



SUDAN

INTERIM POVERTY REDUCTION STRATEGY PAPER

October 2013

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Sudan

Interim Poverty Reduction Strategy Paper

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List of Abbreviations

| | |
|--------|---|
| AfDB | African Development Bank (AfDB) |
| ARP | Agricultural Revitalization Program. |
| BHS | Baseline Households Survey |
| CBoS | Central Bank of Sudan |
| CBS | Central Bureau of Statistics |
| CDF | Community Development Fund |
| CGBV | Combating Gender Based Violence |
| CPA | Comprehensive Peace Agreement |
| DTIS | Diagnostic Trade and Integration Study |
| EFA | Education for All |
| ESPA | Eastern Sudan Peace Agreement |
| ESSP | Educational Sector Strategy Plan |
| FDI | Foreign Direct Investment |
| FFAMC | Fiscal and Financial Allocation and Monitoring Commission |
| FGM | Female Genital Mutilation |
| FSAP | Financial Sector Assessment Program |
| GAC | Gum Arabic Corporation |
| GDP | Gross Domestic Product |
| GFMS | Government Financial Management System |
| GNP | Gross National Product |
| GER | Gross Enrolment Rate |
| GFMS | Government Financial Management System |
| GMP | Green Mobilization Program |
| GoNU | Government of National Unity. |
| GoS | Government of Sudan |
| GoSS | Government of South Sudan |
| GPI | Gender Parity Index. |
| HDI | Human Development Index |
| HIPC | Heavily Indebted Poor Countries |
| IDA | International Development Association |
| IMF | International Monetary Fund |
| INC | Interim National Constitution |
| IDP | Internally Displaced Person |
| IPRSP | Interim Poverty Reduction Strategy Paper |
| LGA | Local Government Act |
| MDER | Minimum Dietary Energy Requirements. |
| MFNE | Ministry of Finance and National Economy. |
| MDER | Minimum Dietary Energy Requirements |
| MDGs | Millennium Development Goals |
| MDTF | Multi-Donor Trust Funds |
| MFI | Microfinance Institutions |
| MOI | Ministry of Investment |
| NATREP | National Emergency Transport Rehabilitation Project |
| NER | Net Enrollment Rate |
| NRTC | Nile River Transport Corporation |
| ORSA | Oil Revenue Stabilization Account |
| PFM | Public Financial Management |
| PICS | Productivity and Investment Climate Survey. |

| | |
|--------|--|
| PRGF | Poverty Reduction and Growth Facility |
| PRSP | Poverty Reduction Strategy Paper |
| SBEA | Sudanese Businessmen and Employers Association |
| SDG | Sudan Guinea (pound) |
| SGB | Sudan Gezira Board |
| SHHS | Sudan Household Health Survey |
| SMP | Staff (of the IMF) Monitored Program |
| SNAP | Sudan National HIV/AIDS Control Program |
| SOLSES | Sustainable Options for Livelihood Security in Eastern Sudan |
| SPC | Sudan Petroleum Company |
| SPLM | Sudan People's Liberation Movement |
| SSCCSE | Southern Sudan Center for Census, Statistics and Evaluation |
| VAT | Value Added Tax. |

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1 Overview: Context and Objectives

1.1 Introduction

1. Sudan has had one of the highest growth rates amongst Sub-Saharan African countries and a rapidly rising per capita income, with per capita GDP of US\$1,500. Nonetheless, the country's human development outcomes remain weak. Sudan ranks 154 out of 169 countries in UNDP's 2010 Human Development Index, especially relative to the fact that income per capita GDP exceeded \$1,500 or roughly 25 percent higher than the Sub-Saharan Africa (SSA) average. In 2009, Sudan was the third largest producer of crude oil in SSA, behind Nigeria and Angola, although Sudan's production was only about 30 percent of Angola's. Despite the rising per capita income, the incidence of poverty is high, with 46.5 percent of the population is below the poverty line. There is also significant variation in the incidence of poverty between urban and rural areas as well as between states in the Federation. The incidence of poverty in Khartoum state is 26.0 percent and 69.4 percent in North Darfur.

2. The road to sustainable broad-based development in Sudan has been hampered by a number of country-specific challenges that render Sudan's experience unique from other post-conflict countries in the region. Since its independence in 1956, Sudan has been mired in several conflicts, with the exception of 1972-1983; the period after the Addis Ababa Peace Agreement was signed. These conflicts have led to huge loss of life and have severely debilitated the country's capacity for development. Development projects in areas affected by armed conflict were often undermined by insecurity and weak and disintegrating socio-economic fabric of communities. Exodus or influx of IDPs created environments not conducive for meaningful development initiatives. International isolation, the Darfur conflict, and the tenuous North-South relationship diverted attention from the development agenda and its impact on bringing peace and security. In recent years, most of the civil conflicts, including the rebellion in Southern Sudan have been resolved. But armed conflict continues in Darfur, with risks of conflict emerging in some other areas. These past and ongoing conflicts pose challenges for governance, human development, and poverty reduction in Sudan.

3. The people and Government of Sudan will need to build institutions for peace and development and shift resources and attention from war to investing in the future. With the three peace agreements and ongoing efforts for a lasting and comprehensive peace agreement in Darfur, Sudan has its greatest opportunity in a generation to concentrate on improving the lives of Sudanese and consolidate and sustain peace. Support from the international development community, particularly drawing from the accumulated international experience on post-conflict recovery and peace building, will enhance the prospects for sustained peace and economic developments. As building peace and security creates additional expenditure obligations such as financing the reintegration of displaced persons and new institutions associated with the peace agreements, the financial support from the international community will be crucial.

4. Sudan's debt problems can be traced back to the 1960s when the country embarked on large-scale industrialization, financed in part by foreign borrowing on non-concessional terms, and accompanied by government heavy regulation of the economy. The resulting heavy debt burden has shaped the evolution of the country's economy and its performance over the past 20 years. The arrears to International Development Association (IDA), the African Development Bank (AfDB) and other development agencies have prevented normal relations with these agencies and constrained access to concessional financing. Sudan's external debt, which amounted to US\$37 billion at end-

2010, of which US\$31 billion is in arrears, is unsustainable. A resolution to the debt problem will improve prospects for sustained growth and poverty reduction. It is extremely unlikely for Sudan to achieve a sustainable external debt position without generous debt relief within the framework of available international initiatives, including HIPC's initiative. Sudan is anxious for dialogue with international financial institutions (IFIs) and other creditors with the aim of establishing wide support for arrears clearance and debt relief.

The CPA, MDGs, and Sudan

5. The comprehensive peace agreement (CPA) – signed in 2005 between the Government of Sudan and Sudan People's Liberation Movement (SPLM) – had put an end to the civil war and opened unprecedented opportunities for peace, development, and prosperity. The CPA and the adoption of the Interim National Constitution (INC) in 2005 provided the frameworks for the alignment of resources toward broad-based, sustained development and poverty reduction. The Constitution and the CPA recognized that the realization of the MDGs was a prerequisite for achieving socio-economic stability in Sudan. In 2006, a Strategic Advisory Council was established to develop a 25 year development plan for Sudan and the resulting National Strategic Plan (2007-2031) included strong references and commitments to the MDGs. Furthermore, Sudan also has launched a Five-Year Development Plan (2012-2016) to serve as a growth oriented strategy with a primary focus on sustainable development and poverty reduction in the medium-term.

6. The CPA's oil wealth sharing provided for a roughly 50:50 sharing of revenues from oil produced in the Southern Sudan between the two parts of the country. The self-determination referendum for South Sudan, provided for in the CPA, was held in January 2011 and over 98 percent of votes cast was in favor of the secession of South Sudan. This became effective on July 9, 2011. During the transition period, the authorities of the North and the South entered into negotiations on a number of post-referendum issues, namely oil wealth sharing, debt apportionment, currency, citizenship, borders, and the status of Abyei area. The transition period planned to be six months has already lapsed but the negotiations have not been concluded.

7. The preparation of the IPRSP was initiated after the South's self-determination referendum but before the actual separation of the South. The analysis of historical macroeconomic performance and references to past policies refers to all Sudan. While national accounts data available are for all Sudan, demographic data and estimates of measures of poverty and social indicators are available for North Sudan, permitting the analysis and profiling of poverty in North Sudan alone. For post 2010, the use of Sudan in the document is for the new nation that has emerged from the former North Sudan,

Objective of the Interim Poverty Reduction Strategy Paper (IPRSP)

8. The next two years will be a difficult transition and adjustment period for Sudan. The immense political change by the separation of North and South Sudan underscores the urgent need for the North to use the IPRSP initiative as one of the instruments to begin to elaborate a vision and new direction for its governance, socio-economic development and poverty reduction efforts. The IPRSP will support complement existing planning and budgeting instruments, including the 3-Year Salvation Economic Program (2012-2014) and the 5-Year Development Plan (2012-2016), by strengthening the prioritization of actions and targeting poverty. The 3-Year Salvation Economic Program (SEP) is an emergency plan to deal with the adjustment to new political and economic realities following the decision of the South to secede. The IPRSP will help to fine tune the

preparation and implementation of the SEP and a new 5-year Plan, and provide a foundation for the full PRSP.

9. The IPRSP provides the framework and the road map for the elaboration and implementation of the full PRSP. As noted above, the MDGs were reflected in the CPA and Sudan's Interim Constitution as prerequisites for achieving stability in Sudan. Thus, this IPRSP takes the MDGs as the medium-term development targets for Sudan. Progress in implementing the IPRSP will be monitored against relevant MDGs.

