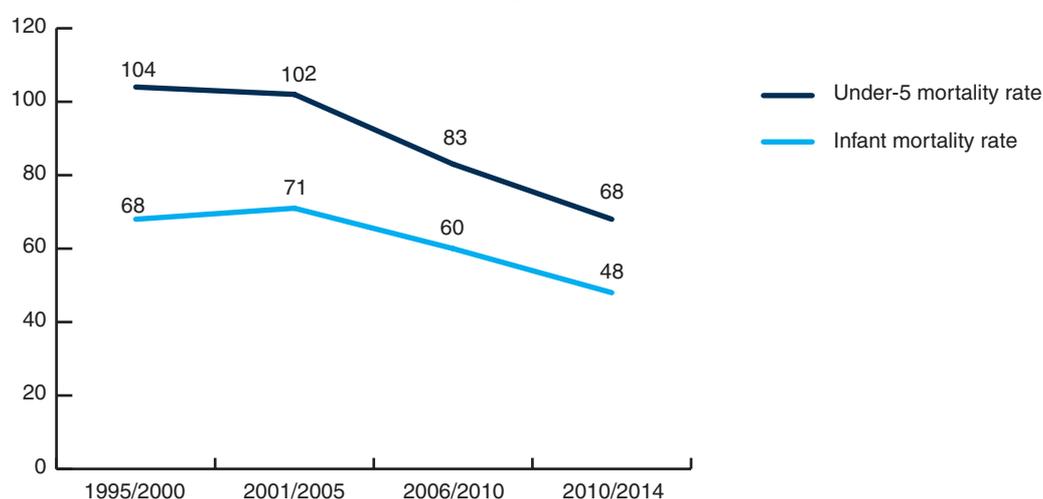
Source: Table 5.12.

*Sudan's level of public spending on health compares to some of its peers and even exceeds some MENA lower middle income countries.* In 2014, Sudan's health spending as a share of total public spending was 8.0 percent. Sudan spends more than Kenya, Senegal, Egypt and Morocco (Table 5.13).

*Some progress was made in the health indicators.* The under-five mortality rate (deaths per 1,000 births) improved, dropping from 83 per thousand live births in 2006/2010 to 68 per thousands in 2014. The maternal mortality rate declined from 534 per one hundred thousand live births in 2010 to 521 per one hundred thousand in 2013.

*HIV prevalence is low, the incidence of tuberculosis (TB) is declining.* Prevalence of TB declined to 114 per one hundred thousand in 2012. However, the TB detection rate is 35 percent, well below the 70 percent target, though the treatment success rate is 82 percent. HIV prevalence amongst the population aged 15–49 was estimated at 0.24 percent in 2013, with annual new HIV infections and AIDS deaths standing at 7,032 and 4,797, respectively (African Economic Outlook, AFDB, OECD and UNDP, 2015).

*Malaria patient's treatment has improved.* Malaria patients receiving treatment within 24 hours increased to 36 percent in 2013, up from 16 percent in 2010.

**Figure 20:** Trends in Under-Five Infant Mortality Rates

Source: MICS, Key Findings, Central Bureau of Statistics, April 2015.

**Table 5.13:** Public Health Expenditures: Regional Comparison

	Public expenditure on health (% of total public expenditure)	Under-5 mortality rate (per 1,000)	Maternal mortality rate (per 100,000 live births)
<b>Sudan</b>	<b>8.0</b>	<b>73</b>	<b>512</b>
<i>Neighboring countries</i>			
Ethiopia	16.4	64	420
Kenya	5.9	71	400
Uganda	24.3	66	360
<i>Other SSA lower middle-income countries</i>			
Cape Verde	10.0	26	53
Benin	10.7	85	340
Senegal	7.6	55	320
<i>MENA lower middle-income countries</i>			
Egypt	5.5	22	45
Morocco	6.0	30	120
Tunisia	13.3	15	46

Source: WHO, Global Health Observatory Data—2013.

## Challenges

*Despite progress, Sudan faces significant challenges in meeting MDGs-related goals on health. Child and maternal mortality rates remain high. The under-five mortality rate of 77 per thousands in 2013, is far above the 2015 MDG target of 41 per thousand. The maternal mortality is 521 per one hundred thousand in 2013, while the 2015 MDG target is 134 per one hundred thousand. Mortality rates vary significantly across states. The under-five mortality rate is highest in Darfur (170) and lowest in Gezira State (63).*

*Malaria patient's treatment has improved, but much effort is still needed to roll back malaria. According to the 2013 World Malaria Report, Sudan accounted for 57 percent of malaria cases and 27 percent of reported malaria deaths in the Eastern Mediterranean Region, indicating that much effort is needed to reverse the disease.*

In terms of health indicators—under 5-mortality and maternal mortality rates, Sudan's performance lacks behind comparable countries. These results highlights a conceivable problem of efficiency in the use of the funding.

### Implications for PRSP

*The composition of health spending is broadly similar to education.* The increase in health expenditure since 2012 has been largely directed to current spending. Current health expenditure accounts for some 70 percent of state-level total health expenditure. The high level of current spending over development spending at the state level raises concerns as improving service delivery in the sector requires investment in health facilities, medical equipment, staff training and capacity building.

### 5.3.3 Water and Sanitation

*Water has significant bearing on poverty in Sudan from different perspectives.* Water is linked to the livelihood of the majority of rural communities in Sudan where livestock which constitute the backbone of livelihood to these communities depend on water. Water also is used to irrigate small agricultural holdings in rural areas, which provide food for the families. Water scarcity also affects education in rural areas where due to time travelled for water, many of children at school age do not attend school or drop out. Water scarcity in some areas could cause families to spend as much as 50 percent of their income to purchase water from vendors. Water gains more importance when it is linked with conflicts. A significant numbers of conflicts are directly linked to scarcity of water resources particularly between nomadic pastoralist groups and settled farming communities. Poor water sources also lead to exposure to diseases particularly children. The results of SHHS (2006) show the clear link between the increased access to both improved water and sanitation facilities and decreased incidence of diarrhea in Sudan.

*The key challenges identified by the IPRSP for the water and sanitation sector included: inadequate implementation, management and sector coordination capacities and sector policies and plans; lack of resources for investment in provision, conservation, water quality and monitoring; lack of community awareness of water supply and sanitation issues; and poor record of sustainability of interventions.* Several actions were recommended by the IPRSP encompassing rehabilitation of existing water and sanitation facilities and construction of new ones, improving hygiene awareness, improve capacity building and training.

*A plan was developed for the water and sanitation sector; the Water, Sanitation and Hygiene Sector Strategic Plan for 2011–2016 (WASHSSP) as well as the draft Water Supply and Environmental Sanitation Policy (2012).* The WASHSSP aims to increase per capita safe water consumption to 20 and 90 liters per day in rural and urban areas respectively by 2016. The plan targets were to increase household members with access to safe drinking water to 82 percent and household members with access to improved sanitation to 67 percent by 2016.<sup>19</sup>

*Despite the commitments and targets defined in the above development strategy/plans, the performance in the sector is still far from reaching the planned targets and from the MDGs targets.* The percentage of household members using improved sources of drinking water reached 68 percent in 2014, while the percent of household members using improved sanitation facilities only reached 32.9 percent,<sup>20</sup> indicating considerable efforts are required to achieve these targets. Around 50 per cent of the existing basic schools don't have access to improved drinking water

<sup>19</sup> Water, Sanitation and Hygiene Sector Strategic Plan for 2011–2016 (WASHSSP), Ministry of Water Resources and Electricity, Drinking Water and Sanitation Unit.

<sup>20</sup> Sudan: Multiple Indicator Cluster Survey (MICS); Key Findings, April 2014 (Central Bureau of Statistics).

and sanitation facilities. The increasing number of internally displaced people adds to this challenge. There is a large variation in access to water and sanitation among states. Water and sanitation access in West Kordofan State, for example, stands at 60 percent and 23 percent respectively, which are below national average of 68 percent and 33 percent.

## Challenges

*The water and sanitation sector is underfunded.* Meager resource is devoted to water expenditures at federal level. Expenditures on water and sanitation at the federal level constitute only 0.5 to 1 percent of expenditures on infrastructure. The water and sanitation federal budget clearly lacks credibility as indicated by the large variations between the budgeted and actual figures. It was not possible to segregate expenditures on water supply and sanitation at the state level from the total expenditures on infrastructure.

*Funding is essential for the water sector to meet the MDGs targets and to rehabilitate and replace the aging infrastructure of water infrastructure due to inadequate past investments and destruction of the facilities in conflict areas.* Much of the achievement in the sector was the result of the assistance received from UNICEF which has extended its support to the water and sanitation sector since 1975 through the Water and Sanitation Program.

*There are several institutions at different levels that govern water resources development and management.* At state level, the key institution is the state Water Corporation, which functions under the auspices of the Ministry of Planning and Public Utilities. At federal level, the key ministries are the Ministry of Water Resources and Electricity, the Ministry of Health, the Ministry of Agriculture and the Ministry of Environment. Under the Ministry of Irrigation and Water Resources are the General Directorate of Water and the Groundwater and Valley Directorate. There are also community organizations establishing and managing water resources. Similarly, there are various acts and strategies under different institutions and sectors. Important relevant acts are the Water Resources Act of 1995 and the State Water Corporation Acts of 1998. Authority in the water sector is mostly fragmented and responsibilities are distributed among various institutions without effective or institutionalized mechanism of coordination. This often leads to conflicting actions and lower impacts of projects that could have a much better return. Institutional capacity varies among states.

*Like the other services sector, the water and sanitation suffers from weak capacity particularly at state levels.*

*The contested ownership structures of water investments affect the sustainability of the services and remains as a concern in the localities.*

*Sanitations in schools and health facilities are inadequate especially in the rural and remote areas.*

**Table 5.14:** Water and Sanitation Federal Expenditures 2012–2014 (in SDG Million)

	2012		2013		2014	
	Budget	Actual	Budget	Actual	Budget	Actual
Wage	2.040	1.789	1.729	1.545	2.516	1.743
Nonwage	0.636	0.287	0.562	0.367	0.693	0.644
Development	198.0	13.564	276.5	9.509	213.4	26.809
Total	200.676	15.64	278.791	11.421	216.609	29.196

Source: Data provided by the General Directorate of Water and Sanitation, Ministry of Water Resources and Electricity.

### Implications for PRSP

*Water has to be given adequate funding commensurate with its important role in the livelihood of the population. Adequate funding is required. Funding has to ensure addressing disparities in access to water and sanitation among states.*

*Specific attention has to be given to the information of the water sector as a separate sector, particularly at state and locality levels to allow for better planning. Lack of monitoring reflects poor quality of available data concerning actual coverage of water supply and sanitation. The water and sanitation should be supported with better capacity and training particularly at state levels.*

*Efforts are required to integrate water, sanitation and hygiene within other sectors—mainly education, nutrition and health should continue. Schools, health and nutrition centers are useful entry points for such interventions.*

*Institutional reform for sustainability of the water facilities is a concern that needs to be tackled. There should clarity in defining the roles and responsibilities between the federal, states and locality levels and communities, in terms of managing and operating projects, and ensuring sustainability.*

*Meeting the multiple demands for water for domestic, farming and livestock (in an integrated manner) is crucial for maintaining local economic development within a peaceful and stable society.*

#### Service Delivery: General

*There is an urgent need to strengthen the link between budget allocations and outcomes in basic service delivery. Since responsibility for basic services devolved to the state and locality levels and more resources are getting to these sub-national levels, it is imperative to monitor and evaluate progress on the use of funds and related outcomes at the state/locality level. The weak capacity at the sub-national levels has led to incomplete reporting of expenditures and inadequate monitoring and evaluation (M&E) of outcomes. The capacity for data collection and information management within the decentralized framework of service delivery remains weak. Weak financial management capacity at the state and locality levels led to incomplete reporting/monitoring of expenditure and inadequate evaluation of related results at these levels. This challenges evidence base planning and targeting service delivery. Therefore, capacity building efforts need to be strengthened in those areas. In particular, efforts to strengthen expenditures reporting by purpose/function (e.g., across education, health, roads), economic lines (e.g., wages), and by administrative levels (e.g., state, local) would also allow for a more systematic analysis of the fiscal position of states/localities and as well as sectors. In turn, improved data on sectoral outcomes would highlight potential disparities across states.*

*The locations of social services—schools, health and water centers—have to be based on technical considerations. Factors like population density, equity have to determine the location of the services rather than the political considerations.*

## 5.4 Social Welfare, Security and Protection

*The IPRSP document had a sub-heading of social safety net programs under the pillar of human resources. However, it only covered Zakat, pensions and health insurance without specific strategic direction or actions. Issues mentioned were basically the problems of managing the pension's funds, and erosion of pensions as a result of inflation. By and large the social protection and social safety net programs did not receive any attention in the IPRSP.*

*Social protection programs complement the investments in the agriculture and infrastructure, aiming at increasing incomes of the poor and support social investments in health and education which will all help in reducing poverty.*

*Sudan faces considerable vulnerability challenges due to the presence of a multiplicity of factors. These factors include internal conflicts and displacement in certain parts of Sudan, harsh climatic conditions, droughts, erratic and low rainfall, unemployment and frequent economic adjustments with direct consequences on the poor. All these factors have pervasive impacts on the food security and nutrition requiring a strong social protection mechanism.*