1.2 Sudan's Economic Performance

10. Sudan's economic growth pattern has been volatile over the past four decades. In the post-

| Table 1: Selected Economic Indicators | | | | | | | |
|---|-------|-------|-------|--------|--------|--------|--------|
| | 2000 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| Population (million) | 31.08 | 34.51 | 36.20 | 37.16 | 38.14 | 39.15 | 40.19 |
| GDP Per Capita (US\$) | 420.8 | 771.8 | 970.4 | 1224.3 | 1479.8 | 1561.1 | 1577.9 |
| Real GDP Growth Rate (%) | 8.4 | 5.1 | 6.1 | 9.4 | 8.1 | 7.3 | 8.2 |
| Non-Oil GDP Growth Rate (%) | 3.0 | 4.6 | 9.6 | 10.3 | 7.5 | 8.5 | 6.4 |
| General Price Inflation (%) | 8.0 | 8.7 | 8.3 | 7.4 | 8.1 | 7.7 | 15.3 |
| Gross Domestic Investment (%GDP) | 18.7 | 22.5 | 23.6 | 25.1 | 26.5 | 22.7 | 21.7 |
| Gross National Savings (%GDP) | 16.0 | 18.7 | 15.3 | 11.6 | 15.6 | 15.0 | 10.9 |
| Sectoral distribution of GDP (%) | | | | | | | |
| Agriculture | 36.6 | 34.6 | 33.8 | 32.2 | 29.6 | 30.1 | 31.0 |
| Industry | 18.4 | 21.8 | 22.4 | 24.1 | 29.6 | 29.6 | 29.4 |
| Petroleum | 7.0 | 7.0 | 7.7 | 9.4 | 15.7 | 15.7 | 15.2 |
| Manufacturing | 6.9 | 8.9 | 8.7 | 8.3 | 7.8 | 7.7 | 7.9 |
| Services | 44.9 | 43.6 | 43.8 | 43.6 | 40.8 | 40.3 | 39.7 |
| Government Revenues (% GDP) | 11.5 | 19.7 | 21.7 | 19.4 | 20.6 | 21.8 | 15.4 |
| Oil revenues (% GDP) | 5.0 | 10.4 | 13.3 | 10.8 | 11.6 | 14.3 | 7.4 |
| Government Expenditure (% GDP) | 12.4 | 18.2 | 23.4 | 23.7 | 25.9 | 23.3 | 20.0 |
| Government Capital Exp (%GDP) | 2.6 | 5.0 | 3.3 | 2.9 | 4.8 | 3.2 | 2.8 |
| Merchandise Exports (US\$ Mill) | 1864 | 3778 | 4878 | 5813 | 8879 | 11671 | 7834 |
| Oil Exports (% of total exports) | 69.6 | 82.1 | 86.9 | 90.2 | 94.8 | 95.1 | 91.0 |
| External Debt (US\$ Billion) | 20.48 | 23.30 | 27.01 | 28.45 | 31.87 | 33.54 | 35.69 |

Source: Central Bureau of Statistics, Sudan: Various IMF reports

independence period, Sudan had prudent and market-friendly economic policies in a stable international environment. The result was low inflation and a favorable investment environment. The economic and development policy was also outward-oriented, particularly in support of cotton production expansion. A number of laws that encouraged private sector investment in rain-fed agriculture and the manufacturing sector were enacted. However, the threat of political instability was looming with conflicting stances of its multiple coalition governments. Sudan's growth performance declined from an average of 10.1 percent during 1973-1977 to 1.9 percent in the 1978-1989. The breakdown of peace negotiations in 1984 led to regime transitions and intensified civil war and consequently another bout of economic depression. During the period, the country

experienced two regime transitions, extreme political repression and predatory economic measures in favor of the ruling party and against traditional entrepreneurs. Expansionary fiscal policy, rising interest rates and overvalued currency drained the country's resources during the 1980s and early 1990s. Arrears accumulated, relations with creditors worsened and the country plunged into external debt distress.

11. After successful stabilization in the mid-1990s, Sudan maintained a strong track record for macroeconomic management that resulted in a low and stable single-digit inflation rates and a steady exchange rate. Real GDP growth rate averaged nearly 8 percent during the nine-year period ending in 2009 (see Table 1) and per capita income increased from US\$776 in 2004 to US\$1,570.4 in 2009. Oil was discovered in Sudan in 1978 but the petroleum sector became a major contributor to the economy in 2000 when it accounted for 6.8 percent of GDP compared to 1.5 percent in 1999. The expansion of the petroleum sector, to 15 percent of the GDP in 2009, contributed to the rapid growth of the economy after 2000. Apart from the direct impact, the growing receipts from petroleum exports and the related sharp increases in government revenues and expenditures and inflows of foreign direct investments (FDI) stimulated other sectors in the economy. Construction and the service sectors boomed and by 2009 the service sector contributed 40 percent of GDP, surpassing agriculture as the leading sector in the economy. Trade, hotels and restaurants have flourished, mainly in the country's capital (Khartoum), generating about one-fifth of the GDP during 2004-2009.

Macroeconomic and Structural Reforms

12. For over a decade, Sudan has implemented economic policy reforms to maintain economic stability and promote growth and poverty reduction. Since 1999, these reforms have been implemented under successive International Monetary Fund (IMF) staff monitored programs (SMP). These reforms have focused on the following areas:

- ◆ The exchange regime with the process of moving from a fixed exchange rate policy to a managed float regime;
- ◆ Tax policies and revenue administration with a view to enhance non-oil revenues, including the introduction of the Value Added Tax (VAT) and the streamlining and reductions in tax exemptions,
- ◆ Public financial management focusing on budget execution including financial controls, implementing effective cash management and fiscal reporting, transparency of budget operations and improvements in budget classification;
- ◆ Reforms of customs services;
- ◆ The management of oil revenues to mitigate the impact of oil price volatility on macroeconomic stability. To this effect, the Oil Revenue Stabilization Account (ORSA) was established for holding excess oil revenues;
- ◆ Improvements in the transparency of oil operations, with audits of the operations of the Sudan Petroleum Company (SPC) by the Auditor-General;
- ◆ Financial sector reforms including currency unification and issuance of new currency, restructuring and privatization of commercial banks and steps to improve capital adequacy and strengthening banking regulation and supervision; and

- ♦ Reforms of the regulatory environment and incentives for private sector development including the adoption of the Investment Encouragement Act to promote domestic and foreign investments in agriculture, industry and services.

13. These reforms helped to maintain macroeconomic stability in the context of pressures from the expansion of oil production and fluctuating international oil prices. The non-oil economy continued to grow and to make significant contributions to government revenues. However, Sudan has lagged in reforms in a number of key areas. Some reforms of the regulatory environment for private sector development were undertaken, including the withdrawal of the government from some sectors of economic activity and the adoption of an investment act to promote private investments. Nevertheless, the environment for the private enterprise remains poor, with Sudan lagging behind some of its peers in the World Bank's Doing Business Surveys. In 2010, Sudan was ranked 153 out of 183 countries and in 2011 it fell slightly back to 154.

14. On public financial management, challenges remain in the areas of expenditure planning, policy-based budgeting, monitoring and evaluation and public investment management. Sector strategies and policies are essential for guiding and regulating private and public investments in the sectors and for the public sector, for effective planning and budgeting. However, these have suffered from the dearth of related analytical work. The PRSP process and the recent initiation of sector analytical work in partnership with development partners will provide the impetus for improving sector policies and expenditure management.

15. For over a decade, Sudan has maintained close cooperation with IMF with good performance under successive SMPs as well as making payments in excess of its obligations to the IMF. The Sudanese Government considered the program monitored by the SMP as part of its strategy for macroeconomic stability and sustained economic growth and poverty reduction and a logical step to a full fund supported program, until 2010, the Poverty Reduction and Growth Facility (PRGF), debt relief through the HIPC process and normalization of relations with multilateral and bilateral creditors.

External Debt

16. The total stock of public and publicly guaranteed external debt is estimated at US\$38.0 billion at end of 2010 (see Table 2), consisting of US\$16.1 billion of principal (debt disbursed and outstanding) and US\$21.9 billion interest arrears and penalty interest. The rise in the stock of debt has been due to the relentless accumulation of penalty interest and interest arrears that consisted of 57.6 percent of the stock of debt at the end of 2010. New borrowing by Sudan from Arab multilateral and bilateral creditors as well as India and China is also contributing to the increase in the stock of external debt. For instance, Sudan contracted US\$1105 million in new external debt in 2008, including US\$426 million in non-concessional borrowing. However, the non-concessional borrowing, large as it appears, was within the ceiling of US\$700 million negotiated with the International Monetary Fund (IMF) in the context of its Staff Monitored Program (SMP) with Sudan.

| | 2000 | 2005 | 2010 |
|-----------------------------------|--------|--------|--------|
| Bilateral (Paris Club) | | | |
| Bilateral (non-Paris Club) | 6,084 | 8,530 | 12,095 |
| Multilateral | 6,546 | 9,664 | 13,840 |
| Commercial Banks | 4,166 | 4,461 | 5,340 |
| Suppliers | 2,959 | 3,505 | 4,981 |
| TOTAL | 728 | 846 | 1,768 |
| | 20,483 | 27,006 | 37,987 |

Source: Central Bank of Sudan

17. The external debt of Sudan is unsustainable according to the analysis of the World Bank, the IMF and the Central Bank of Sudan. That means that Sudan cannot service the debt and make progress on reducing poverty and achieving the MDGs. Sudan has been making payments in excess of obligations falling due to the IMF and small token payments to the World Bank and the African Development Bank. In 2007 and 2008, Sudan repaid the Fund US\$50 million in each year, while obligations falling due amounted to US\$26 million and US\$18 million, respectively. However, these payments indicate good faith but in themselves do not contribute to resolving Sudan obligations to these institutions. With the independence of the South, the GoS has entered into negotiations with the Government of South Sudan (GoSS) over the apportionment of the stock of external debt. However, the burden of debt will remain heavy, likely to be heavier on a per capita basis and, with much lower export receipts, Sudan debt distress would be more severe. Pending the provision of debt relief from the creditors, Sudan will maintain a prudent borrowing policy, with reliance on concessional borrowing. The GoS will also continue to monitor the external debt and publish the results.

Dependency on Oil

18. Despite the impressive growth and macroeconomic reforms, Sudan has become a mono-product economy, highly dependent on oil for exports and revenues, with oil contributing over 95

| | 2007 | 2008 | 2009 |
|---------------------------|--------|---------|--------|
| Petroleum Products | 8348.0 | 10988.5 | 7073.6 |
| Livestock | 51.4 | 71.5 | 249.7 |
| Sesame | 79.3 | 167.9 | 147.4 |
| Gum Arabic | 64.6 | 69.0 | 61.3 |
| Cotton | 68.1 | 58.3 | 40.2 |
| Gold | 63.2 | 112.1 | 85.5 |
| TOTAL | 8674.6 | 11467.3 | 7657.7 |
| o/w non-oil (%) | 3.8 | 4.2 | 7.6 |

Source: Central Bureau of Statistics (CBS) Sudan

percent of merchandise exports and about 50 percent of government revenues. However, since the advent of oil, the non-oil sector has continued to grow briskly, as shown in Table 1, but the dynamism have been in the non-tradable sector – construction and services, driven by the growing oil revenues. Direct foreign investment has expanded but most of it destined for the oil sector. Apart from oil, Sudan’s main exports are livestock, Gum Arabic, sesame and gold (see Table 3). Together these non-oil exports amounted to about half a billion dollars in 2009. The diversification of exports, including the revival of traditional exports such

as cotton, and the development of non-traditional, non-oil exports is imperative for sustained growth and employment creation.

19. The lackluster performance of the non-oil exports is a challenge for Sudan particularly with the secession of the South and the loss of the bulk of the oil production and export revenues. With about 75 percent of Sudan’s oil revenues generated from southern oil production, the independence of the South has had immediate negative fiscal and balance of payments implications for North Sudan. The infrastructure for Southern oil exports is in the North; a new oil wealth sharing arrangement that takes this into account might help to mitigate some of the economic shock on the economy. Sudan is intensifying crude oil extraction from existing fields, has signed a number of oil concessions, and is providing incentives for exploration of new fields, to raise crude production in the North. The plan is to raise oil production from about 125,000 barrels per day in 2012 to about 325,000 in 2017, about two-thirds of the production of 490,000 barrels from the whole of Sudan in 2009. In the meantime, Sudan will need to make immediate and significant fiscal and external accounts adjustments in response to lower fiscal revenues and export receipts from oil.

Employment and Productivity

20. **Employment:** The low growth of employment, increasing unemployment and low levels of productivity remain at the core of high and persistent levels of poverty in the Sudan. Agriculture continues to be the main source of employment for the majority of the labor force, particularly those in the rural areas. In 2009, according to NBHS, 34 percent of the total labor force and 50 percent of the rural labor force were engaged in agriculture. According to the 2008 Population Census, the total number of employed persons in Sudan amounted to 9.8 million, with around 72 percent of them located in rural and nomadic areas.

21. For Northern Sudan, total employment increased from 5.9 million in 1993 to 6.7 millions in 2008, a growth rate of less than one percent (0.9) during this period. With labor force growth of 1.3 percent, from about 6.6 million in 1993 to 8.0 million in 2008, the number of unemployed persons increased considerably from 0.7 million in 1993 to 1.4 million in 2008, with a corresponding rise of the unemployment rate rose from 11.1 percent to 16.8 percent. In 2008, unemployment rates were higher for rural areas compared to urban areas, at 19.8 percent compared to 12.1 percent, and also for females than males, at 24.7 percent compared to 13.9 percent. This pattern held over all age groups. The Census data for northern Sudan showed that the number of unemployed seeking work for the first time increased from 0.6 million in 1993 to 0.94 million in 2008. The age group 20-24 accounted for 18.5 percent of those seeking work for the first time in 2008, indicating the flow of large number of college graduates that had followed from the massive expansion of high education institutions in the 1990's.

22. **Productivity:** Productivity growth is the driver of economic growth, diversification, the creation of productive employment and income growth. Sudan has rich agricultural resources but productivity is very low in the farming and livestock sub-sectors. According to recent calculations by FAO, yields from most of the major crops have been declining over time. Some estimates indicate that yields in agriculture in Sudan range from one tenth to one fifth of the yields obtained from research stations.¹ On manufacturing, measures of total factor productivity indicate that the TFP in Sudan is low compared to some neighboring countries – Uganda, Tanzania and Kenya. Manufacturing and service firms have high labor costs and capital intensity, and low exports. Access to finance, infrastructure and taxation were found to be holding back the productivity of manufacturing firms.²

Disparities in Development

23. Sudan's growth process has been unbalanced, with the majority of its manufacturing firms and irrigated land concentrated in the center with a huge disparity in development indicators between the best and worst performing regions in Sudan. Outcomes from the NBHS 2009 for a number of individual MDG-related indicators confirm that the major challenge facing Sudan's progress towards the MDGs is the massive inequality in outcomes and access to services (Table 4). Overall, there appears to be little evidence of aggregate improvements in social indicators such as poverty and educational enrolment. The significant development disparities between urban and

¹ Government of Sudan (2011); High Committee for Studying the Present Status of Agriculture and Articulate a Future Vision and Action Plan for Agricultural Revival (in collaboration with FAO): **Executive Programme for Agricultural Revival**;

² World Bank (2009), Sudan Investment Climate Assessment

rural areas and between regions contributed to growing inequalities and an increasing urban informal sector accounting for more than 60 percent of GDP. This state of affairs has aggravated migration from rural to urban centers that is believed to have weakened agricultural productivity

Table 4: Regional Disparities in Key MDG Indicators

| Indicator | Highest Region | Lowest Region | National |
|---|----------------|---------------|----------|
| MDG 1.1 Proportion of population below poverty line | 62.7 | 26.0 | 46.6 |
| MDG 1.2 Poverty gap ratio | 24.6 | 6.4 | 16.2 |
| MDG 1.5 Employment ratio to population 15 years old and above | 48.5 | 35.9 | 41.4 |
| MDG 1.6 Proportion of employed population below poverty line | 58.8 | 21.0 | 42.5 |
| MDG 1.7 Proportion of own account and contributing family workers to total employed | 50.0 | 25.3 | 45.0 |
| MDG 2.1 Net enrolment rate in primary education | 85 | 57 | 67.0 |
| MDG 2.3.1 Literacy rate of 15-24 years-olds. Total | 94 | 63 | 77.0 |
| MDG 2.3.2 Literacy rate of 15-24 years-olds. Men | 96 | 68 | 84.0 |
| MDG 2.3.3 Literacy rate of 15-24 years-olds. Women | 92 | 61 | 71.0 |
| MDG 3.2 Share of women in wage employment in the non-agricultural sector | 22 | 12 | 17.0 |

Source: Sudan National Budget Household Survey (NBHS) 2009.

and deepened poverty in both urban and rural areas.

1.3 Poverty Reduction Efforts in Sudan Leading to the IPRSP

24. Sudan is committed to reducing the burden of poverty and to this end has attached great importance to improving public services delivery, creating employment and establishing safety nets. The Government's pro-poor spending has been on an increasing trend in recent years, and through the Investment Encouragement Act, the government offered generous incentives to domestic and foreign investors to invest in agriculture, manufacturing and services, with a view to increasing growth and employment. The primary social protection mechanism in Sudan is Zakat, which is an Islamic measure for wealth distribution and building of productive capabilities, and is playing an important role as a source of social assistance for the poor. Recently the Government introduced programs to support vulnerable groups including the extreme poor, the homeless, the orphans and the poor pensioners. The Community Development Fund (CDF) funded by the donor community has supported projects identified and implemented by poor communities in 4 states of Northern Sudan. Notable progress has been made with these projects.

25. Nevertheless, Sudan has lacked a broad and coherent approach to poverty reduction. Efforts have been made in the past to elaborate poverty reduction strategies, starting with the establishment of a Poverty Unit in the Ministry of Finance & National Economy in 1999. In 2004, the Ministry of Finance & National Economy prepared a draft interim poverty reduction strategy paper (2004-2006) but the draft fell short of providing a credible profile of poverty and its various dimensions due to an acute lack of data. Nevertheless, it was presented in a workshop with to the various stakeholders including representation from the states, the donor community, the civil society, academia and research institutions.

26. The present effort builds on the momentum from the workshop and aims to fill the gaps identified by stakeholders with data made available through the Population Census in 2008 and

National Baseline Household efforts with a grant to finance a capacity building project for preparation of the PRSP. In 2010, the Ministry of Welfare and Social Security and the General Secretariat of the National Population Council issued the MDGs Progress Report for Sudan, prepared in collaboration with the UN agencies. This report provides an assessment of progress and identifies the challenges and opportunities for achieving the MDG targets. The Interim PRSP draws from the relevant parts of the Progress Report.

1.4 Institutional arrangements and IPRSP Committee structure

27. For the preparation of an IPRSP, two Ministerial Decrees were issued establishing two committees with the aim of eventually leading to a full PRSP:

- ♦ **Oversight Committee:** This ministerial committee chaired by the Minister of Finance was established on December 18 2010 to oversee the preparation and implementation of the IPRSP, follow-up on the Technical Committees work, and approve the Sudan IPRSP final draft and ensure its submission to the Council of Ministers. The committee is comprised of the Ministers of Finance and National Economy, Welfare and Social Security, Agriculture and Forestry Livestock, Health, Basic Education, Labour, Information, and Irrigation; the Secretary-General of the Supreme Council of Decentralized Governance; the Governor of the Bank of Sudan; and the Chairperson of the IPRSP Technical Committee. Following the completion of the IPRSP, the Oversight Committee will transition into an oversight committee for the implementation of the IPRSP and the preparation of the full PRSP.
- ♦ **Technical Committee:** This was established on 20 September 2010 to prepare the IPRSP based on the 2009 Household Survey. The technical committee represents all poverty-related line ministries (agriculture, health, education, social welfare) as well as the National Council for Strategic Planning and the Central Bureau of Statistics. The preparation of the document was led by Ministry of Finance & National Economy to ensure policy coherence and consultation and to provide technical and logistical support. Following the completion of the IPRSP, the Technical into a technical committee for monitoring the implementation of the IPRSP. The Committee should be the nucleus for building up the Steering Committee doe the full PRSP.

28. **Consultation Process:** The preparation of the document involved extensive consultations to promote national consensus on the country's development strategy, based on a deep understanding of the citizens' expectation and priorities. Consultations were held with citizens and authorities in the various states of the country, with the private sector and representatives of the civil society, and with the donor community. Initial drafts were circulated to all these groups seeking comments and reactions. These consultations were meant to ensure that all participants had the opportunity to have their voices heard and incorporated in the IPRSP process. The final document will have to be endorsed by the Council of Ministers and legislature to become effective. The Council of Ministers will provide overall policy guidance, political support and oversight to the implementation of the strategy.

29. **Monitoring of the IPRSP:** The monitoring of the IPRSP will involve following up with line ministries and other implementing to find out the extent that the strategic directions and operational recommendations of the PRSP and being fed into the government's policy, planning and budgeting systems and the related implementation and results. The Technical Committee for the IPRSP will be responsible for the monitoring, and will need to liase with thematic teams established for the PRSP.