*The Social Initiative Program (SIP) for poverty reduction is the overarching program for the social protection which is a vital component in poverty reduction. In 2012 the government has adopted the Social Initiative Program for poverty reduction implemented by the Ministry of Welfare and Social Security and its agencies: Zakat Chambers, Saving Development Bank, Health Insurance Fund, the National Council for the Disabled, and the Students Support Fund. Eligible beneficiaries of the Cash Transfer Program are identified based on the poverty census of 2011 that was undertaken by the Zakat Fund in collaboration with the Central Bureau of Statistics. The social protection is a fairly extensive program that includes: (i) Direct cash transfers to poor families; (ii) National Health Insurance Fund; (iii) National Pension Fund; (iv) Support to poor students safety nets interventions, including cash and in kind transfers by the Government and Zakat Fund; (v) General support to certain medical care services like free treatment in emergencies and free lifesaving medicines; (vi) Social Insurance Fund; (vii) Zakat Fund; (viii) Microfinance; and (ix) Support programs to special groups like rural women, DDR programs for ex-combatants, disabled programs, vocational training centers to enhance youth employment, support to humanitarian crises in war affected areas, creation of productive opportunities for university graduates and support to returnees from South Sudan. The government also runs an expensive general subsidies scheme.*

*As several institutions are responsible for the social protection network and the Social Initiative Program; coordination remains a major challenge. These institutions include: Ministry of Welfare and Social Security being the main government institution responsible for social protection (supervising Zakat Fund, Social Insurance Fund, National Health Insurance Fund and National Pensions Fund, implementing the cash transfers); Ministry of Finance (delivering cash transfers to the Ministry of Welfare and Social Security, subsidies and social development expenditures); Ministry of Health (nutrition and health services outlets for the health insurance); Medical Supplies Corporation (procuring medicines); Ministry of Education (school feeding ); Humanitarian Affairs Commission (coordination of humanitarian assistance and NGOs activities); the DDR Commission (DDR programs); and The Central Bank of Sudan (microfinance). Coordination represents a daunting task particularly with weak capacities in most of the institutions concerned.*

*The government system is supported by donor community and strong informal networks stemming from the tradition of the Sudanese society. Informal networks include remittances to families particularly by Sudanese migrants abroad and support to poor families by civil society organizations. The system is also strongly supported by the international community which has an effective and extensive food aid and nutrition program targeting the IDPs and vulnerable population affected by internal conflicts.*

### **Overall Expenditures of Social Welfare, Security and Protection Programs**

*Public expenditures of social protection programs are defined here to include both budgetary and non-budgetary expenditures. The budgetary expenditures include subsidies, cash transfers to poor families, contribution of the Ministry of Finance to the NHIF, and the NPF, health fees waiver and free life-saving medicines and under five children in public health institutions, support to*

poor university students and rural woman, current expenditures for the social protection institutions and development activities for IDPs and DDR programs. The non-budgetary social protection expenditures included expenditures by the Zakat Fund and The Central Bank of Sudan financial support to microfinancing.

*Total public expenditures on social protection (budgetary and non-budgetary) without considering subsidies increased from 1.4 percent of GDP in 2012 to 1.7 percent in 2014.* Budgetary expenditures (federal and states) amounted to 1.0 percent of GDP in 2012 and increased to 1.3 percent in 2014. With the inclusion of subsidies the budget and non-budgetary expenditures significantly increase from 3.3 percent of GDP in 2012 to 4.1 percent in 2014.

*The total expenditures on social protection increases further when adding non-public funding expenditure.* When the National Social Insurance Fund and the direct food transfers by WFP and nutrition assistance by UNICEF are included, total expenditures on social protection reach 2.3 percent of GDP on average without considering the subsidies. If the subsidies were included the total public and non-public social protection spending will increase to 4.7 percent of GDP in 2014 from 4.2 percent in 2012.

**Table 5.15:** Social Protection Public Expenditures—Budgetary and Non-Budgetary (in million SDGs and as % of GDP)

Social protection components	2012	2013	2014
<b>I. Budgetary public resources (Ministry of Finance and States)</b>			
Cash transfers to poor families	120	165	702
Health insurance contribution transfers to NHIF	0	138	271
Pensions contribution	884	1,115	2,826
Health fees waiver—free emergency treatment and free life-saving drugs	176	195	236
Support to poor university students and CSOs poverty programs	356	174	318
Current expenses for social services public institutions and states cash transfers (federal and states governments)	416	789	857
Development activities (DDR, rural women livelihood opportunities, support to IDPs) (federal and states governments)	192	305	506
Total	2,144	2,881	5,716
Budgetary expenditures as percent of GDP	1.0%	0.9%	1.3%
<b>II. Non-budgetary public resources</b>			
Zakat Fund	719	1,094	1,345
Microfinance resources paid by CBoS	129	352	401
Non-budgetary public resources spent as % of GDP	0.4%	0.5%	0.4%
<b>Budgetary and non-budgetary social protection public expenditures as percent of GDP</b>	<b>1.4 %</b>	<b>1.4%</b>	<b>1.7%</b>
<b>III. Non-public funding expenditures</b>			
National Social Insurance Fund	850	852	1,118
Food and nutrition—WFP/UNICEF	1,025	1,299	1,485
Non-public funding expenditures as % of GDP	0.9%	0.7%	0.6%
<b>IV. Subsidies</b>			
Total social protection expenditures excluding subsidies	2.3%	2.1%	2.3%
Total social protection expenditures including subsidies	4.2%	4.4%	4.7%

Source: Ministry of Finance, Zakat Fund Annual Reports, Reports of the Social Security Mechanisms by the Ministry of Welfare and Social Security (2012–2014), CBoS Annual Reports.

*It is difficult to undertake cross comparisons with similar countries or regions due to the different definitions used for social protection and its components.* It is estimated that Africa has an average of social expenditures of 2.8 percent of GDP with wide variations from 12 percent to 0.5 percent. Low income countries average expenditures on social protection amounts to 3.5 percent (2011) as noted by the ILO.<sup>21</sup>

## Components of the Social Protection

### Budgetary Components

#### Cash Transfers

*Direct cash transfers program, as one of the main components of the SIP, targets poor and vulnerable families.* The Program was introduced in 2012 following the austerity measures implemented in September 2012 as a result of the economic shock created by South Sudan secession. The Ministry of Finance started to allocate substantial amounts for this program, which is implemented by the Ministry of Welfare and Social Security. The Ministry is using Zakat Fund as a vehicle for implementation on the ground utilizing the data base and extensive institutional infrastructure of Zakat Fund that reaches all the way down to the village level; as well as using Savings and Social Development Bank utilizing the outreach of the Bank and Sudapost. By 2014 around 500,000 families were reached. Studies for monitoring performance of implementation have been conducted so far in four states: Kassala, White Nile, North Kordofan, and West Darfur

## The National Health Insurance Fund (NHIF)

*The NHIF was established in 1994 with the aim of reducing the health expenditures for the poor population, and increasing the access to the health services.* The Fund targets universal health coverage by 2031. NHIF predominantly enrolls the formal sector workers, compulsorily, and the informal sector workers, voluntarily. There a number of health insurance windows beside the NHIF namely, military, police, parastatals and private health insurance.

*NHIF is the largest among the health insurance institutions.* The subscriber unit is ‘family’ and the benefit package covers almost all services including, in some cases, even treatment abroad. The health care service providers, are mainly health centers and hospitals which have increased since 2012 from 1,347 providers to 1,446 in 2013 and further to 1,584 in 2014. The main source of financing remains the Ministry of Finance and Zakat Fund. In addition, the Ministry of Finance supports the NHIF by funding its staff wages.

*Health insurance contribution amounts to 10 percent of the salary of staff working in the formal sector.* The amount is deducted at source; 4 percent from the employee and 6 percent from the employer. However, the level of the current contribution is far less than it should be to achieve sustainable and universal coverage.<sup>22</sup>

*The Government is now in the process of making the health insurance mandatory for all.* According to the Director of NHIF about 60 percent of the poor are still outside the coverage.<sup>23</sup> Coverage varies between 66.9 percent in Khartoum state, 40.1 percent in Gedarif State, and 38 percent in Northern state to 19.7 percent in North Kordofan, and 17.4 percent in East and South Darfur states. Improvement of the services will require an additional 56 hospitals and 3,000 health centers. The treatment system of the NHIF also suffers continuous loss of medical doctors, particularly in the states due to migration and lack of incentives.

<sup>21</sup> Social Protection Policy Papers (12), Social Protection Global trends 2010–2015, Social Protection Department, ILO 2014.

<sup>22</sup> Health System Financing Review Report, Federal Ministry of Health Sudan, 2014.

<sup>23</sup> Workshop of States Coverage Directors, NHIF, Khartoum, August 2015.

**Table 5.16:** Sudan's National Health Insurance Coverage by State, 2014

State	Population	Beneficiaries	Coverage rate % (column2/column3)
Sinnar	1,580,157	497,904	31.5
Gadarif	1,739,478	697,686.00	40.1
Sea Red	1,366,991	375,500.00	27.5
River Nile	1,309,129	456,514.00	34.9
White Nile	2,086,650	550,330.00	26.4
North Darfur	2,414,305	478,910.00	19.8
Blue Nile	965,573	351,304.00	36.4
West Darfur	862,775	316,127.00	36.6
North Kordofan	2,344,495	462,193.00	19.7
South Kordofan	1,002,222	314,963.00	31.4
Northern	813,685	311,376.00	38.3
Kassala	2,133,663	504,340.00	23.6
South Darfur	3,163,528	549,592.00	17.4
West Kordofan	1,626,912	385,014.00	23.7
East Darfur	1,330,738	231,866.00	17.4
Central Darfur	639,074	198,421.00	31.0
Khartoum	6,534,795	4,371,400.00	66.9
Sudan	36,199,578	12,252,692.00	33.8

Source: Ministry of Welfare and Social Security. Performance of Social Security Institutions Report, July 2, 2015.

### The National Pension Fund

*The Sudan pension system is old, established since the colonial period in 1904. The pensions for the civil service are organized by a 1991 law, which was amended in 2004. However, the regular forces (army, police and security) have their separate pension laws. The Fund has witnessed frequent institutional shifts being part of the Ministry of Finance, then Ministry of Civil Service and Administrative Reform and latter affiliated to Ministry of Manpower and finally affiliated to Ministry of Welfare and Social Planning.*

*The Fund is facing financial constraints as the monthly payment of the government contribution, particularly from the states is irregular and arrears continue to accumulate. Total overdue arrears to states as end 2014 amounted to SDG 1.8 billion which is equivalent to the total obligations of the Fund for a whole year. About 40 percent of the arrears are due to only two states Khartoum and Gazira, and around 25 percent are due to four states (South Darfur, Red Sea, North Kordofan and North Darfur). The Fund is investing its resources to generate additional income; however the rate of return from these investments seems to be low.<sup>24</sup>*

### Poor Students Support and Other Support

*The National Students Welfare Fund (NSWF) was established in 1991 to support university student's accommodation (hostels) and was also mandated to support poor students by providing them with living allowances and free medical treatment. The NSWF is now operating under its Act of 2005 (amended in 2010). The Fund provides support of SDG 200 per month for each of the 200,000 students receiving support, half of this support is in cash to meet the living allowance of*

<sup>24</sup> Returns to investments in 2012 were SDG 77 million (6% of total resources) and declined to SDG 75 million in 2014 (4% of total resources) whereas average inflation rate between 2012 and 2014 was 37% annually. These figures were derived from the annual report of the social protection mechanisms by Ministry of Welfare and Social Security (Reports of 2012–2013 and 2014).

the student and the other half covers the health insurance and the clothing. The major funding for the poor students support is extended by the Ministry of Finance (along with Zakat Fund). The Ministry of Finance also extends direct financial support for civil society organizations and other government institutions that have social protection programs.

#### **Free Medicines and Fee Waiver for Emergency Treatment**

*The Ministry of Finance pays for free treatment of emergency in all public hospitals and free of charge life savings medicines. The Ministry of Finance bears the cost of 192 types of medicines including all medicines in emergency, kidney dialyses and cancer. The Ministry of Finance is also providing for free medicines for children less than five years in all health units and hospitals. The financing of the free medicines increased from US\$2.3 million in 1997 to US\$134 million in 2014. Coverage of health units supplied with free medicines started to increase gradually since the inception of this program in 1997 to reach 70 percent in 2014 with some variation among states. The two states: Sinnar and South Kordofan reached 100 percent coverage while East Darfur coverage is only 29 percent. The list of free medicines for children less than five years of age reached 36 types of medicines. However, the basic problems facing this scheme are the delays by the health institutions in the replacement of their stock of medicines when depleted; and the black market trade in the freely distributed medicines.*

#### **Non-Budgetary Components**

*The two major non-budgetary programs are the Zakat Fund and the CBoS microfinance support. Both programs utilize public resources.*

#### **Zakat Fund**

*Zakat is a compulsory religious tax on property and capital (not on income or profit) payable in currency or in kind. Zakat is paid by all Muslim, adult, sane, Sudanese who possess a certain minimum amount of extra wealth in excess of personal use for a whole year.*

*Zakat is collected from the following sources: money, gold and silver, cattle, crops and fruits, investments, shares and debentures, real estate, freelancing and wages. There are eight categories of people to whom Zakat is distributed: (i) the poor; (ii) the needy; (iii) Zakat collectors; (iv) those in bondage and in debt; (v) those fighting for a religious cause; (vi) those whose hearts have been recently reconciled; (vii) free from slavery or servitude; and (viii) wayfarers and stranded travelers.*

*Zakat is administered by independent body (Zakat Chamber) outside the jurisdiction of Ministry of Finance. Since 1986, the Zakat administration has been separated from the Taxation Chamber with complete independence from the Ministry of Finance. Zakat is currently governed by the 2001 Act which gives the chamber an independent legal identity. The Chamber is supervised by a Council chaired by the Minister of Social Welfare and the members are appointed by the President. The Act considers Zakat as public money that has to be audited by the Auditor General and its report is approved by the National Assembly.*

*Zakat covers a substantial number of poor of about 3 million households, although this number declined to around 1.9 million in 2014. The major share of the resources is directed to the poor and needy category, amounting to around 70 percent of total eligible persons for Zakat. Interventions include direct cash supplement, which constitutes the major share, as well as investments. Interventions of Zakat cover areas like health care, health insurance, education fees, and special program for the people with disabilities.*

### Microfinance

*Microfinance started in Sudan in 2007.* By 2014 institutions of microfinance were well developed including: a Microfinance Unit at the Central Bank of Sudan's headquarters (the regulator), the Supreme Council for Microfinance, and State Councils of Microfinance (microfinance policies and oversight), Sudan Microfinance Development Facility (an apex institution), Kafalat insurance (microfinance whole sale insurance), and Microfinance Planning Units at related ministries and microfinance institutions.