1.5 Structure of the Document

30. This IPRSP document is more detailed and longer than the practice for an interim poverty reduction strategy paper since, as the first such document from Sudan to be given wide national and international distribution, it is important to provide detailed contextual information. The document has eight sections. The next and second section of the IPRSP presents an analysis of the nature of poverty in Sudan on the 2009 Budget Households Survey (BHS). It provides the poverty profile, analyzes the roots and the different dimensions of poverty. Section 3 of the IPRSP builds on Sudan's vision for development and the analysis of past performance and poverty, reviews the opportunities and constraints and develops the core elements and pillars of the interim strategy for growth and poverty reduction in the medium-term. Sections 4-7 discuss the pillars of the interim strategy, with a review of the status, the constraints and opportunities, the policy objectives and the priorities for action. Section 8 provides the plan for the preparation of the full PRSP, including the consultation plans, the required surveys and analytical work as well as the organizational framework for the preparation of the PRSP. The Policy Matrix, summarizing the objectives and proposed actions, is attached in the Annex.

2 Poverty Diagnostics

2.1 Poverty Profile

31. Poverty is multidimensional phenomenon, an indication of deprivation in one or more facets of the well-being of a person. A number of attempts were taken in the last two decades to quantify poverty in Sudan and to delineate its causes. These efforts were however handicapped by the limitations of data and the incomplete coverage of the survey on which they are based. A serious limitation was the unavailability of household budget survey on which to base the estimate of poverty and to gauge its changing trends, since only one survey was carried out in 1967/68 and twenty years elapsed before the second one in 1978/80. The 2009 National Baseline Household Survey (NBHS), the first nationally representative household consumption survey conducted in Sudan since 1978, provides estimates for the various dimensions of poverty.

32. According to the NBHS, 46.5 percent of households in the Northern States of Sudan live below the poverty line. This represents approximately 14.4 million people. The poverty line is defined as persons with the value of monthly total consumption below SDG 114 (calculated using 2400 calories per person per day as the daily energy intake threshold). Poverty rates are substantially higher among the rural dweller, with 57.6 percent of households below the poverty line compared to 26.5 percent of the urban population. In Northern Sudan with 58 percent of the population living in rural areas ((excluding the nomads), the share of the rural poor in total poor is about 75 percent. With rural areas predominantly agricultural, this poverty is largest among agricultural households.

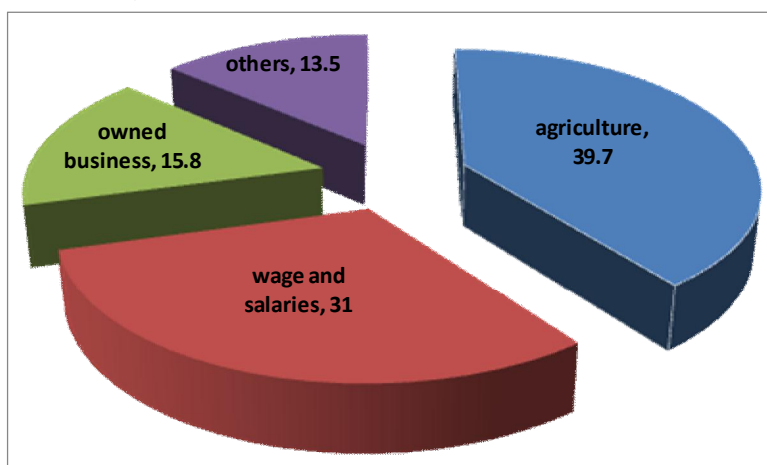
| Table 5: Poverty profile for Northern Sudan | | | | |
|--|-----------|------|----------|----------------------------|
| | Poverty | | | Poverty gap among the poor |
| | Incidence | Gap | Severity | |
| Northern Sudan | 46.5 | 16.2 | 7.8 | 34.8 |
| Poverty by Residence | | | | |
| Rural | 57.6 | 21.3 | 10.6 | 36.9 |
| Urban | 26.5 | 7.1 | 2.7 | 26.6 |
| Poverty by Regions | | | | |
| Darfur | 62.7 | 24.6 | 12.6 | 39.3 |
| Kordofan | 58.7 | 23.1 | 11.7 | 39.3 |
| Eastern | 46.3 | 17.7 | 9.0 | 38.2 |
| Central | 45.4 | 13.8 | 6.1 | 30.4 |
| Northern | 33.7 | 9.4 | 3.8 | 28.0 |
| Khartoum | 26.0 | 6.4 | 2.4 | 24.7 |
| Poverty by States | | | | |
| Northern Darfur | 69.4 | 27.4 | 14.2 | 39.6 |
| Southern Darfur | 61.2 | 24.5 | 12.7 | 40.1 |
| Southern Kordofan | 60.0 | 20.7 | 9.4 | 34.5 |
| Northern Kordofan | 57.9 | 24.6 | 13.1 | 42.5 |
| Red Sea | 57.7 | 24.9 | 13.7 | 43.1 |
| Blue Nile | 56.5 | 20.6 | 9.9 | 36.5 |
| Western Darfur | 55.6 | 19.8 | 8.9 | 35.6 |
| White Nile | 55.5 | 17.6 | 7.8 | 31.7 |
| Al-Gadarif | 50.1 | 15.9 | 6.7 | 31.8 |
| Sinnar | 44.1 | 14.0 | 6.4 | 31.7 |
| Al-Gezira | 37.8 | 10.1 | 4.1 | 26.6 |
| Kassala | 36.3 | 14.7 | 8.0 | 40.6 |
| Northern | 36.2 | 10.5 | 4.2 | 29.1 |
| River Nile | 32.2 | 8.8 | 3.5 | 27.3 |
| Khartoum | 26.0 | 6.4 | 2.4 | 24.7 |
| <i>Source: NBHS 2009.</i> | | | | |

33. Poverty in Sudan varies significantly by region and states (Table 5). The data shows that Khartoum is the region with the lowest poverty incidence followed by Northern region. Eastern and central are among the third lowest, while Darfur and Kordofan are poorest in Northern Sudan, with highest rate in Northern Darfur. The poorer states in Northern Sudan are predominantly rural but there are exceptions. The Red Sea state has the second highest urbanization rate after Khartoum but is among the poorest five states. Conversely, the Northern state has the lowest urbanization rate and the 3rd lowest poverty rate. Nevertheless, it can be concluded that poverty in Sudan is predominant in rural areas and among those whose income is from farming and livestock.

2.2 Poverty by source of income

34. The NBHS survey revealed that the most important sources of income for Sudan households (see Figure 1) are agriculture (40 percent), wage and salaries (31 percent), self-employment (16 percent), and other sources (14 percent). The percentage deriving their main livelihood from farming and livestock activities ranges from 74 percent in Northern Darfur, 69 percent in Northern Kordofan to 3 percent in Khartoum. Over half the households in Western Darfur (62 percent), Southern Darfur (68 percent), Southern Kordofan (68 percent), Blue Nile (57 percent) and Sinnar (51 percent) states are engaged in farming and livestock.

Figure 1: Sources of Income in Sudan Northern States



Source: CBS NBHS 2009

35. Figure 2 illustrates the correlation between income sources by poverty status. Most of the poorest households those in the bottom quintile rely on agriculture e.g. crop farming and animal husbandry (59 percent) while most of the people in the wealthiest households those in the top quintile rely on wage and salaried employment (47 percent).

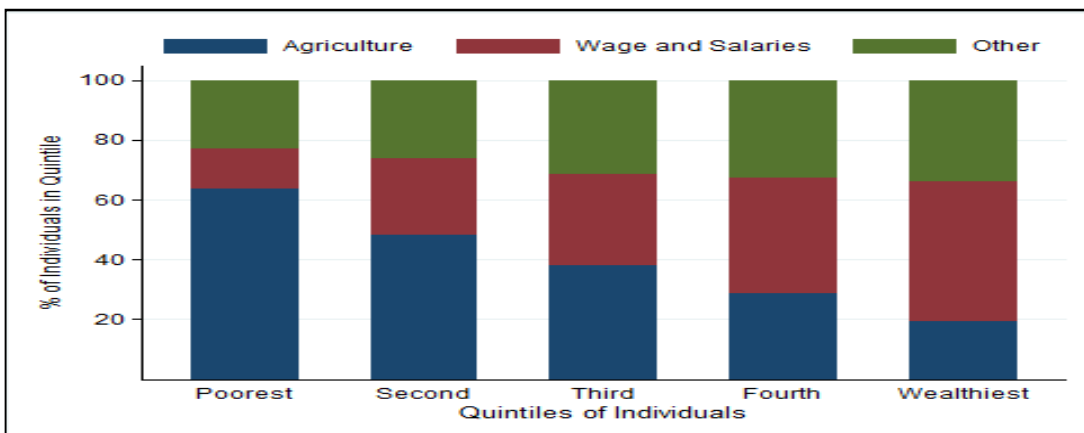
2.3 Poverty by Gender

36. Among the small number of households headed by women (17.3 percent) the incidence of poverty is marginally lower (44.2 percent) compared to households headed by men, with an incidence rate of 47.15 percent.

2.4 Poverty by education of head of household

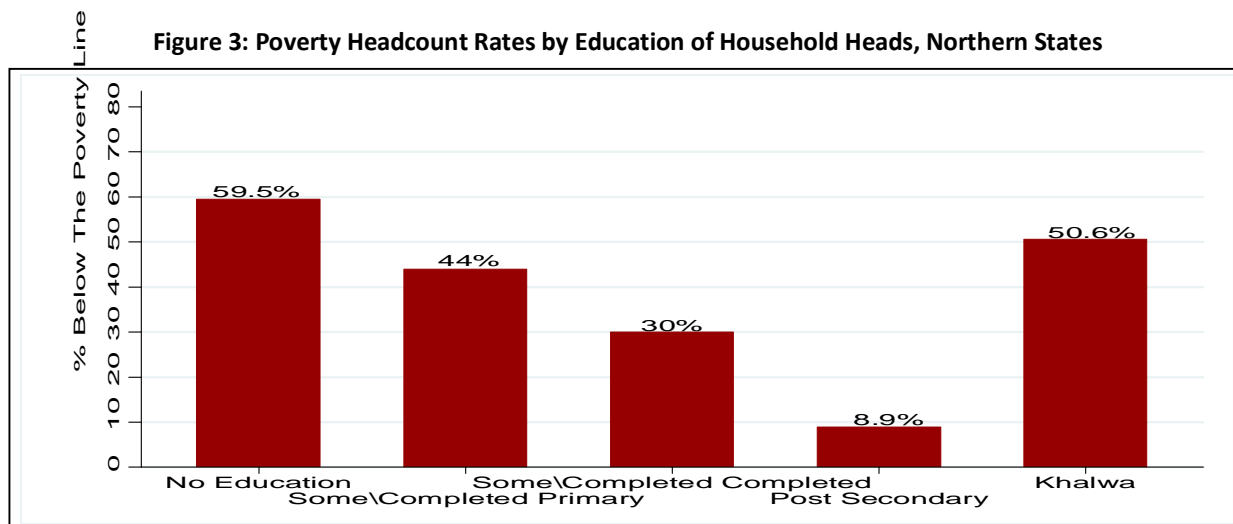
Forty-five percent of the heads of households have had no formal education. The risk of being poor correlates highly with the level of education of the main provider. Households in which the main provider does not have an education make up 60 percent of all poor households compared to only 9 percent where the main provider has a higher education (Figure 3). Poverty rate is also high for those whose heads have only primary education and those who report that khalwa is their highest level of education completed (44 percent and 51 percent respectively).

Figure 2: Main sources of income by Quintiles, Northern States



Source: CBS NBHS 2009.

Note: Figures shown are the main livelihoods of the households of individuals, by quintiles of individuals. The poorest 20% of individuals are in the poorest quintile, the next poorest 20% are in the second quintile, etc.



Source: CBS NBHS 2009.

2.5 Food Poverty:

37. The food deprivation refers to the proportion of the population whose dietary energy consumption is below the minimum dietary energy requirements (MDER) which is defined in Sudan at 1751 kcl. The HHBS (2009) was used to estimate food deprivation. The proportion of the population below the minimum level of dietary consumption in northern Sudan is estimated at 31.5 percent. This amounts to about 13 million people that are food deprived. The proportions of the urban and rural populations that are food deprived are 31 percent and 34 percent respectively. Across the Northern states the level of food deprived varies significantly by region, estimated at 44 percent in Red Sea, and 15 percent in Gezira and River Nile.

38. Food deprivation is higher in female-headed households (37 percent) than in male-headed households (31 percent) due to better education and higher income in male-headed households. Also the survey showed that the rate of food deprivation differed by household size ranging from 5 percent for household of one or two members to 49 percent for households with more than 9 members. The survey identified income as the most important determining factor for food-deprivation. Twenty percent of the poor population was food deprived compared to almost nil in the higher income category. Expenditure on food constituted a large share of household consumption in Sudan; accounting for 61.4 percent. The food ratio decreased with income, the lowest income quintile spent 71.5 percent compared to 57 percent in the highest income.

39. A manifestation of the food poverty is the underweight prevalence among children in Sudan.³ The underweight prevalence is the percentage of children under five years of age whose weigh for age is less than minus two standard deviations from the median for the international reference population age 0-59 months. According to SHHS, in 2006, 29.6 percent of children under five in North Sudan were found to be underweight, with 7.2 percent severely underweight. This means in lay terms that almost 30 percent of children have weights that are very low for their age. There is considerable variation among states in underweight prevalence between states, from 21.7 percent in Khartoum state to 38.1 percent in West Darfur. The highest prevalence is in the Darfur region, North Kordofan and Blue Nile, among the poorest regions/states in the country. In addition, the proportion of children who were stunted (low height for age or chronically malnourished) was 31.3 percent with 9.5 percent severely stunted. Around 13.7 percent of children under-five suffered from acute malnutrition, evidenced by low weight for height (wasting), with 3.4 percent with severe acute malnutrition.

2.6 Unemployment

40. The low growth of employment, rising unemployment and low levels of productivity are at the core of high and persistent levels of poverty in Sudan. As noted in Section 1.2, total employment in Northern Sudan grew at 0.9 percent per annum between 1993 and 2008. With the labor force growing at an estimated 1.3 percent per annum over the same period, unemployment has increased from 11.1 percent in 1993 to 16.8 percent in 2008. Unemployment rates have been higher in the rural areas compared to urban areas, at 19.8 percent and 12.1 percent respectively in 2008, and also higher for females than males, at 24.7 percent compared to 13.9 percent. Labor participation rates are very low, which might indicate that many unemployed people are discouraged from

³ See Republic of Sudan, Ministry of Welfare & Social Security, National Population General Secretariat: **Sudan Millennium Development Goals Progress Report 2010**, pages 18-20.

looking for jobs because of the reality of high unemployment. Thus the effective rate of unemployment is much higher than the published technical estimates.

2.7 Roots of poverty in Sudan

41. There are many factors that account for persistent poverty in Sudan but the main factors include:

- ◆ The long drawn out civil conflicts in southern, western and eastern Sudan that diverted attention and resources from development to fighting wars, impaired social capital and good governance and destroyed human and physical capital. The lack of durable peace and security dissuaded households and firms from making investments in human and physical capital for the future;
- ◆ The urban bias of development policies and programs in the past that neglected efforts to broadly increase the productivity of rural factors of production, particularly in the sphere of rain-fed agriculture;
- ◆ The lack of a coherent poverty reduction effort and a sustained reform to promote shared growth and diversify the economy, hence the rising unemployment;
- ◆ Low allocation of public resources to poverty reduction priorities, particularly agricultural development and human development, and the absence of development partners to compensate for the under-spending;
- ◆ The concentration of socio-economic development in a few areas; and
- ◆ The burden of an unsustainable external debt, the long economic international sanctions and isolation that held up access to the international debt relief initiatives such as HIPC and to concessional financial assistance.

3 The Poverty Reduction Strategy: Core Elements and Pillars

42. Sudan is facing significant challenges to sustained growth and poverty reduction in the short and medium-term. These are associated with the loss of access to oil wealth, with the secession of the South, the imperative of ending conflicts and building peace in the new country, and reengaging fully with the international development community to gain access to financial and technical assistance. With the secession of South Sudan in July 2011, Northern Sudan (the new Sudan) urgently needs to refocus its efforts on building now smaller territory into a united and economically prosperous country, at peace internally and with neighboring countries. Efforts to foster national reconciliation, integrate the internally displaced people (IDPs) and refugees into viable communities and sustainable livelihood, and adopt inclusive governance institutions, will be essential for building peace, security and shared economic growth. For post-secession Sudan, tackling unemployment and poverty should be the top priorities and essential for avoiding the cycle of civil war and conflict that has plagued the country for several years.

43. For the last decade, the economy of Sudan grew rapidly, due in part to the growing oil production and exports as well as the prudent macroeconomic management. The new Sudan faces a future with limited oil resources and thus must find other factors to drive the growth of the economy. The effects of the secession on South Sudan would be largely through the fiscal and external accounts. With roughly 75 percent of the GoNU oil revenues generated from southern oil production, the oil revenues to the Government and the foreign exchange receipts from oil will be severely reduced. This will be a challenge for the management of the budget, the exchange rate and the external balance. Painful, unpopular but necessary fiscal and external balance adjustments will have to be made to sustain the macroeconomic stability essential for reviving and sustaining growth. Sudan will have to engage its significant human and non-oil natural resources to build a prosperous future for its citizens.

3.1 Challenges and Opportunities for Shared Growth and Poverty Reduction

Key Challenges

44. The Sudan economy faces a number of challenges to sustained rapid growth and increasing prosperity. The following are key among them include:

- ♦ **Overcoming the legacies of long years of internal violent conflicts:** the related challenges include bringing durable peace throughout the country; providing broad opportunities for socio-economic recovery in all parts of the country; halting environmental degradation and loss of biodiversity; stabilizing the population by a determined effort to reintegrate all the displaced persons into sustainable livelihoods in viable and stable communities, with full rights and privileges; restructuring the security services, possibly involving the demobilization and reintegration of soldiers into productive civilian lives; a concerted effort at national reconciliation including resolution of outstanding grievances; and open, decentralized and inclusive governance. Sudan shares borders with countries that have been prone to conflict and it is in its interest for it to be a strong advocate for peace in the region and peaceful resolution of internal and regional conflicts.
- ♦ **The wide disparities in economic development and access to opportunities:** There are disparities between Sudanese, by gender and regions in the country. Public policies should

aim to close these gaps so that all Sudanese have the opportunity to contribute to and share in the benefits of growth.

- ♦ **Employment creation:** Unemployment is estimated to be about 20 percent. Educated young people are finding difficult to obtain jobs; a situation that raises security risks. Creating employment requires the growth and diversification of the non-oil economy, not only in terms of sectors of economic activities but also in terms of locations in the country. Good jobs are needed in the lagging areas emerging from conflict. . New discoveries and production of oil will not have much direct impact on job creation. The oil sectors and the emerging gold extraction will absorb the top cream of the labor force with their high salaries and benefits but have limited impact on overall unemployment. Employment creation will therefore need to come from manufacturing, services and agriculture. Increasing investments and productivity in these sectors will enable Sudanese firms to grow, be competitive in global markets, export and create jobs.
- ♦ **The economy needs to become more diverse:** The economy has become dependent on petroleum production and exports. The non-oil sectors are still strong but most of their dynamism is derived from the inflows of oil revenues. Non-oil exports now account for about 5 percent of exports. Productivity in agriculture, the main contributor of non-oil exports and production remains low. Diversification of the economy, including a strong and productive agricultural sector is critical for shared growth and poverty reduction.
- ♦ **Human capital, technical and institutional capacities need to be continuously developed and reinforced.** Access to quality education and healthcare males and females builds an informed and healthy society and is crucial for enabling more and more citizens to take advantage of the opportunities presented by a growing economy, escape the trap of poverty, and add more value to the economy. Creating employment requires that the education and knowledge systems produce the skills that employers need to be innovative and to raise productivity. The knowledge base, a critical ingredient of sustained economic growth, is built on high quality primary and secondary education, and relevant and high quality education at universities, technical institutes and other tertiary institutions. For the public sector, institutional reforms with focus on the promotion of knowledge, innovation, results, efficiency and effectiveness are essential for positive contributions of public actions to socio-economic progress. Planned and coordinated learning opportunities should be provided to public employees to enhance their knowledge. For the private sector, professional associations should be organized to promote technical and managerial knowledge and provide linkages to the global knowledge system. Foreign direct investment also provides linkages to the global knowledge system.
- ♦ **Institutional and Structural Reforms:** Over the last decade, Sudan has carried out significant reforms to stabilize the economy, improve transparency and accountability of public financial management and safeguard public finances. It needs to carry out structural and institutional reforms to enable shared growth and diversification of the economy. The public services, including the public finance system, need to be reformed for the efficient and effective delivery of priority social and economic services that are essential for economic growth and improving welfare. The budget needs be aligned to the development objectives and related priorities and the established budget institutions should be reformed to ensure this alignment. The regulatory environment for private sector development, the financial sector, the education sector and knowledge infrastructure and the labor laws need to be reformed to support a growing and diversifying economy.