*Despite recent experience with microfinance, Microfinance Institutions (MFIs) considerably expanded.* They grew from 7 in 2012 to 30 in 2014 and the total number of clients increased from around 500,000 in 2012 to close to one million in 2014.

*The Bank of Sudan has directed commercial banks to allocate 12 percent of their portfolio to microfinance.* There are several microfinance programs covering different groups in different locations. First, the Islamic Development Bank Microfinance Support Program launched in April 2011 is a partnership between the CBoS and the IDB aims at contributing to the alleviation of poverty by extending financial assistance to MFIs. So far 10 MFIs were financed. Second, the Graduate's Projects Microfinance Portfolio was launched in March 2012 with the objective of providing microfinancing for projects submitted by graduates across all the states in the country. The CBoS is the main single contributor (36 percent) along with 20 commercial banks to the financing portfolio. Around 10,240 graduates benefited from the portfolio. The programs are implemented by two banks: Savings and Social Development Bank and Farmers Commercial Bank. Third, the Rural Women Program is a microfinance program fully funded by the CBoS in collaboration with ministry of social planning with a capital of US\$ 1.5 million targeting 8,200 families implemented by the Savings and Social Development Bank. Finally, Al Amman is a microfinance portfolio that was formed in mid-2010 by commercial banks (32 banks) and the Zakat Fund. The objective is to extend microfinance to poor individuals and groups. The total portfolio is SDG 200 million in which bank's share amount to SDG 150 million and the Zakat Fund SDG 50 million. The financing targeted 189,000 beneficiaries.

*Microfinance potential customers in the country may exceed 8 million individuals, while demand covers only about 12 percent.* It is, therefore, evident that the gap between coverage and demand is massive and indicates a huge potential for microfinance.<sup>25</sup> Commercial banks have the bulk of the financial resources but they are not yet ready to be fully involved in the microfinance sector.

*Microfinance in Sudan still faces some challenges.* There are signs of inequitable distribution of microfinancing. About 40 percent of the MFIs are mainly operating in Khartoum, which has the least poverty incidence (26 percent) compared to the other states. The global experience demonstrates that MFIs develop as the scale of their operations grows beyond delivery of credit

**Table 5.17:** Microfinance Indicators (SDG million)

Indicators	2012	2013	2014
Total banks financing	30,483	37,657	44,321
Microfinance financing	1,496	1,546	2,055
% of microfinance to total banks financing	5%	4%	4.6%
Total financing by MFIs	174	230	503
Central Bank of Sudan wholesale financing extended to microfinancing	129	351	400
No. of licensed MFIs	7	25	30

Source: Central Bank of Sudan (CBoS) Annual Reports.

<sup>25</sup> A study made by UNICONS for MFU, CBoS—A vision for the development and expansion of the microfinance sector in Sudan, 2006.

services to include savings, deposit and non-financial services, but in Sudan attracting savings is an ignored activity in microfinancing so far. Only two of the licensed MFIs were deposit takers (7 percent of total MFIs). There is a clear scarcity and in many cases absence of non-financial services including training for clients, business development services, value chains, and technical support which are all part of a sound microfinancing system for the poor to improve their productivity, especially outside Khartoum.

## Nonpublic Funding Programs

### The Social Insurance Fund (SIF)

The SIF is a mandatory insurance system for all private sector employees and self-finance public corporations as well as state owned banks and companies. The major resources are from the Employers and the employee's subscription in which the employer contributes 25 percent of the wage and the employee 8 percent. The Fund is organized by the 2008 Act which stipulates its status as an independent legal entity under the supervision of the Minister of Welfare and Social Security.

The compensation of after service benefits paid for pensioners is extremely low and does not cope with the inflation rates. Expansion in social support programs without ensuring funding could future sustainability of the fund as indicated by the last Actuarial Study.<sup>26</sup> The arrears accumulated by the states represent also a serious challenge to the sustainability of the Fund services.

## Food Aid and Nutrition Programs

The Humanitarian Appeal funding of UN and Partners Work Plan is coordinated by the United Nations Office for the Coordination of Humanitarian Affairs (OCHA) in partnership with Humanitarian Affairs Commission (HAC). The Commission is supervised by the Ministry of Welfare and Social Security. The appeal is implemented by UN agencies and NGOs. It covers a wide range of activities including: agriculture, economic recovery and infrastructure, education, food, health, nutrition, mine action, protection and rule of law, shelter and nonfood items and multi sector. What is considered here as social safety net program is the direct assistance in food and nutrition. The major provider of the food is the WFP, and main provider of nutrition is UNICEF. The main beneficiaries are war affected and displaced population in the country. WFP has several food programs including General Good Distribution, supplementary ration for children, and school feeding. UNICEF supports the tackling of micro-nutrient deficiencies, low birth weight and chronic malnutrition through increased routine vitamin A supplementation, iron and folic acid supplementation, promotion of iodized salt, and the marketing of fortified foods such as flour and sugar.

## Subsidies

Sudan runs an extremely expensive generalized subsidy system for fuel and wheat. Subsidies were around 22 percent of total public expenditures in 2014 which is equivalent to the federal and

**Table 5.18:** The Social Insurance Fund

Indicators	2012	2013	2014
Expenditures in SDG million	850	852	1,118
Expenditures as % of GDP	0.4%	0.3%	0.3%
Number benefited	316,606	323,538	321,318

Source: Social Security Mechanisms Reports (2012–2014), Ministry of Welfare and Social Security.

<sup>26</sup> Quoted in Social Security Mechanisms Report 2014, Ministry of Welfare and Social Security.

**Table 5.19:** Safety Nets Expenditures

Program	2012	2013	2014	Source of funding
Cash transfers	120	165	702	Ministry of Finance
Contribution to health insurance	125	198	264	Ministry of Finance
Zakat	688	1,039	1,420	Zakat Chamber
Health fees waiver—support to poor in emergency treatment (hospitals), essential lifesaving medicines	158	194	251	Ministry of Finance
Subsidies	4,235	7,202	10,521	Ministry of Finance
% of GDP including subsidies	2.4%	2.8%	3.0%	
% of GDP excluding subsidies	0.5%	0.5%	0.6%	

Source: Ministry of Finance, Zakat Fund Annual Reports, Reports of the Social Security Mechanisms by the Ministry of Welfare and Social Security (2012–2014), CBoS Annual Reports.

development budgets combined. Total subsidy increased from 1.9 percent of GDP in 2012 to 2.3 percent of GDP in 2013 and further to 2.4 percent of GDP in 2014. The subsidies are dominated by fuel representing over 75 percent of the total subsidies. Most of the benefits from subsidies are captured by higher-income households. The top income quintile receives 48 percent of total subsidy compared to 3 percent received by the bottom income. However, there are certain variations for the different products where in the case of kerosene the top quintile receive only 21 percent compared to Gasoline where the top quartile receive 68 percent of the subsidy benefits.<sup>27</sup> The subsidy resources could benefit the poor more effectively if they were targeted. The IMF concluded that fuel subsidies are expensive, inefficient and inequitable.

Similarly a recent Bank study of social safety nets in 22 African countries concluded that general subsidies are costly mechanisms for redistributing income and often do not benefit the poor.<sup>28</sup> The study found that fuel subsidies do not benefit the poor in Cameroon, Mauritania and Sierra Leone and concluded that reducing poorly targeted programs and subsidies can make fiscal space for more effective and better targeted safety nets. Likewise, well performing safety nets providing support to the most vulnerable groups can be important mitigating mechanisms to facilitate reform of expensive general subsidies.

## Social Safety Nets

*Social safety net is one of the components of the social protection.* Considerable number of poor and vulnerable people is unable to meet basic commodities and essential services needs due to the conflicts and displacement. Therefore, special consideration is to be given to social safety nets which include cash transfers, in-kind support, as fee waivers for basic services and school feeding and nutrition programs.

*Expenditures on social safety net increased during the IPRSP review period.* Safety net expenditures—defined as non-contributory programs to include cash and in kind transfers, health waivers; and subsidies—rose from 2.4 percent of GDP in 2012 to 3 percent in 2014 while excluding subsidies expenditures increased from 0.5 percent in 2012–2013 to 0.6 percent in 2014.

*Most African countries spending on social safety nets—which average about 1.7 percent as a share of GDP—is higher than Sudan's spending.* Africa's average spending on social safety nets, however,

<sup>27</sup> IMF: Sudan Selected Issue Papers; Fiscal cost and Distributional Subsidies; Sudan Country Report No. 12/299, November 2012 (pages 4–13).

<sup>28</sup> The World Bank: Reducing Poverty and Investing in People: The New Role of Safety Nets in Africa. The World Bank Washington DC. 2014, (pages 6–7).

**Table 5.20:** Spending on Social Safety Nets (% of GDP) in 21 Sub-Saharan African Countries

Country	Spending on social safety nets (% of GDP) excluding general subsidies	Spending on social safety nets (% of GDP) including general subsidies	General subsidies only (% of GDP)	Share of total gov. spending, excluding subsidies (% of GDP)
Benin	0.3	0.9	0.5	1.1
Botswana	3.7	3.7	0.0	9.5
Burkina Faso	0.6	1.3	0.7	1.0
Cameroon	0.2	1.6	1.4	1.5
Ethiopia/ a	1.2	1.2	0.0	—
Kenya	0.8	0.8	0.0	1.0
Lesotho	4.6	4.6	0.0	8.0
Liberia	1.5	1.5	0.0	4.4
Madagascar	1.1	1.1	0.0	5.0
Mali	0.5	0.5	0.1	—
Mauritania	1.3	3.2	1.9	4.6
Mauritius	4.4	5.2	0.8	9.0
Mozambique	1.7	3.1	1.4	—
Rwanda	1.1	1.1	0.0	—
Sierra Leone	3.5	5.6	2.1	13.1
South Africa	3.5	—	—	—
Swaziland	2.1	2.1	0.0	—
Tanzania	0.3	0.3	0.0	1.0
Togo	0.5	1.3	0.8	1.8
Zambia	0.2	2.1	1.9	1.9
Average	1.7	2.2	0.6	4.4

Source: World Bank (2014). Reducing Poverty and Investing in People: The New Role of Safety Nets in Africa. The World Bank, Washington DC. 2014, Table 5.1, pp. 117–118.

Note: The figure for Ethiopia includes only the Productive Safety Net Program and does not include spending on other safety net programs.

masks wide variation, ranging from 3.5–3.7 percent of GDP in Botswana and South Africa (middle income countries) to 0.2–0.3 in Benin and Tanzania (low income countries) as noted in Table 5.20. Neighboring Ethiopia's Productive Safety Net Program costs 1.2 percent of GDP. However, cross country comparisons should be interpreted with care as Sudan's social safety net system differs from other African countries. The African experience has shown that what is typically included in social safety nets are school feeding, public work programs, fee waivers, cash transfers and vouchers, food and in-kind distributions, nutrition programs and other as noted in a recent World Bank study (World Bank 2014).<sup>29</sup>

## Remittances

*Remittances are considered as an essential and strong informal social protection mechanism for millions of families in Sudan.* Sudanese working abroad according to the Secretariat of the Sudanese Working Abroad are around 4 million persons (of whom 2 million are working in Saudi Arabia) and their total remittances are estimated to be around US\$ 4 billion per year (about 7 percent

<sup>29</sup> World Bank (2014). Reducing Poverty and Investing in People: The New Role of Safety Nets in Africa. The World Bank, Washington DC. 2014, Table 5.2, p. 120.

of GDP) transferred mostly outside the banking sector.<sup>30</sup> US sanctions and other undeclared sanctions imposed by non-US bank (due to over compliance) resulted in a breakdown in relations with corresponding banks in recent years and consequently transfers of remittances were severely affected. However, they are not considered in the calculations of safety net expenditures and pro-poor spending.

### Achievements

*Sudan has made significant increase in coverage for most of the social protection programs.*

Table 5.21 shows the increase in the number of social protection beneficiaries by program. However, progress varies from one program to another. Despite progress made, the country has a long way to go to reach adequate coverage in certain programs like health insurance and microfinance given the magnitude of vulnerability and widespread poverty as well as the low base from which these programs started.

### Challenges

*The main weakness in the social protection programs in Sudan is basically the inefficient use of resources.* Sudan requires streamlining of the current system to increase resource use efficiency. Substantial resources are spent on non-targeted social protection programs like subsidies. Waste of resources occurs due to inappropriate targeting. There is weak coordination particularly given the given the large number of agencies involved.

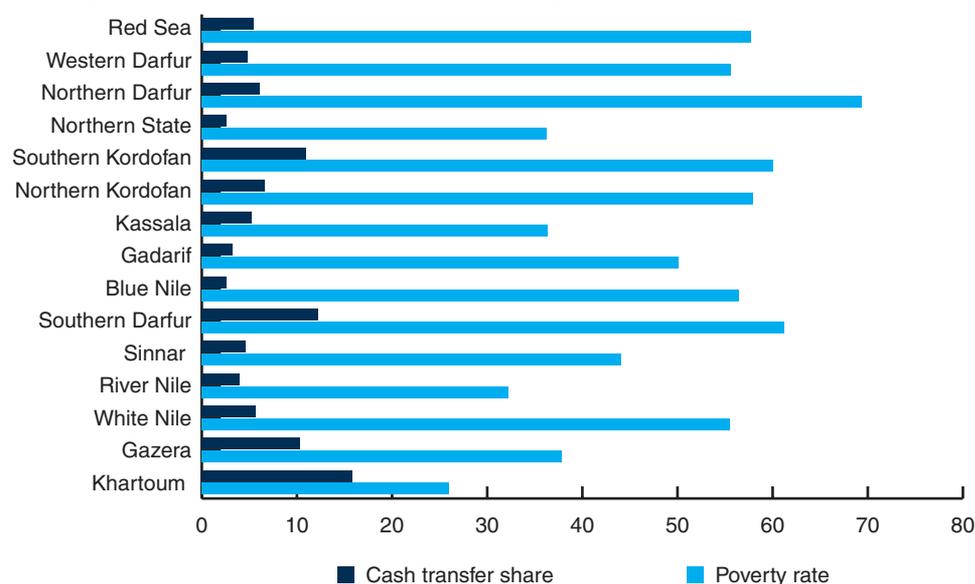
*The cash transfer program, for example is thinly spread across the states, indicating there is room for better targeting.* A breakdown of cash transfer by geographic locations reveals important variation across the states (Figure 21). While North Darfur state has the highest poverty rate (69.4 percent), Khartoum state has the highest share of cash transfer (nearly 16 percent of benefited families are located in Khartoum). Khartoum and Gezira states (where poverty is relatively low) host more than 25 percent of cash transfer beneficiaries. Residents of Darfur and other conflict affected areas were significantly worse-off in terms of cash transfer than the rest of the country.

**Table 5.21:** Social Protection Programs Beneficiaries (Number of Beneficiaries)

Program	2012	2013	2014	Beneficiaries type
Zakat	3,111,996	3,037,255	1,920,000	Households
Social insurance fund	316,606	323,538	321,318	Persons
Health insurance fund	10,044,829	10,857,063	12,252,692	Persons
Pension fund	412,733	412,733	503,217	Persons
Cash transfers	99,817	260,000	500,000	Families
Poor students	150,000	194,000	200,000	University students
Microfinance	490,000	624,000	860,000	Clients (banking and MFIs)
WFP/UNICEF	3,500,000	3,600,000	3,600,000	Persons

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

<sup>30</sup> M. Swar, General Secretary of the Secretariat of Sudanese Working Abroad: Al Mighar 28/8/2015 (Arabic) and Sander, Cerstin. Capturing a Market Share? Migrant Remittance Transfers and Commercialization of Microfinance in Africa, Bannock Consulting, London, 2003, citing Brown (1982) in Puri et al, 1999.

**Figure 21:** Poverty Rate and Cash Transfer Distribution by State (%)

Source: Authors' own calculations based on the Ministry of Welfare and Social Security and World Bank Analysis of NBHS 2009.

### Implications for PRSP

**Subsidies:** The issues of subsidies removal needs to be seriously looked into. Lifting of subsidies could be sequenced to minimize impacts on the poor (like starting with lifting items that are less important to the poor as recommended by the IMF) and utilize the subsidy resources for a well-targeted compensation programs.

**Social security funds:** The weakness capital of the social security institutions poses great risks to the sustainability of their services. The weakness is a result of low coverage and hence low contributions by subscribers, resistance of the private sector for mandatory social security insurance, the large arrears accumulated by the federal government and the states, the low rate of returns from the invested money of the social funds, and the high inflation rates.

**Coverage:** The coverage of social protection needs to be expanded and performance of the outlets that provide the treatment services for the health insurance need to be improved. Many areas which are remote and in which poverty is higher are not well served with health services outlets; the health facilities providing services to the health insurance in rural areas suffer from the shortages of the medical staff due to lack of incentives; and there are weaknesses in the availability of all the packages covered by the health insurance in the health centers. A strong monitoring is needed as there is an emerging black market trade in the freely distributed medicines including for children less than five years.

**Zakat:** Several recommendations were made to improve the Zakat performance in the conference held in Khartoum in March 2015. These recommendations included using modern management tools and appropriate IT technology for increasing management efficiency, enhancing partnerships with civil society organizations to improve the targeting; streamlining expenditures priorities; and strengthening internal audit.

**Targeting and equity:** Targeting mechanisms for the cash transfers reviewed for further improvements and has to be supported by transparent data base and a monitoring system. Further improvement is required in targeting of beneficiaries and the delivery mechanism for the cash transfers. This should be based on a rigorous evaluation of the current experience. There should be more equity considerations in the social protection programs. A large variation in the coverage among states is clear with the poorest states getting the least benefit.

*Institutions:* Review of the existing institutional set up to particularly enhance the coordination aspects is needed.

*Impact of sanctions:* Economic sanctions and over compliance by non US commercial banks severely affected transfers of remittances to Sudan by Sudanese national working abroad. Remittances are used as an important safety net for millions of poor families around the country.

## 5.5 Governance

*Strengthening governance and institutional capacity is one of the IPRSP pillars.* Human rights, peace and security, effective public financial management and decentralization were the essential elements of good governance which is considered by the IPRSP as critical for achieving growth and reducing poverty.

*The IPRSP identified certain challenges that need to be addressed.* Reconciliation and resolution of conflicts, improving human rights records and make the Human Rights Commission to be operational, resolving land tenure issues, strengthening local governments, reforming the public expenditure managements system and fighting corruption were the main challenges identified.

### 5.5.1 Human Rights

*Considerable progress was made in the human rights record since 2011.* It should be recalled that in 18th session of the UNHRC in August 2011,<sup>31</sup> the independent expert of human rights to Sudan concluded that the Government of the Sudan has not taken any significant steps towards the implementation of most of the recommendations since his previous report to the Council. However, in September 2014 The Report of the Independent Expert on the situation of human rights in the Sudan, covering period Oct 2012–June 2014, concluded that despite the human rights challenges in the Sudan, the government's human rights policy orientation and legislative and institutional developments aimed at improving the situation of human rights has improved over the past two years. In addition, human rights awareness has improved across the different government sectors.

*The Government has taken noticeable reforms in the area of human rights during the IPRSP review period.* The Government has adopted a 10-year National Action Plan for the Protection of Human Rights in the Sudan. In September 2013, Sudan voluntarily issued mid-term report on the implementation of recommendations of the Universal Periodic Review (This was a process created by the UN assembly for all countries), including drawing up a detailed action plan for its implementation.

*A National Commission for Human Rights (NCHR) was established in 2012.* The Sudan National Human Rights Commission is the country's first and only national human rights institution. The National Commission on Human Rights adopted a promising four-year national strategic plan for 2014 to 2018.

*A Unit of Combating Violence against Women and a Woman Center for Human Rights were established at the Ministry of Welfare and Social Security.* In addition, the National Council for Child Welfare was established under the supervision of the Ministry of Welfare and Social Security.

*A human rights adviser has also been assigned to the Minister of Education to advice on the inclusion of human rights in the educational curriculum.* A high-level committee was established in the Ministry of Education to monitor the implementation of the Action Plan at national level.

<sup>31</sup> On the status of implementation of the recommendations compiled by the Group of Experts to the Government of the Sudan for the implementation of Human Rights Council resolution.

*On 22 February 2015, Sudan Penal Code of 1991 was amended to expand and clarify the definition of rape that meets international standards (Article 149). The amendment distinctly separates the crime of rape from the crimes of zina (sex outside of marriage), thus reducing the risk of women being accused of zina when they report rape. These factors may make it more likely that women who have been raped will report the crime and take the perpetrator to court. The Code amendment also included for the first time a new element criminalizing sexual harassment (Article 151).*

*Elections legislation was amended to stipulate an increase of women representation in the Parliament to reach 30 percent of total seats in the elections of 2015. In addition to these affirmative action women are allowed also to compete with men in the geographical constituencies. In the elections of 2015, about 1900 women nominated themselves for the Parliament seats compared to 900 in the previous elections (an increase of 110 percent) and, for the first time, a woman contested the presidential elections in 2015.*

*The Government continued its massive campaign against Female Genital Mutilation FGM/C; a deep rooted culture in the society.<sup>32</sup> Saleema campaign against Female Genital Mutilation FGM/C was adopted by National Council for Child Welfare and is vigorously implemented.*

*The Government campaign against FGM/C has gained wide support. The Government is being assisted by doctors, religious leaders, media and other civil society organizations with support from UNFPA and other UN agencies after enacting all necessary legislations incriminating it.<sup>33</sup>*

*A unit dedicated for combating SGBV was established. A specialized police force was established in the various states in Sudan to serve Family and Children Protection Units (FCPUs).*

*Sudan's efforts in combating human trafficking were recognized by the international community. Sudan because of its location has become a transit hub of mixed migration flows from the Horn of Africa to North Africa and Europe. Sudan has acknowledged and showed increasing concerns about the scope and extent of the country's human trafficking problem through press statements, conferences and cooperative efforts as reported by UN agencies. Sudan attracted regional attention to this issue. A testimony to that is the last Regional Ministerial Conference on Human Trafficking and Smuggling in Khartoum on mid October 2014.<sup>34</sup> Sudan has recently adopted a Law to Combat Human Trafficking (March 2014) with severe punitive measures for traffickers.<sup>35</sup> Sudan established a National Committee for Combating Human Trafficking. A special prosecutor for human illegal migration and trafficking was established. The Informatics and Organized Crimes Bureau of the Sudan Police Force (SPF) investigated and reportedly referred cases of suspected trafficking for prosecution and cases were tried and convicted.<sup>36</sup>*

<sup>32</sup> FGM/C has long been an integral part of the social system. It is a cultural belief of many Sudanese that the practice safeguards the family's honor and the prospect of their daughters' future marriage, linking it with premarital virginity and marital fidelity. Consequently, there is a great deal of stigma against women and girls who are not circumcised.

<sup>33</sup> Sudan was the first African country to legislate against Female Genital Mutilation/Cutting (FGM/C). The infibulations form of the practice was declared illegal in 1946 in Sudan's Penal Code. The first international conference on FGM/C was held in the capital of Sudan, Khartoum in April 1999. Sudan has also ratified various international agreements under which FGM is considered a violation, including the International Covenant on Civil and Political Rights (1976); International Covenant on Economic, Social and Cultural Rights (1976); and Convention on the Rights of the Child (1990).

<sup>34</sup> Organized by the African Union (AU) in collaboration with the Government of the Sudan, the United Nations High Commissioner for Refugees (UNHCR) and the International Organization for Migration (IOM) and attended by Ministers from more than 15 countries of migration source, transit and destination along with High level delegations.

<sup>35</sup> The law prescribes between three and 10 years' imprisonment for acts of trafficking, between five and 20 years' imprisonment for aggravated trafficking, and capital punishment in cases where the trafficking victim dies; these penalties are sufficiently stringent and commensurate with those prescribed for other serious crimes, such as rape.

<sup>36</sup> Trafficking-related arrests 2011 to 2013 had resulted in 70 convictions, and 600 in 2014 (Dongola Court). The government initiated prosecutions in 2013 against 25 defendants for suspected human trafficking crimes, and achieved 28 convictions.

*To demonstrate its regional commitment to combat human trafficking, Sudan established joint patrols with Ethiopia and Eritrea, two major sources of trafficking. The Government authorities rescued and provided assistance to an increased number of trafficking victims. It also succeeded in bringing traffickers to justice and many were convicted. The Human Right Council welcomed all the efforts exerted by Sudan in combating human trafficking (Session 27, September 2014).*

*Anti-money laundering and combating of Financing of Terrorism Act (AML/CFT) was passed in line with international standards and in collaboration with the International Monetary Fund (2014). A specialized Anti-money laundering and Combating of Financing of Terrorism Attorney was established to examine relevant lawsuits in April 2014. A manual for AML/AFT was issued as well as circulars for awareness to the relevant government bodies.*

*The Financial Inquiries Unit was established as an independent unit in the Central Bank of Sudan (CBoS) acting as Financial Intelligence Unit. A new section for CML/CFT was established in several institutions. All units which are obliged to report on money laundry and their staff were adequately informed and trained.*

*The UN Anti-Corruption Convention was ratified in February 2014. Regulations were issued to implement the Security Council Resolution 1373 (2001) aimed to hinder terrorist groups in various ways, and Resolution 1267 (1999) aimed to take certain measures in connection with any individual or entity associated with Al-Qaida. A technical committee was formed to ensure the implantation of these resolutions.<sup>37</sup>*

*Sudan is playing an active role with its region. It has played instrumental role in bringing together Ethiopia and Egypt to agree on the Grand Ethiopian Renaissance Dam (GERD) thereby defusing a regional tension which started to emerge. On March 23, 2015, Egypt, Ethiopia and the Sudan signed a declaration of principles on the GERD which has stirred fears of a regional resource conflict and paved the way for further cooperation and sets an example among Nile Basin countries.*

### 5.5.2 Public Financial Management

*Sudan has undertaken several institutional reforms in the financial sector. Work in the computerization of the taxation system has started, and this step will increase transparency of the financial performance of the government.*

*A new Transparency and Anti-Corruption Commission law was passed with the view to establish and regulate the operation of the Commission. The Commission is expected to assume its responsibilities in due course.*

*The implementation of an Integrated Financial Management Information System (IFMIS) in conformity with international best practices started in 2014 with assistance from the African Development Bank. IFMIS contains important new elements; implementing a new budget classification system (GFS), financial system for Line ministries; improving the electronic transfer of data at sub levels; adapting a new Treasury Single Account System, starting to transform from Cash accounting system to Accrual accounting system and interacting on daily basis with other systems of financial organizations in the country (Such as Central Bank Core banking System, Taxation Chamber, and Customs). The World Bank Group is also extending assistance to reform the budget process with particular attention to the state's financial management systems. Part of the above projects outcomes will be the presence of highly trained staff in debt management, macroeconomic management, accounting, procurement, budgeting (including gender-based*

<sup>37</sup> Institutions included: The Insurance Supervisory Board, The Customs General Administration, The taxation Chamber, and The National Intelligence and Security Service.

budgeting), and using multi-year methodology. These efforts are expected to enhance accountability of using public resources, improve effectiveness of macroeconomic policies and poverty reduction strategies and reduce corruption.