- ♦ **External debt burden and limited access to external aid and foreign financing:** The GoS needs to vigorously pursue its efforts to have sanctions lifted and the international development community to provide debt relief to Sudan.

Major Opportunities

45. The list of challenges seems to be long but there are opportunities available to Sudan for tackling those challenges and achieving shared growth and poverty reduction. These include:

- ♦ **Natural Resources:** Sudan is endowed with natural resources including fertile land and water resources to develop vibrant farming and livestock production and related agroprocessing industries. Sudan has significant irrigation infrastructure and its agriculture is not wholly dependent on rain-fed agriculture. It also has a mix of small and large mechanized agriculture; the large farms could provide the nucleus for improving the productivity of small farms and facilitate the marketing of produce. Sudan has oil and gold, products that are high demand globally, with the potential for generating surplus that can be used for creating additional national wealth.
- ♦ **Sudan is in the neighborhoods of wealthy countries to the north:** This provides a strong market for the products of Sudan as well as foreign direct investment and project financing. For instance, livestock is a major export from Sudan to the Middle-Eastern neighbors. Sudan can take proactive action to secure and grow its livestock exports. Sudan could even develop some tourism attractions and facilities targeted at tourists from the wealthy Middle-East countries.
- ♦ **Foreign Direct Investments (FDI):** With the discovery and production of oil, Sudan enjoyed healthy inflows of FDI mostly from Asia and the Middle-East and targeted at the oil sector. This opening up provides an opportunity for Sudan to seek FDI from these growing economies for other sectors.
- ♦ **Momentum for change and development since the CPA:** Change has come to Sudan, particularly since the adoption of the CPA. Internally, there has been progress in building the foundation for sustained development with rapid improvements in education, the decentralization of government and improvements in infrastructure. The rapid growth of school enrolment in recent years, particularly in conflict affected regions, is a sign that the people of Sudan are eager to move on to working to improve their lives. While the secession of the South can be regarded as setback, it removes a major uncertainty as to the future of Sudan and reduces the risks of future internal conflicts. North Sudan can now move forward at its own pace, utilizing its own enormous capabilities and focusing on the prosperity of its over 30 million people. Sudan's relations with the international community have improved, with better prospects for the removal of sanctions, and the provision of debt relief and concessional financing. The GoS needs to work with determination to take advantage of these openings.
- ♦ **Learning and partnerships:** There is a great deal of knowledge and experience globally on many of the challenges that Sudan faces –post conflict socio-economic recovery including national reconciliation and reintegration of displaced people, economic restructuring and reform, partnership with external development agencies. Sudan can learn from the accumulated experience of development partners and relief agencies. Besides, they are countries in Africa that have gone through the process and could share their experiences with Sudan.

3.2 Pillars of the Interim Strategy

46. The Interim PRSP seeks to reduce poverty through rapid, sustainable and shared economic growth. Hence, 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 a an important pillar of the foundation for development; and through policy and institutional reforms and the provision of economic services provide the enabling environment for rapid shared and sustainable economic growth. To this end, the poverty reduction strategy is clustered under four broad pillars that represent the core strategic areas for the foundation and aspirations for development in Sudan. The pillars and provide a framework that for establishing and coordinating priorities. The four pillars are:

- ◆ Strengthening governance and institutional capacity of the public sector.
- ◆ Reintegration of IDPs and other displaced populations
- ◆ Developing human resources
- ◆ Promotion of economic growth and employment creation

4 Strengthening Governance and Institutional Capacity

47. To achieve sustained growth, with employment creation and poverty reduction, and avoid the gyrations of the past economic performance, the new Sudan will put 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 (PFM) and decentralization, peace and security, fighting corruption, promoting human rights, and improving justice and law enforcement. Further, there is empirical evidence that poor governance and poverty as causes of civil wars. Although the separation of the North and South Sudan has presumably reduced the risks of conflict in the sub-region, civil conflict remains a reality, for example in Darfur. Thus, continuing vigilance and an orientation to resolving existing and latent conflicts in a peaceful manner will remain essential for peace and stability.

4.1 Peace, security and national unity

48. **Peace, security and national unity** are fundamental underpinnings of sustained economic development and national prosperity. These, as well as rapid economic growth and poverty reduction, are the main policy objectives of the Government of Sudan. Sustained peace, security and national unity will enable the Sudanese to put their energies on economic growth and poverty reduction while general prosperity from rapid economic growth will buttress peace, security and national unity. Given the history and legacy of conflict in Sudan, targeted actions on sources of conflict are essential for fostering peace, security and national unity as well as building the foundations for economic growth and rapid poverty reduction. Peace and security in Sudan will also bolster regional cooperation in economic and diplomatic fields, facilitating conflict prevention in the region and strengthening the foundations for accelerating economic progress.

49. Inclusive governance will be needed to sustain the peace and security. An overarching element of inclusive governance is to have governance institutions that emphasize participation, decentralization, transparency and accountability. A commitment to address the sources and triggers of conflicts and the mechanisms to resolve internal and sub-regional conflicts in a peaceful manner will diffuse small conflicts and prevent them from growing into major violent and armed confrontations. Improving the delivery of public services, opening up opportunities to a wide range of people in the country, and organizing open and participatory consultation on issues of national reconciliation will help to mitigate the perceptions of unfairness and build trust and legitimacy of governance institutions. Given that Sudan is continuing to operate on the Interim National Constitution (INC), a framework that was specifically designed to address the North/South issues. The preparation of a constitution for North Sudan as a nation would provide the opportunity for strengthening the basis for decentralized and inclusive governance.

50. Restructuring the security services to build to a new security forces for building peace and security and conflict prevention rather than for war and orient the security services to operating effectively in an open and participatory political process. This restructuring may involve the demobilization and reintegration of soldiers into productive civilian lives.

Conflict Resolution and National reconciliation

51. With a large and diverse population, conflicts are bound to arise from time to time. It will be useful to develop the capacity for conflict resolution, which can be called up to resolve disputes between different communities. The High Council for Decentralization and the Constitutional Court

are responsible for adjudicating conflicts between the state governments and central/state governments. Each locality is expected to have a popular committee responsible for conflict resolution at the local level. A broad process of national reconciliation could enhance these efforts, with the national reconciliation body providing support and capacity building to the popular committees at the local levels

52. National reconciliation is an essential for building peace, security and national unity, and restoring trust for national institutions and between individuals. The open, participatory and frank discussions of the issues facing the country, particularly those related to peace, security and national unity, and the grievances of different communities, help to get a good feel for the views of the population and raise awareness on national issues. Discussions and dialogue throughout the country, particularly targeting hitherto neglected areas and populations, can be helpful in formulating inclusive national political, economic and social policies. Sudan has started a process of national reconciliation with the Governor's forum on national reconciliation held in 2009. However, the Government will consider and institutionalized national effort, driven by credible people not holding public offices, that will help to sensitize the people on the importance of national reconciliation and keep conflict resolution in the national spotlight.

4.2 The rule of law and human rights

53. The INC envisages Sudan as democratic, decentralized, multicultural, multilingual, multiracial, multi-ethnic, and multi-religious country. It establishes the principle of democracy and decentralization, the respect and promotion of human dignity, and to justice, equality, the advancement of human rights and fundamental freedoms, and to multi-partism. It also guarantees rights and fundamental freedoms, with a Bill of Rights as a covenant among Sudanese people and between them and their governments at every level, embodying a commitment to respect and promote the human rights and fundamental freedoms enshrined in the Constitution, and thus the cornerstone of social justice, equality and democracy in the Sudan. The Constitution requires the State to protect, promote, guarantee and implement the Bill and specifies that while legislation shall regulate application of the rights and freedoms enshrined in the Bill of Rights, it shall not detract or derogate from any of those rights. Further it prohibits their suspension, even in a state of emergency, treating them as laws that can be neither be undermined nor amended by legislative institutions without the matter being put to a referendum of the people.

54. The Constitutional Court: The Constitutional Court, independent of the legislature and the executive and separate from the national judiciary was established as the guardian and protector of the Constitution and has jurisdiction to protect human rights and fundamental freedoms. The Constitutional Court has laid down constitutional principles and rules and has been guided by international human rights principles in interpreting a number of provisions of the Constitution, which are binding on national courts at the various levels of litigation.

Political institutions

55. The INC provides for a national legislature composed of an elected National Assembly, and the Council of States, composed of two representatives from each state elected by the state legislative councils. Each state likewise has a legislative council composed of members elected in accordance with the provisions of the State constitution and the law.

56. **Right to participate in political life:** The conduct of free and fair elections is among the political institutions in the CPA and the INC and the right to vote in such elections as an inherent

right of all Sudanese citizens. In 2007 the Parties Act provided for the establishment of a multi-party system and in 2008, the Electoral Act was adopted for the conduct of elections in the different states of the Sudan. Subsequently, the National Election Commission was established; and the chairman and its members were selected by the consensus of all political parties, to secure its independence. With the independence of the South, the Commission will be reorganized along the same procedures.

57. Elections: The Commission conducted the presidential and general elections, the referendum on self-determination in the South, and the special elections of South Kordofan. The April 2010 elections, the first multiparty elections in Sudan in 20 years, were held at the national, state and local levels, with the seats of President of the Republic, state governors the national and state legislative council fully contested. A quota of 25 per cent of legislative seats was reserved for women. In addition, women contested other seats. The elections drew a wide turnout from all segments of society, including women, displaced persons, refugees, prison inmates and hospital inpatients. These elections were conducted in peaceful and secure atmosphere; closely observed by national and international observers. Administrative and logistical difficulties encountered in the electoral process were dealt with in accordance with the law.