*The Ministry of Finance and Economic Planning adopted an electronic receipt voucher (instead of the paper voucher known as form 15) as a collection tool for the revenues at federal and states levels starting in July 2015. The new system is expected to raise collection efficiency to increase revenues and to prevent many misuses that were occurring in the paper-based system. Any receipt of money will be automatically recorded in the Ministry of Finance system, thereby, reducing corruption and misuse of public funds. A law criminalizing the use of paper voucher was enacted.*

### 5.5.3 Decentralization

*The IPRSP identified some major challenges facing the decentralized system in Sudan. The key challenges of a functioning decentralization in Sudan identified include the lack of technical and institutional capacity at all levels, the inadequacy of financial resources at the state and local governments to meet the constitutionally assigned responsibilities, and the lack of real autonomy and participation of the population at the local government level. The IPRSP has basically emphasized the role of the localities indicating that localities have very limited autonomy, and they fall under the control of the states. The revenue sharing between the states and the localities is not transparent, therefore, the IPRSP called for strengthening the autonomy and capacity of local governments.*

*There were considerable improvements in the federal system in Sudan since its inception in 1992, particularly after the CPA which brought increased devolution of powers and financial resources. These developments were accompanied by some progress in the service delivery. To further improve the governance system, a recent amendment of the 2005 Interim National Constitution legislated for the localities as a separate level of government was approved.<sup>38</sup> Clear independence was given for localities and their revenue sources were specified. The jurisdiction of the states over local government was abolished. The local government will have separate elections of its respective organs in accordance with the National Election Act.*

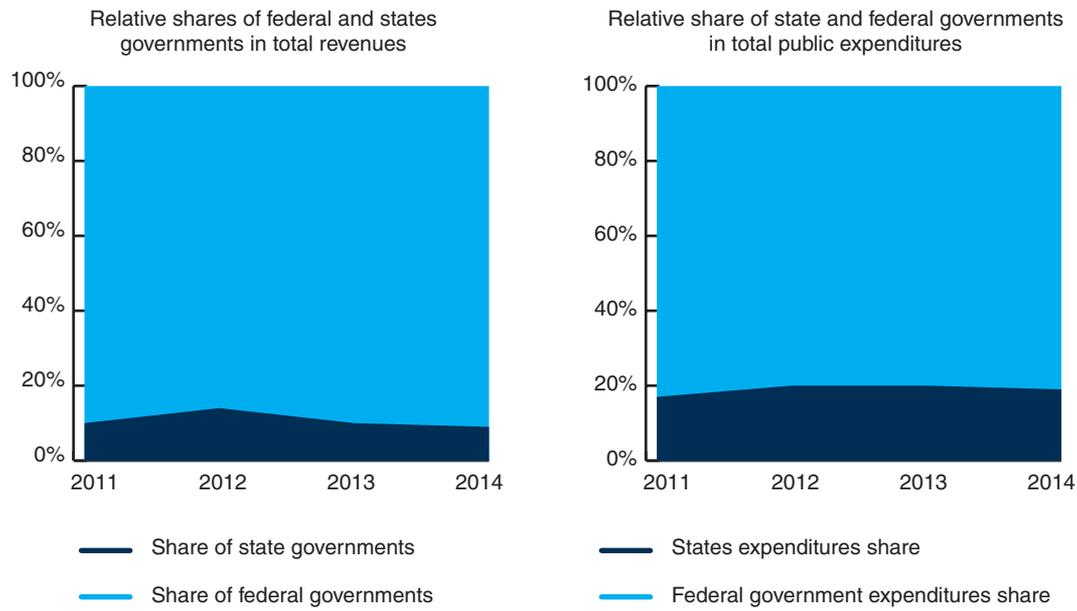
*However, the federal system faces some weaknesses that need to be addressed to improve its operation in the service delivery. Further efforts are required to enable state to have more resources to meet its expenditures responsibilities. The current situations shows that the pool of total revenues (federal and states), though much increased compared to the period before 2005 are still dominated by the federal government. Total public expenditures (federal and states), though showing a slight increasing trend are still dominated by the federal government as shown by Figure 22.*

*The transfers to states as percent of total government revenues that have increased considerably during the CPA interim period started to decline during since 2012. The substantial transfers allocated from oil revenues to the south prompted the government to ensure equity in resource allocation and started to transfer similar levels to the northern states. However, after South Sudan secession the transfers to states as a percent of total government revenues have declined.*

*On the other hand, states resources are not being efficiently utilized as more resources are devoted to increasing wages and salaries bill. Figure 24 shows that despite the increase in own revenues of the states, these resources were utilized in wages and salaries which keep growing unchecked.*

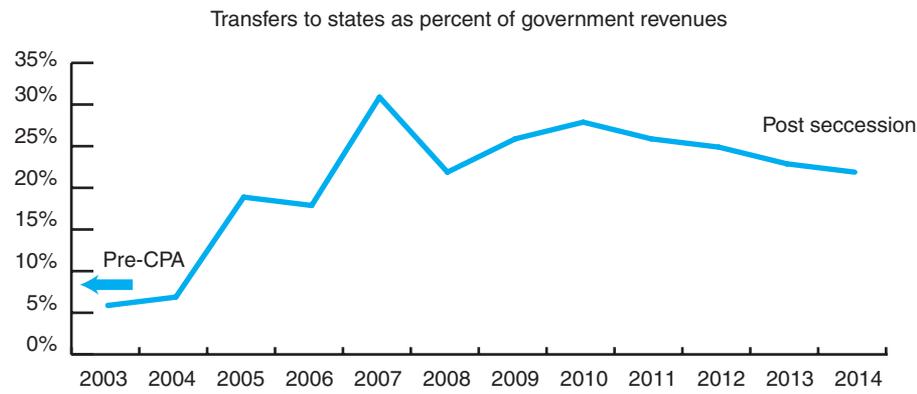
<sup>38</sup> Localities were given the powers to legislate, by laws or local orders, for the following taxes which constitutes the resources: real estate tax, sales tax, agriculture and livestock tax, fees on inland and river local transport, excise duties on local industries and handicrafts, local fees on mining, and other local resources.

**Figure 22:** Relative Shares of Revenues and Expenditures between Federal and States



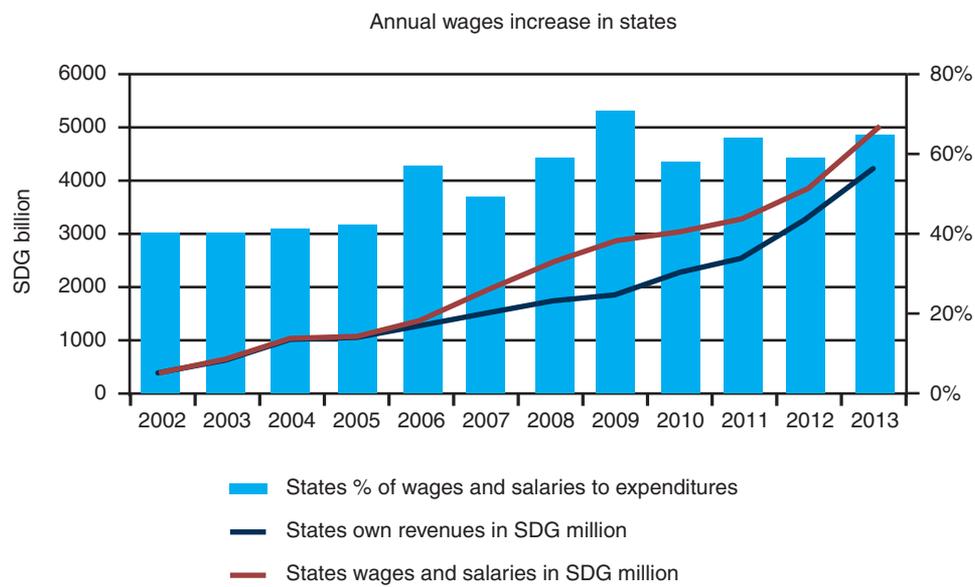
Source: Economic Bulletin MoFNE and FFAMC.

**Figure 23:** Transfers to States as Percent of Government Revenues



Source: IMF Article IV Consultation Reports.

**Figure 24:** Wages and Salaries Increase in States



Source: FFAMC records.

**Table 5.22:** Basic Schools Seating and Textbooks Availability for Selected States (2014)

	Percent of students seated	Percent of students with textbooks
Khartoum	50%	98%
Northern	60%	45%
North Darfur	29.7%	28%
Kassala	94.4%	89%
White Nile	70.6%	73.4%
North Kordofan	52%	73%

Source: Economic Survey 2014, Draft-MoFEP.

*The negative impacts of the continuous increase in wages and salaries leave little resources for many states to meet the running expenses let alone development. As seen from Table 5.22 above, several states were unable to meet the expenses of the textbooks or the seating for students. Many students are sharing textbooks and some are sitting on the ground.*

*The existing federal system needs to be reformed to address one of the major root causes of the Sudanese conflict which is the disparities among the states. The aggregate economic and social indicators in Sudan do not reflect the large geographical disparities in the country. Improvements in the social services indicators mentioned previously in this document mask significant regional disparities. Table 5.23 reflects disparities in important selected indicators. Vertical and horizontal equalization formulas seem not to fully capture these disparities as seen for example from the per capita transfers of the state when compared to the level of poverty in the states.*

*Capacities in all financial management aspects are weak invariably in all states. The weakness of staff capacities is a major reason for the poor PEM. States lack electronic networking system linking all departments, let alone localities. None of the states have an electronic archiving system in place. The average number of computers available is ten computers per state and when they are available most of staff is not trained to use them. Also, staff is poorly trained. The Staff in all states is not trained to conduct revenues and expenditures forecasting, budgeting, cash flow planning and management and other budget related analysis. Only 72 senior managers (out of 96) have knowledge and experience in how to review and interpret the three key financial documents; a cash flow projection worksheet, a balance sheet and an income statement.<sup>39</sup>*

*There are apparent weaknesses in the public expenditure management and financial governance. States do not prepare their budgets within a medium term expenditures framework, but rather formulate incremental budgeting. Localities budgets are not fully integrated into the states budgets. The Auditor General indicated in his last report that retention and extra budgetary practices still exist in the states, but there are improvements in 2013 compared to 2012. Internal auditing in the states suffers from lack of uniform legislation between the federal government and the states and weak capacities (there are rarely certified auditors in states). Staff of the procurement in most of the states is unqualified. There are wide discrepancies in the reporting of the financial data.*

*Lack of continuous consultations in financial matters between the state and the federal Ministry of Finance and Economic Planning adds an additional burden to the state's financial planning. Lack of consultations is cited as a concern by many states. States are sometimes taken by surprise when certain decisions of direct or indirect fiscal implications on their budgets are taken by the federal government without consultations. A good example is wage increases where in many instances the federal government suddenly announces wage increases or employment benefits without prior consultations with states. This complicates the budget process, weakens expenditures forecasting and discredit the budget preparation. Some State Ministers alluded, for example, to the*

<sup>39</sup> Manal, M O Elehemier (2014), Report on: Capacity Building Assessment of States Ministries of Finance, Sudan, prepared for Mamoun Beheiry Centre (MBC) for Economic and Social Studies and Research in Africa (December).

**Table 5.23:** Selected Socioeconomic Indicators by State

State	Poverty % (2009)	Per capita share in fiscal federal transfers % (2014)	GER basic education %	Infant mortality per 1,000 live birth	Health insurance coverage as % of state population	% with improved source of water (2009)
North Darfur	69.4	4.7	56.0	69	18.5	65
South Darfur	61.2	3.2	39.9	53	15.8	55
South Kordofan	60.0	7.1	79.3	70	21.1	60
Central Darfur	59.0	5.6	96.5	45	19.5	—
North Kordofan	57.9	4.5	71.8	36	18.4	49
Red Sea	57.7	5.1	47.3	44	23.6	33
Blue Nile	56.5	8.0	56.3	47	33.0	42
West Darfur	55.6	4.1	80.5	71	32.7	46
White Nile	55.5	5.4	80.7	47	23.6	58
East Darfur	54.8	2.0	36.5	88	14.7	—
West Kordofan	53.8	4.0	68.7	68	32.7	—
Al Gadaref	50.1	5.5	68.1	53	36.5	48
Sinnar	44.1	5.6	73.8	34	27.4	70
Gazira	37.8	6.9	83.8	41	25.5	73
Kassala	36.3	4.0	54.3	62	20.6	48
Northern	36.2	11.2	78.8	30	33.7	87
River Nile	32.2	8.1	80.2	28	30.3	75
Khartoum	26.0	5.0	93.3	45	61.7	73
Best Performing state	26	11.2	96.5%	28	61.7	75
Worst Performing State	69.4	2.0	36.5%	88	14.7	33

Note: Water is based on % of population with improved water source compared to those with unimproved source.

Source: Sudan IPRSP 2012, FFAMC, Education Sector Strategic Plan Feb. 2015, Social Security Mechanisms Report 2015, NBHH Survey 2009—Tabulation Report.

fact they have to suddenly deal with 7 federal circulars related to benefits for compensation of employees which surfaced late in the year of 2014 and which will have implications on the state's budget in 2015. These circulars were issued by the federal government without due consultations with the states. Moreover, states would not know well in advance their share in transfers which also jeopardize the already weak planning and budgeting process.

*Borrowing by sub national governments if went unchecked can create long-term problems for fiscal sustainability.* Almost all states are accumulating expenditures arrears, which fall under four

categories: (i) obligation to social security institutions namely the Pensions Fund and the Social Security Fund; (ii) after service compensation to holders of constitutional posts; (iii) unpaid contractual commitment to private sector contractors and suppliers; and (iv) employees benefits. Accumulated arrears for South Darfur as end 2012 amounted to SDG 210 million equivalent to around 188 percent of its annual own revenues; Gezira arrears (SDG 366 million) amounts to about 106 percent of its annual own revenues.<sup>40</sup> These arrears have crippled the work of the social insurance institutions like the NPF and the NSSF in some states with negative impacts on poverty.

### Implications for PRSP

*Despite progress achieved in the area of human rights considerable challenges remain.* Identifying and specifying actions to address remaining human rights is an area that needs to be looked into by the PRSP.

*Pending issues of concern to the UN Human Rights Council need to be addressed.* These issues include prosecution of the perpetrators responsible for the lethal shooting of demonstrators in September 2013 and March 2014. There were also concerns regarding restrictions on the media, pre- and post-publication censorship, seizure of newspapers, the banning of some journalists and violations of the rights to freedom of expression and freedom of association and of peaceful assembly. Furthermore, there are also concern related to the human rights and security situation in conflict-related areas, particularly in the Darfur and the states of Southern Kordofan and Blue Nile, and the profound negative impact of this on civilians, in particular women and children. The amendment of the Press and Publication Act of 2009 to ensure more protection for journalists and newspaper publishers is still an unfinished job.

*Vertical and horizontal financial transfers have not yet succeeded in narrowing disparities among the states.* This necessitates a review of the formulas with the view to consider other options in the transfers like blocked and specific purpose grants to address the disparities in certain critical areas like education. However, this should be accompanied by strict adherence to prudent financial management by the states. Allocation of resources between wages, running expenses and development is a concern.

*A comprehensive capacity building program funded and supervised by the federal government is needed.* This is essential to improve efficiency in managing the states resources and service delivery.

<sup>40</sup> Report of the Committee for Review of States Debt, Formed by Council of Ministers, Final Report, 2012.



## CHAPTER 6

# Conclusions

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In 2012, the Government of Sudan adopted an Interim Poverty Reduction Strategy Paper (IPRSP) that was informed by the results of the 2009 National Baseline Household Survey (NBHS). The strategy is clustered under four broad pillars: (i) promote economic growth and employment creation; (ii) develop human resources; (iii) reintegrate IDPs and other displaced populations; and (iv) strengthen governance and institutional capacity of the public sector.

The Government is formulating a full-fledged PRSP that draws on the new household survey expected to be completed by mid-2016. Prior to embarking on the PRSP, the Government in collaboration with the development partners decided to: (i) assess the status of implementation of the IPRSP (2012–2014); (ii) analyze achievements and obstacles towards poverty reduction; and (iii) draw lessons learned to inform the preparation of the PRSP. This study is in fulfillment of these objectives.

### Country Context

The IPRSP was carried out within a volatile situation with conflicts in some parts of the country, secession of South Sudan, negative external environment and unsustainable debt burden, economic and financial sanctions, and fragile relations with the international community. The country was severely affected by an economic shock created by the loss of oil due to secession of South Sudan with negative impacts on growth and economic stability. The government however, was able to weather the economic shock through the painful adjustment measures in June 2012 and September 2013. Economic growth was restored to 3.7 percent in 2014. Inflation was drastically reduced from around 44.4 percent in December 2012 to 12.6 percent in December 2015. However, a high margin between the official and parallel exchange rate still prevails.

*Pro-poor expenditures.* The definition of pro-poor expenditures adopted in this study builds on the IPRSP policies for priority actions for growth and poverty reduction. The pro-poor sectors defined in the assessment are agriculture and infrastructure, education, health, water and social protection. Non-budgetary expenditures such as Zakat and Central Bank of Sudan microfinance scheme are integral part of pro-poor expenditures. Expenditures include both the federal and state levels. This definition is also in line with the pro-poor sectors definition utilized in many Sub-Saharan African countries.

*Identification of pro-poor expenditures is highly context dependent, and is most useful when country-driven, developed through a wide participatory discussion, and used as a means to help guide and track government efforts.* This IPRSP status report is expected to motivate the Government to improve the definition of pro-poor expenditures that effectively captures and monitors expenditures directed to the poor through the PRSP.

*The government pro-poor expenditures have increased since 2012.* Pro-poor expenditures as percent of GDP reached 5 percent in 2014 compared to 4.2 percent in 2012. Both federal and state levels expenditures as share of GDP have increased. When non-budgetary pro-poor expenditures (i.e., Zakat and microfinance) were included, pro-poor expenditures would increase from 4.6 percent of GDP in 2012 to 5.4 percent of GDP in 2014. These percentages do not include the expensive subsidies scheme.

*Maintaining government pro-poor expenditures, hovering around 5 percent of GDP (or nearly half of total public expenditures) is a significant achievement* given adverse conditions facing the Government. These conditions include sanctions, high external debt level and low level of external financing, and loss of 90 percent of exports and 55 percent of revenues as a result of the secession of South Sudan. Comparison with African countries that reached HIPC decision point shows the average for poverty reducing expenditures is 9 percent of GDP with wide variation, for example, Ethiopia (15 percent of GDP), Uganda (10 percent of GDP), Mozambique (16 percent of GDP) while Chad, Zambia and Sierra Leone have much lower ratios than the HIPC average (about 5 percent of GDP). Unlike Sudan, a substantial external financial assistance was behind these figures for the above-mentioned HIPC countries. It will be extremely difficult for Sudan to effectively address poverty reduction without assistance from the international community. Major steps required are lifting of the devastating US sanctions, resolving Sudan's external debt and increasing development funding.

*One of the basic features of pro-poor expenditures in Sudan is that 58 percent of pro-poor expenditures, on average, occur at the state level,* where the responsibility of delivering basic services (including education, health and water) has been transferred to the state level. The economic classification of current versus development expenditures shows that total pro-poor expenditures are dominated by current expenditures. Current expenditures (wage and non-wage) amounted to 66 percent of the total during the period 2012–2014. Within current expenditures, wages constitute the largest share, about 50 percent, leaving only 16 percent for running expenses such as operations and maintenance and supplies.

*Agriculture and related infrastructure.* All indicators derived from the 2009 National Baseline Household Survey point to the importance of agriculture to poverty in Sudan. About 57.6 percent of the households below the poverty line live in the rural areas which are dominated by agriculture as the main source of livelihood.

*The share of agriculture and related infrastructure out of total public expenditures consistently increased from 6.5 percent in 2011 to 8.2 percent in 2014.* The increase in agriculture and agriculture related expenditures is mainly due to the Government's investments in infrastructure such as dams and roads, indicating the high priority accorded by the Government to infrastructure investments. However, if agriculture spending is considered in a narrower context (i.e., less infrastructure spending), the public expenditure in agriculture as a ratio to the total public expenditure is 2.2 percent over the same period, which is disappointing given the role that has to be played by the agriculture sector in poverty reduction.

*Several measures identified by the IPRSP to develop agriculture were implemented.* Beside the huge investments in infrastructure, particularly roads and water harvesting in rain fed areas, considerable efforts were made in the livestock sector. Investment in this sector included the successful health program of vaccination and inspection for livestock exports of sheep and investments in quarantines that resulted in remarkable recovery of live animal's exports. Suitable policies in the

area of liberalizing and investments in the Gum Arabic and oilseeds led to increased production and exports of those commodities. Investments in technological improvement—genetically modified cotton—resulted in the recovery for cotton.

*These efforts had positive results on agriculture production.* Output and yields started to recover particularly oil seeds and cotton. A positive achievement in the agriculture sector is the clear rising trend in yields and quantities exported. The rising trend is also driven by the livestock sector, which shows a remarkable recovery with virtually no exports in 2008 that grew to a multi-million business and earned about US\$682 million in 2013, compared to total agriculture exports of US\$1,626. Cotton production and yields have recovered over the past years, after a number of years with declining yield and production. Gum Arabic production has also shown a remarkable recovery, but there is considerable scope to expand production. Sesame yields slightly improved during the review period.

*Market access for agriculture improved as investments in infrastructure increased.* Sudan invested heavily in roads construction during 2012–2014, with noticeable achievements. In the period 2012–2014 around 1,262 km of roads or about 20 percent of the network were added to the road network, bringing the total paved roads network in 2014 to 8,706 km. The distribution of the new roads constructed gave due consideration to the regional balance.

*The outcome of the increased production had positive impacts on food security.* It has enhanced one pillar of the food security situation in the country, which is food availability. However, the stability of food supply was affected by the increase in prices in the first half of 2012, when average cereal prices were about two to three times their level in 2008. On the other hand, unemployment also has negative impacts on accessibility. Unemployment rate, which was around 14.8 percent in 2009 as estimated by the Central Bureau of Statistics increased to 18.8 percent in 2013, as noted by the Ministry of Manpower based on a survey in collaboration with the International Labor Organization. In conflict affected areas, food security was adversely influenced by the increase in displacement.

*Despite agricultural progress several challenges remain.* Sudan is producing far below its potential. Total area under irrigation declined to about 2 million feddan compared to a potential of 4.7 million feddan. Irrigation intensity of Gazira Scheme is currently around 37 percent from a level of 75 percent in the 1970s. Current cotton production is 130,000 bales whereas its production had reached 1,300,000 bales in mid-seventies. Sesame production is one fifth of the level attained in the early 1960s. Irrigation schemes still suffer from poor management and lack of institutional reforms, which have been the main reasons behind the deterioration of production and productivity in the irrigated sector.

*Agricultural productivity is still extremely low.* Sudan is not investing well in research or in use of fertilizers and has weak extension services. Expenditures on research during the IPRSP period are about 0.08 percent of agriculture GDP. Brazil invests in research 1.8 percent of agriculture GDP, China 0.5, and India 0.4. Yields of cereals in Brazil are 4826 kg per hectare, 5891 kg per hectare in China and 3889 kg per hectare in India, while in Sudan they are only 589 kg per hectare.

*During the review period of 2012–2014, about 92 percent of the total agricultural exports were raw materials.* Exports are concentrated in few markets; about 75–80 percent of Sudan agriculture exports are concentrated in three foreign markets; Saudi Arabia (sheep), Egypt (camels and meat), China (oil seeds). This situation puts the Sudanese exports under great risks.

*Despite the remarkable achievement of expanding the road network particularly over the last three years, road density is low.* Sudan paved road density is only 4.6 km per 1000 km square of land area. Road density in Sudan is low even when compared to the Sub Sahara Africa average of 20.4 km per 1000 km square of land area.

*A basic challenge for infrastructure particularly roads is maintenance.* Out of the total 8,706 km, about 3,500 km or 43 percent of the network needs maintenance of which 1,400 km or 18 percent is in extremely critical condition as of 2014. The resources devoted to maintenance currently cover only 12 percent of maintenance cost. Moreover, despite the huge investments in roads a sizable share of the country lacks roads, particularly rural connectivity and linkages between agriculture areas and the main road network.

*Education.* The Government has committed to achieving universal basic education and the education-related Millennium Development Goals by 2015. This signals the Government's readiness to continue to invest in education and expand education opportunities. Accordingly, there has been a substantial increase in public education expenditure since 2012. Total public education expenditure more than doubled in nominal terms during the review period. As a share of total public expenditures, education spending has increased by more than 2 percentage points to 11 percent (or 1.4 percent of GDP), indicating the importance the Government attaches to the education system.

*Despite the increase in education spending, Sudan spends less as a share of total public spending than do comparable countries.* In 2014, Sudan's education spending as a share of total public spending was nearly 11 percent. By comparison, other countries with similar dependency ratio (i.e., school age population as a share of the total population) spent more—including neighboring Ethiopia, and Kenya.

*Student enrollments have grown sharply since 2005/06.* Enrollments have increased at all four levels of the education system: pre-school, basic, secondary and higher education. However, basic education is the level that accounts for the largest absolute increase in enrollments.

*However, the education sector faces certain challenges.* There are disparities in education among states. Also, the steady rise in enrollment in basic education is expected to continue and will generate rising demand for secondary education and exert pressures on education expenditure. Out-of-pocket spending averaged SDG15 per student for basic education, which is higher than government spending per student for school running expenses that amounts to SDG12. For the poorest households, out-of-pocket education spending poses a real barrier to education with implications for student attendance and drop-outs.

*Health.* Federal and state expenditures on health have grown reaching around 8 percent of total public expenditures (or 1.0 percent of GDP). The growth in state health spending is driven by rising fiscal federal transfers to states, which is in line with the decentralization policy. States' actual spending on health has doubled since 2012, rising from SDG 2.2 billion to SDG 4.5 billion (US\$789 million) in 2014. Sudan's level of public spending on health compares to some of its peers and even exceeds some MENA lower middle income countries. In 2014, Sudan's health spending as a share of total public spending was 8.0 percent. Sudan spends more than Kenya, Senegal, Egypt and Morocco.

*Some progress was made in health indicators.* The under-five mortality rate (deaths per 1,000 births) improved, dropping from 83 per thousand live births in 2006 to 68 per thousands in 2014. The maternal mortality rate declined from 534 per one hundred thousand live births in 2010 to 521 per one hundred thousand in 2013. HIV prevalence is low, and the incidence of tuberculosis (TB) is declining. Prevalence of TB declined to 114 per one hundred thousand in 2012. Malaria patient's treatment has improved. Malaria patients' receiving treatment within 24 hours increased to 36 percent in 2013, up from 16 percent in 2010.

*Water and sanitation.* A plan was developed for the water and sanitation sector; the Water, Sanitation and Hygiene Sector Strategic Plan for 2011–2016 (WASHSSP) as well as the draft Water Supply and Environmental Sanitation Policy (2012). The WASHSSP aims to increase per capita safe water consumption to 20 and 90 liters per day in rural and urban areas, respectively, by

2016. The plan targets were to increase household members with access to safe drinking water to 82 percent and household members with access to improved sanitation to 67 percent by 2016.