Justice and law enforcement

58. The National Judiciary: The apex institution of the judiciary is the National Supreme Court, national courts of appeal and all other national courts, which together represent the main national mechanism for the protection of human rights. The INC provides for the independence from the legislature and the executive, with financial and administrative autonomy. The establishment of the National Judicial Service Commission in 2005 was as an important landmark towards the establishment of an independent judicial system in the country. The Commission, headed by the Chief Justice, is responsible for financial and professional issues, and determines the terms and conditions of service, and immunities of the judges. It is also entitled to appoint and discipline judges.

59. The adoption of the Administrative Justice Act of 2005 was a unique step that widened access to justice, empowering ordinary people to challenge government's acts before courts and to seek redress. The Constitutional Court on the other hand, makes it possible for citizens to challenge laws adopted by the Parliament on constitutional grounds and seek the protection of their rights as being enshrined in the INC. The Public Grievances Chamber was also set up as an independent body mandated to consider complaints relating to grievances suffered by citizens in relation to state institutions after exhausting all means of litigation.

Human rights

60. The Republic of Sudan, including all levels of government, is committed to complying fully with its obligations under the international human rights treaties to which it is a party. These include the international covenants on civil political, economic, social and cultural rights, and the international conventions on the elimination of all forms of racial discrimination and the rights of child. In this context Sudan has included related human rights provisions in its constitutional and legal framework. These include the creation, character and responsibilities of the Human Rights Commission (HRC), provisions on the rights and protection of women and children, freedom of beliefs and religious practice and the protection of the freedom of expression and the press.

61. Sudan now has two main institutions dealing broadly with the issue of human rights: the Advisory Council on Human Rights (ACHR) and the proposed Human Rights Commission (HRC). In addition, the Human Rights and Public Duties Committee of the National Assembly provides legislative oversight over the human rights performance of the executive authorities. The ACHR, created in 1992, provides advice to the State on human rights; carries out research and studies; disseminates the human rights culture across the different media; provides training for State and civil society personnel on human rights standards and principles; reviews national legislation to harmonize it with international human rights instruments, coordinates human rights matters with international human rights institutions and prepares periodic reports to international human rights treaty mechanisms. The ACHR also handles complaints about human rights violations from individuals and organizations in Sudan. The INC provided for the creation of HRC to monitor application of the Bill of Rights and receive complaints on violations of rights and freedoms. The Human Rights Commission Act, which regulates its activity, was promulgated in 2009. The 15 members of the HRC, to be selected from independent, competent, non-partisan and impartial citizens, will be appointed in the near future to commence their duties.

62. The State has established a number of mechanisms for the promotion of human rights in the context of law enforcement, including, for example, the Ministry of Interior's Coordinating Council on Human Rights and International Law, community police stations and family and child protection units. In addition, the National Security and Intelligence Service established a detainee affairs department and a medical unit in order to improve conditions of confinement. The enquiries and complaints office was also established to receive queries and complaints from citizens directly.

63. **Women's rights:** The INC grants women equal rights with men, without discrimination, stating as it does that "any reference to the masculine also includes the feminine". Moreover, in the Bill of Rights provides that: "The State shall guarantee the equal right of men and women to the enjoyment of all civil, political, social, cultural and economic rights." The Constitution also incorporates the principle of equal pay for equal work and affirms positive discrimination in favor of women. The principle of equal pay for equal work was reaffirmed in the Public Service Act of 2007. The Nationality Act promulgated in 1994 and amended in 2005, accorded women the right to pass on their nationality to their children. Provisions for the special protection for women during armed conflict were included in the 2009 amendment of the Criminal Code of 1991 and the Armed Forces Act of 2007.

64. In addition to the legal reforms, Sudan has taken a number of actions to advance the rights and role of women including a quota system included in the Electoral Act of 2008 that guarantees a minimum of 25 per cent of parliamentary seats for women. Representation of women stood at 28.3 per cent in the elections held in 2010. Actions taken to advance to address issues relevant for women include the adoption of a national plan to combat violence against women in 2005, and the adoption of a national strategy for the elimination of female circumcision. The Violence against Women and Children Unit was established in 2005 in the Ministry of Justice to monitor the implementation of the national plan to combat violence against women. Similar units have been established in the three states of Darfur and in a number of the other states in the Sudan.

65. **Children's rights:** The Constitution makes education is a right for every citizen and requires the State to guarantee access to education, without discrimination as to religion, race, ethnicity, gender or disability. Since 2004, the Sudan has experienced significant progress with the provision of education for all, particularly at the basic level, reflecting the constitutional mandate. The National Council for Child Welfare, established in 1991, and chaired by the President of the Republic, with State governors and federal ministers concerned with children's issues as members,

is responsible for children-related policies, plans and programmes and coordination with the other levels of government in the field of child welfare. It also collects statistics, runs seminars, trains personnel and prepares periodic reports for regional and international organizations. On the protection of children's rights and welfare, the Labour Code of 1997 prohibits the employment of children less than 16 years of age in dangerous or strenuous activities and sets the working hours for children. The Armed Forces Act of 2007 prohibits the recruitment of any person under-18 years of age into the armed forces.

66. **Freedom of belief and religious practice:** The Sudan is a multiracial, multicultural and multi-religious country. Muslims make up the majority of inhabitants but Christianity and customary beliefs have a considerable number of followers. The Constitution does not prescribe an official State religion, asserting that the Sudan is an all-embracing homeland where religions and cultures are sources of strength, harmony and inspiration, that cultural diversity is the basis of national cohesion and may not be used to create division, and that all the indigenous languages of the Sudan are national languages that must be developed and promoted. Thus, the Constitution guarantees to every individual the right of freedom of conscience and religious creed, and the manifestation and dissemination of religion or creed through worship, teaching or practice, and the performance of religious ceremonies or rites. It also provides that no person shall be coerced into adopting a creed in which he/she does not believe or into engaging in ceremonies or acts of worship without voluntary consent. Further, the assumption of high State office is predicated on citizenship — not faith or ethnicity. Documents of proof, such as identity cards and passports, contain no details of religion, nor is any statement of religion required to access to State-provided services.

67. **Freedom of expression and the press:** Freedom of expression is a fundamental freedom that is closely related to freedom of belief and is one of the features constituting a modern democratic State. The Constitution accordingly attaches particular importance to this freedom, guaranteeing to every citizen the right to express views freely, to receive and disseminate information, and to access the press, without prejudice to security, safety or public morals. The Constitution sought to establish the general principles of freedom of the press, while the Press and Publications Act of 2009 regulates freedom of expression through the press and guarantees broad freedoms of expression and access to information. Under the Act, oversight of the press is entrusted to an independent council that has responsibility for granting licenses to the press and considering complaints from persons damaged by the publication of press articles. In practice, 50 newspapers are published in the Sudan, covering a wide range of areas. Twenty seven of these papers are politically oriented, often privately owned but aligned to the positions of the different political formations. The other papers cover sports, society events, economic affairs, entertainment and advocacy. Sudan has 6 Internet service provider companies as well as 8 television and 17 radio stations. Although media operators are privately owned, the state remains dominant in the media, a situation that has to change for greater openness essential to meet its aspirations for an open and democratic society.

68. **War crimes, crimes against humanity, torture and slavery:** The Criminal Act 1991 was also amended in 2009 to cover war crimes, genocide and crimes against humanity as internationally defined and thus stretches the national jurisdiction over such crimes. The Constitution and various Sudanese legislations prohibit the subjection of any person to torture or to cruel, inhuman or degrading treatment. Hard labour is not included as a punishment in Sudanese laws and the Criminal Code of 1991 and the National Security Act of 2009 provide that detainees under investigation must be treated in a manner conducive to the preservation of their dignity, must not be subjected to any physical or mental harm and must receive suitable medical care.

Property Rights

69. An environment of secure and enforceable rights to property is critical for enabling private investment and productivity growth. In particular the lack of secure long-term land rights is an obstacle to the commercialization and rapid growth of agriculture and livestock activities, a key pillar of the growth strategy for Sudan. As land is an essential asset in the livelihoods of the majority of Sudanese, as the population grows, the competition for tends to raise the risks of communal land disputes and harm agricultural productivity, in the absence of secure land rights. While the land law vests the ownership of land to the state, in practice for most of rural lands, decisions on land use has been delegated to community leaders who provide farmers with usufruct rights. This practice is an obstacle to investments in the land and the commercialization and growth of agriculture. The federal, state and local governments need to work together, in consultation with the civil society, for a land policy that provides long-term rights to land, and put in place the institutions for enforcement of the land rights and conflicts arising from land use and disputes.

4.3 Decentralization

70. Sudan has been a federation for several years, and in 2005, the CPA divided the country into 25 states. With the independence of the South, Sudan is now a federation of 15 states, with three levels of Government - the federal, state and localities (local government), with elected legislatures at each level and elected state governors. Each state has its own constitution while Local Government Act (LGA) provides the legal framework for the local governments. The federal and state constitutions as well as LGA stress the principle of autonomy of the different levels of government and the need for mutual respect of this autonomy. A High Council on Governance, headed by the President and consisting of selected federal ministers, the 15 state governors and 3 experts nominated by the President, monitors progress in decentralization and resolves issues arising between states such as border disputes. The key challenges of a functioning decentralization in Sudan include the lack of technical and institutional capacity at all levels, the inadequacy of financial resources at the state and local government governments to meet the constitutionally assigned responsibilities, and the lack of real autonomy and participation of the population at the local government level.

71. Revenue sharing at the federal level is the principal source of funds for sub-national governments. A Fiscal and Financial Allocation and Monitoring Commission (FFAMC) has the mandate to set criteria for sharing resources between the three levels of government; the horizontal allocation of resources among the 15 states; and the monitoring of deposits of national revenues into the National Revenue Fund, the transfer of funds to sub-national levels and the uses of these funds. However, no mandated revenue sharing allocation mechanism between the three levels of government is place and the sharing is decided each year, with the federal government deciding how much goes to the states and the states deciding the shares of the localities. This introduces significant uncertainty in the budget planning at sub-national levels of government. Work is underway in designing the revenue transfer mechanisms including the revenue sharing formula and the institutional framework for an effective fiscal decentralization.