*Despite the commitments and targets defined in the above-mentioned development strategy/plan, the performance in the sector is still far from reaching the MDGs targets.* The percentage of household members using improved sources of drinking water reached 68 percent in 2014 while the percent of household members using improved sanitation facilities only reached 33 percent in 2014, necessitating further effort to consolidate and improve progress. Around 50 percent of the existing basic schools don't have access to improved drinking water and sanitation facilities. The large number of internally displaced people adds to this challenge. There is a large variation in access to water and sanitation among states. Water and sanitation access in West Kordofan State for example stands at 60 percent and 23 percent respectively, which are below national average of 68 percent and 33 percent.

*Social welfare, security and protection.* The Social Initiative Program (SIP) is the overarching program for the social protection, implemented by the Ministry of Welfare and Social Security and its agencies: Zakat Chambers; Saving Development Bank; Health Insurance Fund; National Council for Disabled; and Students Support Fund. The social protection is a fairly extensive program that includes: (i) direct cash transfers to poor families; (ii) National Health Insurance Fund; (iii) National Pension Fund; (iv) support to poor students safety nets interventions including cash and in kind transfers by the Government and Zakat Fund; (v) general support to certain medical care services like free treatment in emergencies and free lifesaving medicines; (vi) Social Insurance Fund; (vii) Zakat Fund; (viii) microfinance; and (ix) support programs to special groups like rural women, DDR programs for ex-combatants, disabled programs, vocational training centers to enhance youth employment, support to humanitarian crises in war affected areas, creation of productive opportunities for university graduates and support to returnees from South Sudan. The Government also runs an expensive general subsidies scheme.

*Total public expenditures on social protection (budgetary and non-budgetary) without considering subsidies increased from 1.4 percent of GDP in 2012 to 1.7 percent in 2014.* Budgetary expenditures (federal and states) amounted to 1.0 percent of GDP in 2012 and increased to 1.3 percent in 2014. When the National Social Insurance Fund and the direct food transfers by WFP and nutrition assistance by UNICEF are included, total expenditures on social protection reach 2.3 percent of GDP, on average, without considering the subsidies. If the subsidies were included, the total public and non-public social protection spending would increase to 4.7 percent of GDP in 2014 from 4.2 percent in 2012.

*It is difficult to undertake cross comparisons with similar countries or regions due to the different definitions used for social protection and its components.* It is estimated that Africa has an average of social expenditures of 2.8 percent of GDP with wide variations from 12 percent to 0.5 percent. Low income countries average expenditures on social protection amounts to 3.5 percent in 2011 as noted by the International Labor Organization.

*Sudan has made significant increase in coverage for most of the social protection programs but with large states disparities.*

*Governance.* Strengthening governance and institutional capacity is one of the IPRSP pillars. Human rights, peace and security, effective public financial management and decentralization were the essential elements of good governance, which is considered by the IPRSP as critical for achieving growth and reducing poverty.

*Considerable progress was made in the human rights record since 2011.* The Government has adopted a 10-year National Action Plan for the Protection of Human Rights in the Sudan. In September 2013, Sudan voluntarily issued mid-term report on the implementation of recommendations of the Universal Periodic Review. A National Commission for Human Rights (NCHR)

was established in 2012. A unit of Combating Violence against Women and a Woman Center for Human Rights were established at the Ministry of Welfare and Social Protection (MoWSS) as well as the National Council for Child Welfare. A human rights adviser has also been assigned to the Minister of Education for educational curriculum. Sudan Penal Code of 1991 was amended to expand and clarify the definition of rape that meets international standards. Elections legislation was amended to stipulate an increase of women representation in the Parliament to reach 30 percent of total seats in the elections of 2015. The Government continued its massive campaign against Female Genital Mutilation FGM/C; a deep rooted culture in the society (*Saleema*). A unit dedicated for combating SGBV was established. A specialized police force was established in the various states in Sudan to serve Family and Children Protection Units (FCPU).

*Sudan's efforts in combating human trafficking were recognized by the international community. Sudan established a National Committee for Combating Human Trafficking.* A special prosecutor for human illegal migration and trafficking was established. The Informatics and Organized Crimes Bureau of the Sudan Police Force (SPF) investigated and reportedly referred cases of suspected trafficking for prosecution and cases were tried and convicted. Anti-Money laundering and Combating of Financing of Terrorism Act (AML/CFT) was passed in line with international standards and in collaboration with the International Monetary Fund (2014). A specialized Anti-Money Laundering and Combating of Financing of Terrorism Attorney was established to examine relevant lawsuits in April 2014. The Financial Inquiries Unit was established as an independent unit in the Central Bank of Sudan acting as Financial Intelligence Unit. A new section for CML/CFT was established in several institutions. The UN Anti-Corruption Convention was ratified in February 2014. Regulations were issued to implement the Security Council Resolution 1373 (2001) targeting terrorist groups in various ways, and Resolution 1267 (1999) aiming to take certain measures in connection with any individual or entity associated with Al-Qaida. A technical committee was formed to ensure the implementation of these resolutions.

*Sudan has undertaken several institutional reforms in the financial sector.* Work in the computerization of the taxation system has started, and this step will increase transparency of the financial performance of the government. A new Transparency and Anti-Corruption Commission law was passed, guiding the operation of the Commission. The implementation of an Integrated Financial Management Information System (IFMIS) in conformity with international best practices started in 2014, containing important new elements; and a new budget classification system (GFS). A new Treasury Single Account System was adopted. The Ministry of Finance and Economic Planning adopted an electronic receipt voucher as a collection tool for the revenues at federal and state levels in July 2015, leading to increased revenues and reduced corruption.

*There were considerable improvements in the federal system in Sudan since its inception in 1992,* which brought increased devolution of powers and financial resources. These developments were accompanied by some progress in the service delivery. To further improve the governance system, a recent amendment of the 2005 Interim National Constitution legislated for the localities as a separate level of government was approved. Transfers to states as percent of total government revenues have increased. On the other hand, these resources are not being efficiently utilized as more resources are devoted to the increasing wages and salaries bill. Capacities in all financial management aspects are weak invariably in all states. The weakness of staff capacities is a major reason for the poor public expenditure management and financial governance. States lack electronic networking system linking all departments, let alone localities.

## Implications for the PRSP

*Creating a conducive political and economic environment is essential for poverty reduction. Bringing a lasting political settlement for the conflicts and speeding implementation of the peace agreements is needed.* Pursuing high economic growth, being a key factor in poverty reduction, and ensuring macroeconomic stability is a prerequisite. Encouraging a pattern of economic growth that

utilizes the most abundant resources available to the poor—labor—would help achieve poverty reduction.

*Along with a higher pace of economic growth, improvements are needed in the quality of growth to ensure broader participation along with poverty targeting programs:*

- (i) encourage a diversified pattern of growth that promotes the productive use of labor (nearly 60 percent of households below the poverty line live in rural areas, where agriculture is the main source of livelihood) through policies that address constraints facing the rural/agriculture sector, including harnessing market incentives, social and political institutions, and infrastructure and technology;
- (ii) invest in human development to build and enhance the capabilities of the poor through education and better health, and address state disparities in accessing social services; and
- (iii) improve the targeting of social protection programs.

*The PRSP will be an opportunity to address agricultural constraints.* These include transforming the traditional sector to economically viable commercial businesses; resolving land issues and land rights in carefully designed manner; providing necessary services for the nomadic livestock production systems like water, veterinary, education, rangeland rehabilitation and stock route demarcation, while modernizing the production system in the medium to long term; revitalizing irrigated agriculture as a strategic choice; addressing the policy choice of food self-sufficiency and food security; perusing agriculture industrialization and diversification to enhance economic growth and poverty reduction; and expanding infrastructure to provide improved competitiveness of Sudanese agriculture giving special attention to roads maintenance.

*The education sector faces many challenges that need to be addressed by the PRSP.* These include striking an appropriate balance between current and development expenditure for education is required; increasing school enrollment rates to achieve universal education; addressing state and gender disparities despite progress made; according the necessary priority to teachers training; and paying attention to secondary education, which is expected to rise given the increase enrollment in basic education. Household out-of-pocket spending which is significant and poses a barrier to education, especially for poor households needs to be resolved.

*In the health sector some progress was made but Sudan requires more efforts to meet the health Millennium Development Goals targets.* Disparities across states have not yet been fully addressed, necessitating further effort to consolidate and improve progress.

*Specific attention has to be given to the information of the water and sanitation sector as a separate sector particularly at state and locality levels to allow for better planning.* The water and sanitation should be supported with better capacity and training particularly at state level. Efforts to integrate water, sanitation and hygiene within other sectors—mainly education, nutrition and health—should continue. Schools, health and nutrition centers are useful entry points for such interventions. Specific attention is to be given for the water quality. Institutional reform for sustainability of the water facilities is a concern. There should be clarity in defining the roles and responsibilities between the federal, state and locality levels and communities, in terms of managing and operating projects, and ensuring sustainability. Moreover, the resources in the sector have to be used efficiently so that the service is delivered at an affordable price for the poor.

*The coverage of social protection needs to be expanded and performance of the outlets that provide the treatment services for the health insurance need to be improved.* Targeting mechanisms for the cash transfers need further improvements and has to be supported by transparent data base and a monitoring system. There should be more equity considerations among states in delivering social protection programs. Several institutions are responsible for the social protection network and coordination needs further improvements. The recommendations to improve the Zakat

performance in the conference held in Khartoum March 2015 needs to be implemented. The government social protection system is supported by informal networks including substantial remittances transferred by Sudanese migrants abroad. However, US economic sanctions and over compliance by commercial banks severely affected transfers of remittances to Sudan with negative impacts on poverty.

*There is an urgent need to review the vertical and horizontal transfers' formulas and consider other options such as blocked and specific purpose grants to address state disparities in certain critical areas like education.* However, this should be accompanied by strict adherence to prudent financial management by the states. Allocation of resources between wages, running expenses and development is a concern. Improving service delivery to the poor requires investment in schools, clinics, roads and so on. The relative emphasis on current spending also leaves meager resources devoted to the running expenses with the consequent result of poor sustainability and maintenance of development projects. Making development planning more effective through better coordination between federal and state levels; information sharing (e.g., budget and execution data); is needed as well as developing guidelines for more streamlined procedures; and strengthening capacity in budget planning, prioritizing and execution at the state level. The weakness of staff capacities in the states is a major reason for the poor public financial management (PFM).

*Other issues.* More attention for the informal sector in Sudan, which seems to have significant contribution to employment but information about the sector is insufficient to allow for further analysis. The PRSP needs to examine the role to be played by this sector, particularly in boosting economic growth and employment.

## ANNEX 1

# IPRSP Policy Matrix

Area/Sector	Objectives and Targets	Policy Measures/Programs
<b>Strengthening Governance and Institutional Capacity Pillar</b>		
<b>National Reconciliation</b>	Promotion of national reconciliation and unity.	Establish a transparent process and a national commission for the promotion of national reconciliation and unity, with the resources and capacity to hold consultations nationwide.
<b>Conflict Resolution</b>	Resolution of conflicts.	Strengthen the capacity of the agencies for conflict resolution at all levels, linking these to the national reconciliation process for capacity building and technical advice.
<b>Property Rights</b>	Reduce conflicts associated with land and ensure long-term land use rights.	Review and revise existing laws and policies including putting in place mechanisms for allocation of land and resolving land disputes at community levels.
<b>Human Rights</b>	Enhance the protection of human rights.	Make operational the Human Rights Commission.
<b>Decentralization</b>	Improve the effectiveness of the decentralized governance.	<p>Strengthen the autonomy of the governments at locality levels, including the election of key executive officers.</p> <p>Promote the participation of the citizens in the governance of the localities.</p> <p>Establish a transparent and predictable revenue sharing mechanism between the three levels of government.</p>
<b>Public Service Delivery</b>	Effective and improving delivery of public services.	<p>Develop a national strategy for enhancing public sector technical and institutional capacity.</p> <p>Reform the institutions for public expenditure management including the introduction of policy-based and multi-year planning and budgeting framework.</p> <p>Adopt the GFMS, a computer-based budgeting and accounting application, to strengthen financial controls, produce and make public periodic reports of budget execution.</p> <p>Develop a national strategy for enhancing procurement capacity and systems at all levels of government.</p>

(continued)

Area/Sector	Objectives and Targets	Policy Measures/Programs
<b>Reintegration of Internally Displaced Persons (IDPs) and Refugees Pillar</b>		
<b>Eastern Sudan</b>	Invigorate the development of Eastern Sudan.	<p>Review the development plans for Eastern Sudan and re-launch the implementation.</p> <p>Revise policy framework for the reintegration of IDPs and refugees, with broad consultations with concerned communities and the international development community.</p> <p>Build a partnership with international relief and development agencies for reintegration, with a strong coordinating mechanism led by the government.</p>
<b>Developing Human Resources Pillar</b>		
<b>Empowerment of the Poor</b>	Empower the poor to take advantage of opportunities.	<p>Increase in the level and share of pro-poor public spending.</p> <p>Set the transfers to the states and localities to be consistent with their responsibility for improved service provision in education and health.</p> <p>Set public capital spending on education and health to widen access to services, improve facilities and sustain these improvements.</p> <p>Provide social protection services in a manner that strengthens the capacity of the poor for self-reliance.</p>
<b>Empowerment of Women</b>	Meet the gender MDGs.	<p>Monitor the implementation of actions and taking corrective measures to deal with slippages.</p> <p>Produce gender-aggregated statistics on labor market and employment developments.</p> <p>Invest in educational infrastructure to put schools within easy reach of girls in the community, particularly in the underserved states.</p> <p>Establish non-formal adult education classes targeted at women and promote vocational and technical secondary education for girls.</p> <p>Civic education and voter education programs for women.</p> <p>Introducing gender-based budget to integrate gender issues into public resource allocation decisions.</p>
<b>Education</b>	Sustaining improvements in the education sector to meet the related MDGs and provide appropriate skills for the labor market.	<p>Preparation of a medium-term education sector strategy (ESS (2012–2016)).</p> <p>Investments in building schools and classrooms, particularly in the lagging regions.</p> <p>Put in place programs targeting school dropouts, particularly those in the 9–14 years of age, to increase primary school completion rates and ultimately literacy.</p> <p>Investments in improving educational facilities and providing essential supplies and books to teachers and students.</p> <p>Establishment of additional teacher training colleges to increase the output of trained teachers and actions to improve the quality of teacher training college graduates from new and existing colleges.</p> <p>Improve the compensation of teachers and provide incentives for teachers to work in rural areas and lagging regions.</p> <p>Reform technical education at the secondary level in relation to preparedness for higher education and meeting the needs of the labor market.</p>

Area/Sector	Objectives and Targets	Policy Measures/Programs
<b>Health</b>	Increase utilization and improve quality of primary and first-referral health care; improve equity in health service coverage, reducing geographic, urban/rural, and socioeconomic inequalities.	<p>Strengthen the quality of tertiary education; review the financing and fees practices to ensure that the poor and underprivileged are not being excluded from higher education.</p> <p>Rationalize the policies and practices on technical/technological education at tertiary levels.</p> <p>Increase in public spending for health services; external assistance will be sought, particularly for expansion of services to rural areas and lagging regions.</p> <p>Develop a health financing policy that, with the increase in spending, increases spending on deprived regions; explores ways to expand collective prepaid mechanisms (health insurance) to ensure that health care is available to all.</p> <p>Investments in infrastructure to enhance service coverage, particularly in deprived areas.</p> <p>Investments in human resources, incentives for qualified personnel to work in rural areas, technical assistance to be sought for capacity building in areas of policy development and planning, financial and human resource management, pharmaceutical policies and regulation, and health care information systems.</p> <p>Build partnerships with the private sector, national and international NGOs for the coordinated expansion and improvements in health service delivery.</p>
<b>Safe Drinking Water and Sanitation</b>	Increase access to safe drinking water and basic sanitation by 20 and 25 percent respectively in 2011–2015.	<p>Construct 15 new small capacity water supply plants at designated rural towns.</p> <p>Rehabilitate deteriorating water supply sources with emphasis on replacement of obsolete and low efficiency systems.</p> <p>Rehabilitate and extend 15 aging water supply stations at country level. Construct new water treatment plant in urban areas.</p> <p>Introduce simple low cost technologies particularly in the rural areas.</p> <p>Promote the provision and use of latrines of rural areas.</p> <p>Improve hygiene education/public awareness by integrating sanitation and hygiene education with water supply interventions and improved collaboration between water and sanitation agencies and ministries of education and health.</p>
<b>Social Safety Nets and Protection</b>	Assist the poor and indigent and build their social and productive capacities where possible.	<p>Review the use of the Zakat fund and assess its contribution to poverty reduction and social protection and how best it can support the new poverty reduction strategy.</p> <p>Develop a social protection strategy and policy framework.</p> <p>Expand the successful CDF programs to poor communities in other states and use the lessons from the CDF to enhance participation of the communities and citizens in local governance and improving value for money of local government spending.</p> <p>Discuss with the humanitarian agencies and NGOs to determine how best their assistance would support the poverty reduction strategy.</p>

(continued)

Area/Sector	Objectives and Targets	Policy Measures/Programs
<b>Promotion of Economic Growth and Employment Creation Pillar</b>		
<b>Enabling Macroeconomic Environment for Growth</b>	<p>Restoration of a fundamental basis for sustained macroeconomic stability following the independence of the South. The key targets would be 2 percent of GDP for the fiscal deficit, 4 percent of GDP for the deficit in the external current account by 2014, and inflation rate of below 10 percent by 2015.</p> <p>Appropriate macroeconomic analysis for Sudan.</p>	<p>Eliminate tax exemptions and revenue earmarking.</p> <p>Strengthen revenue and customs administration, improve control systems and build capacity in both areas.</p> <p>Phase out subsidies including the fuel subsidies.</p> <p>Focus capital expenditures on growth and poverty reduction priorities, and reduce capital expenditure subventions to public corporations.</p> <p>Review expenditures and identify areas where expenditures can be scaled back or eliminated from the budget.</p> <p>Protect expenditures on key growth and poverty reduction priorities from cuts.</p> <p>Strengthen financial controls to ensure that spending is on priority programs and strengthen procurement systems and oversight to enhance value for money.</p> <p>Reform expenditure institutions and capacity to improve resource allocation the effectiveness of implementation and service delivery.</p> <p>Streamline and reduce government spending in foreign exchange.</p> <p>Move to a more flexible exchange rate regime.</p> <p>Take actions for quick gains in non-oil exports.</p> <p>Develop national accounts, trade and public financial and monetary statistics for the new Sudan to permit relevant macroeconomic and expenditure analysis.</p>
<b>The Enabling Environment for Private Sector-led Growth</b>	<p>Promote the private sector to become innovative, productive and competitive and as source of employment creation and non-oil exports growth and diversification of the economy.</p>	<p>Reform the regulatory environment for doing business, putting priority on those areas where Sudan is weak per the Doing Business Survey, namely starting a business; dealing with construction permits; getting credit, protecting investors; trading across borders, enforcing contracts and closing a business.</p> <p>Strengthen the “one stop shop” to assist investors to reduce the time and cost of meeting regulatory requirements.</p> <p>Formalize and strengthen the coordination and dialogue between the government and private sector organizations on policy an regulatory reforms for PSD. Integrate the private sector consultations to the policymaking process.</p> <p>Establish an environment of macroeconomics stability, stable exchange rates, and low inflation comparable to global average inflation rates and competitor countries/economies.</p> <p>Use the Government’s diplomatic and other international connections to assist the private sector to build alliances with foreign centers of excellence in innovation and appropriate technologies, and attract foreign investment partners.</p> <p>Rehabilitate and expand infrastructural services to lagging regions and improve peace and security to enable the private sector tap into the productive resources in those regions.</p>

Area/Sector	Objectives and Targets	Policy Measures/Programs
		<p>Reform the education sector, particularly in the areas of science and technology to provide the private sector the skill they need to be innovative and competitive.</p> <p>Accelerate the restructuring and privatization of the banking sector.</p> <p>Promote the establishment of non-bank financial institutions (insurance, leasing) to complement the financial services provided by the commercial banks.</p> <p>Strengthen institutions such as collateral legislation, judicial systems, creditor's rights and financial and creditor information systems to improve the lending environment.</p> <p>Adopt legislative and regulatory frameworks for the microfinance sector.</p> <p>Motivate coordination among the key stakeholders in the microfinance sector including the lenders, government, NGOs and supporting donors.</p>
<p><b>Productivity and Growth in Agriculture</b></p>	<p>To revitalize the agricultural sector, increase its contribution to growth, exports and poverty reduction. The target would be a growth above 5 percent.</p>	<p>Facilitate the adoption of modern technologies, including fertilizers, improved seeds, supplementary irrigation, etc.</p> <p>Promote the emergence of competitive markets for agricultural inputs.</p> <p>Facilitate access to markets and efficient value chains by improving main and feeder transport infrastructure and promote commodity trading and risk management and the linkages of producers to modern supply chains and higher value urban markets.</p> <p>Adopt and implement a land policy that provides farmers with formal and secure tenancy and land use rights by pastoralists, enforce of land use regulations, research and extension and pest control.</p> <p>Efficient management of water by mobilization and training of the WUA and rehabilitation of the primary canals.</p> <p>Provision of basic social infrastructure to support small producers.</p> <p>Implement the liberalization of the Gum Arabic markets and provide support services and improve public export inspection of all forms of Gum Arabic.</p> <p>Enhance agricultural research and facilities and ensure dissemination of research results; Training multidisciplinary extension teams and providing regular radio information on primary agricultural markets to the agricultural communities.</p> <p>Protect natural resources by protecting forests promoting reforestation, the development of pastures and rangelands and the establishment of vegetative cover; strengthen efforts to halt and reverse desertification.</p> <p>Regulate the stocking rates in Sudan's most vulnerable grazing environments such as North Darfur and North Kordofan to regenerate that pasture and other forage vegetation.</p>

(continued)

Area/Sector	Objectives and Targets	Policy Measures/Programs
<b>Infrastructural Services</b>	Rehabilitate and expand infrastructural services to reduce the costs on production activities, open up the country and reduce isolation and stimulate economic activities in the lagging regions.	<p>Facilitate livestock marketing by improving the quality of stock routes and rehabilitating unloading and loading for road transport associated with movement of livestock and enforce regulation of handling and transport to reduce death and weight loss.</p> <p>Establish new and upgrade old livestock raining centers for multidisciplinary extension agents and community animal health workers focused on rangeland management, feed crop production, animal health, animal production and hygiene in domestic meat production.</p> <p>Integrate transport needs into national development priorities, growth and poverty reduction efforts; develop a network of rural feeder roads to link areas of high agricultural potential and production to markets.</p> <p>Rehabilitate Sudan Railways, particularly over those sections that travel across conflict areas.</p> <p>Rehabilitate and expand river transport, particularly rehabilitation of vessels, ports, workshops and repair facilities, and the expansion in the use of barges to the South.</p> <p>Expand private sector involvement in the transport sector through further privatization of existing activities and the use of PPPs to finance investments. Put in place a regulatory framework for the operation of mixed transport sector activities.</p> <p>Continue to invest in electric power to increase the supply to firms and reduce the costs, and steadily increase the proportion of the population with access to electric power.</p> <p>Use PPPs to finance investments in the power sector.</p> <p>Conduct environmental assessments for major projects and take the results into account in project design.</p>
<b>Natural Resources and the Environment</b>	To meet the MDGs and ensure environmental development sustainability involving the reduction of the loss of biodiversity and the population affected by environmental degradation, reduce the risks of vulnerability to environmental hazards such as floods, droughts, desertification, and climate change.	<p>Reintegrate the displaced and refugee population in permanent and sustainable livelihoods.</p> <p>Launch environmental awareness campaigns and enhance the roles and capacity for community in resource management.</p> <p>Strict enforcement of environmental laws and supporting legislation. Enhance the capacity of both federal and state governments to monitor and enforce land lease conditions on clearing and cultivation in areas subject to desertification.</p> <p>Comprehensive land reform and security of land use/ title.</p> <p>Pilot demonstration of soil and water harvesting programs.</p> <p>Promote private investment in forestry Gum Arabic production.</p> <p>Strengthen the institutions and technical capacity for environmental and natural resources management and enhance cross-sectoral coordination on environmental issues.</p> <p>Develop a strategy for protecting natural resources and the environment, to be reflected in the full PRSP.</p>

Area/Sector	Objectives and Targets	Policy Measures/Programs
<b>Preparation of the Full PRSP</b>		
<b>The Preparation and Implementation of the Full PRSP</b>	Open up space for participation of all segments of the population in the elaboration of strategies, policies and programs for the country. This blue print (the PRSP) will guide the development of the country during the period of the PRSP.	<p>Identify and engage key stakeholders, raise their awareness, and enhance their capabilities and commitment to contribute to PRSP process.</p> <p>Identify and mobilize major stakeholders for effective participation in the planning of the PRSP priorities.</p> <p>A broad assessment of the challenges, opportunities and prospects and targets for growth, income and poverty reduction in the medium and long term. In that context and working with the major stakeholders, review and revise the long-term vision for Sudan which will guide the medium-term PRSP.</p> <p>Assemble and gather data and information necessary for inputs to PRSP; analyze and disseminate such inputs.</p> <p>Undertake status reports of key sectors and crosscutting areas and develop sector strategies.</p>



## ANNEX 2

# Explanatory Note on Pro-Poor Data

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**T**he Ministry of Finance and Economic Planning follows Government Financial Statistics (GFS) in the budget classification. However there are a few apparent problems with the classification used by the Ministry and in the disaggregation of some of the public expenditures components.

Regarding classification, although the majority of the programs and spending units are properly classified under their subsectors and sectors, few are not. For example, the social programs are classified under the Administrative and Social sector which includes activities that are not related to social development and pro-poor expenditures like museums, tourism and religious affairs. This classification also includes programs like technical education which should be under the education subsector. Another subsector is the Sovereign sector which includes programs like Gum Arabic Council that should be under the Agriculture sector. Drinking water organs are classified under Energy and Mining sector. Environment institutions are under the Administrative and Social sector. To avoid misclassification, the data used in the report went below the subsector level by going to the level of spending units and programs under each subsector and corrections were made accordingly. These corrections were not major.

As for the issue of aggregation, it is limited to the multi sector projects under the state's development transfers by the Ministry of Finance. The expenditures under these funds, namely the Reconstruction Funds of Eastern Sudan, Darfur and the two areas, are aggregated. These aggregated expenditures include education, health water supply, and so on. Also UNICEF and UNFPA programs expenditures in the state development budget are not disaggregated by projects or sectors. Expenditures of the Reconstruction funds were disaggregated. Further analysis is needed to improve the accuracy of disaggregation of these funds.

Localities expenditures of education, health and water supply are not disaggregated. In this report and based on sample states, the wages and goods and services for the localities were disaggregated to basic education, health, social services and water supply.

By and large, all the data problems of a budget sectoral classification nature were resolved for the purpose of this report. The few remaining problems of public expenditure data due to disaggregation were resolved by informed assumptions. Therefore, the impact of public expenditures data constraint on the pro-poor expenditures is limited. However, improvement is required to address the above-mentioned data constraints to increase the accuracy of the pro-poor expenditures. Particular attention is needed for states and localities public expenditure data.