72. Local governments in Sudan are responsible for the delivery of key social services such as education and health and through the popular committees, play a critical role in security, development and dispute resolution in the locality. However, local governments have very limited autonomy and participation of the citizens to be effective in carrying out their mandates. The Governor appoints the political head of the locality, the commissioner, and the state government appoints and pays staffs of the locality from the share of revenue of the locality. The members of the

local government legislative councils are also paid by the state in the same manner. The decisions made by these legislatures, including the budgets, have to be approved by the state legislature.

73. The revenue sharing between the states and the localities is not transparent and local governments do not know the amounts assigned to their locality. While the LGA assigns some sources of revenues to local governments, the taxes are regulated and collected by the state authorities. The opportunities for participation of the residents of the locality in the decision making is very limited as in any case, the real decisions are made at the state levels. Thus the congruence of the interventions of the local governments with the local priorities is not ensured, contrary to the goals of decentralization.

74. Going forward, it would be essential to strengthen the autonomy and capacity of local governments, make the revenue sharing mechanism more transparent and predictable, and most importantly ensure the broad participation of the local population on the decision making in local government. The population should elect the most powerful local government official, the Commissioner. With regard to local participation, the success of Community Development Fund (CDF) projects financed by the MDTF provides useful lessons for local governance in Sudan. The CDF funds projects identified by communities as their priorities. The role of the communities in the selection and implementation of these projects and the collaboration with the local government authorities have contributed to successful implementation and bode well for the sustainability of the projects. These CDF supported programs have demonstrated that local governments can work effectively with communities and citizen participation at all levels of the project participation enhances the service delivery from the projects.

4.4 Combating Corruption

75. In the 2010, Corruption Perceptions Index provided by Transparency International, Sudan ranks 172 out of the 178 countries in the survey. Whether this assessment is right or wrong is not the important issue. The point is that there is perception out there that Sudan is among the most corrupt countries in the world, an image that does not foster Sudan's efforts to attract foreign direct investment, and obtain debt relief and concessional assistance. Furthermore, in the Sudan Productivity and Investment Climate Survey (PICS) in 2008, private firms in Sudan cited political instability, lack of transparency and economic uncertainty as the top three constraints to growth. Strong commitment by the government to address the reality and perceptions of lack of transparency is crucial for the growth and poverty reduction agenda.

76. Transparency and accountability in the management of public affairs and private firms are fundamental for good governance. These influences the reality and perceptions of lack of transparency as in the absence of transparent and accountable institutions, lack of transparency is likely to thrive, and besides, proper assessments based on facts cannot be made and perceptions are like to differ, and most likely worse than reality. Sudan needs to build open and participatory governance institutions to underpin its growth and poverty reduction efforts.

77. Three mechanisms have been introduced to enhance transparency and accountability in relation to state public finances and to work as preventive tools to combat corruption. The Illicit and Suspected Enrichment Act of 1989 provides for an annual updating by the government officials of the sources of any increases in their wealth. That Act established an office of the public prosecutor to oversee the implementation of its provisions. The National Audit Chamber Act of 2007 mandated the Chamber to review the financial performance of the government including revenue collection and expenditures in comparison to the budget approved by the national and

states legislations. The accounting procedures, standards and fiscal accountability are regulated by many other laws and regulations like the Procurement Act of 2010. In 2011 a new Act on combating money laundering and financing terrorism was adopted to supplement the 2004 Act. A general committee comprises all related state departments has been established to oversee the general implementation of the act. A technical financial unit was also established to closely monitor the adherence of banks and other financial institutions to the preventive and precautionary measures as illustrated by international cooperation directives.

4.5 Effective service delivery

Public Financial Management

78. The provision of public services that meet the social and economic development needs of the population is the principal goal of public financial management and an important dimension of good governance and the legitimacy of government. The services that the government provides in many areas infrastructure, human development, social protection, are crucial for the economic growth and poverty reduction that Sudan is seeking. The Government has a fiduciary responsibility to use public funds efficiently and effectively to provide public services, hence the importance of the strong and institutional and technical capacity for public financial management. The key institutions include:

- ♦ **A policy framework that guides public resource allocation:** This would include a long-term vision such as that embedded in the Sudan's 25 year development plan, a medium-term planning framework, such as the 5 year plan, and short-term policy documents like an annual budget framework paper. A necessary ingredient of these policy documents is that they reflect the aspirations and priorities of the population, evidenced the wide participation of the civil society including the private sector in the preparation of the documents. Sudan is not strong on participation of the civil society in government decisions. The PRSP process presents an opportunity for participation in the elaboration of public policy and plans documents.
- ♦ **Institutions for budget management:** The Government needs strong institutions and technical capacity for planning and budgeting, budget execution (financial controls, procurement, monitoring and reporting, cash and treasury management, accounting and auditing); monitoring and evaluation and oversight. Results orientation, participation, transparency and accountability are key principles that should be embedded in these budget institutions at all levels of government. Capacities are generally weak, particularly at sub-national levels of government, hence the necessity for sustained capacity reinforcement efforts.
- ♦ **Linking policy and budgets:** Planning and budgeting instruments that can link policies with budgets foster the achievement of policy objectives through the budget process. The traditional annual budget process has been found unsuitable for such linkages; rather a multi-year medium-term planning and budgeting processes have been advocated for linking policy and budgets⁴. Many developed and developing countries have adopted the multi-year budgeting approach. It has been proposed to Sudan but it has not yet been adopted. In any case, in the absence of a detailed medium-term development policy framework, a medium-term planning and budgeting framework will be premature. Now, with the interim PRSP

⁴ Most common approach is the well-known Medium-Term Expenditure Framework (MTEF)

and the preparation of a full PRSP in sight, a solid ground for coherent and credible medium-term planning and budgeting is in prospect and the groundwork for approach should begin.

Financial Controls

79. For Strengthening monitoring and financial controls, Government is introducing the Government Financial Management System (GFMS), a computerized budgeting, accounting and reporting application and implementation has started in the Ministry of Finance and National economy, and will extended to the state governments. The implementation of the GFMS will permit the timely preparation of budget preparation reports that can be made available for public scrutiny.

Procurement

80. Procurement is an important function in public service delivery and good, efficient and transparent procurement systems ensure value for money and effective service delivery. Government procurement in Sudan is the responsibility of the Contracting and Purchasing Department (CPD) at the Ministry of Finance and National Economy (MoFNE). The CPD is also responsible for the orderly disposal of government assets. The legal framework for procurement was revised in 2010 and subsequently the regulations and implementation guidelines were prepared and issued MoFNE has both regulatory and management responsibilities for procurement. The procurement process is decentralized; procurement units in implementing agencies carry out the procurement in collaboration with CPD and in accordance with the law and regulations. A representative of CPD serves on the committee for the procurement and CPD also reviews the final decisions of the committee to ensure its appropriateness. State and local governments carry out their procurements independently of CPD using their own supervisory and oversight arrangements.

81. The main challenge in procurement is the limited capacity at MoNFE and CPD as well as the implementing units at central and decentralized governments. Given the importance of procurement for good governance and public service delivery, investments in building capacity and supporting systems is likely to have a high payoff if the right approaches are taken. The Government, with the support of the World Bank, has engaged a team of experts to help it develop its procurement systems and capacity and facilitate the implementation of procurement operations under the new law. This team will help in the preparation of manuals of procedures, revise bidding documents and provide training to procurement staff at federal, state and local levels. Beyond this one-off capacity building exercise, the government should aim to develop a cadre of procurement specialists in the public and private sectors in Sudan and private firms to provide training as well as expertise in procurement regulations. Oversight of Public Financial Management

82. The office of the Auditor General existed since the early days of the colonial era and has a rich history and tradition of independence. Its oversight scope has recently been extended to cover environmental and performance audits. This is one link in the PFM chain that is working well. The Audit Chamber, headed by the Auditor General prepared audits of government operations and with recommendations, submits the audits to the legislature, in accordance with the law. The legislature discusses the reports and makes recommendations to the Executive, which follows up with appropriate actions. The Assembly decided recently to transfer the report on imported agricultural seeds to the Ministry of Justice for action. To enhance its ability to perform its traditional financial audit functions and to cope with new responsibilities for performance audits, the capacity of the Chamber needs to be appropriately strengthened.

4.6 Capacity Development in the public sector

83. A capable state is a requirement for good governance and sustained development. The public sector in Sudan needs to continuously upgrade its capacity to meet the challenges of governance and development. Sudan has in place a number of important governance institutions as discussed above. Without the technical capacity as well as political will for implementation and follow-up, these institutions will not make a positive difference in the lives of its citizens. The same goes for the existing and envisaged development programs. With a new beginning and related new challenges, the need for developing its capacity to build a strong foundation for development is compelling. Appropriately, Sudan has a Ministry of Human Resources with the mandate to develop private sector capacity.

84. In coming years, Sudan will have to undertake policy and institutional reforms to strengthen its governance and to grow and diversify its economy. These reforms need to be accompanied by efforts to build related capacity for implementing and sustaining the reforms, Human and institutional capacity building for a function and effective system of decentralization is crucial as the deepening process of fiscal federalism will shift more resources to states and local governments for development programs. Systems of planning and budgeting, financial control and accountability will need to be developed and adequate human resources trained and motivated to carry out functions that were previously the preserve of the center.

85. Traditional capacity building programs have not been very successful in Sub-Saharan African countries in part due to their ad-hoc nature, dependence on foreign experts, and limited commitments and efforts on program sustainability. The basic requirements of a capacity development program are that there has to be a strong motivation and commitment by those whose capacity is being developed; it has to be linked to dealing with their every day work challenges (relevance), and has to be designed by people the institutional complexities of the job. The training itself should not be the reward; rather improved effectiveness on the job should be the reward. To meet its own unique sets of capacity challenges need to develop its strategy for capacity development that takes into account the evolution of the institutions and policies, and the human development priorities in Sudan. This strategy will then guide the development of programs in different areas.

4.7 Challenges and Priorities

86. The main challenges for improving governance are the capacity for implementation and enforcement. Technical and institutional capacities are weak and the scarcity of financial resources constrains the pace of adoption, implementation and effective enforcement of governance measures. The Government must prioritize its actions. In the medium-term, the main priorities are:

- ♦ Establish a national commission and a transparent process for the promotion of national reconciliation and unity, with resources to carry out regular countrywide consultations;
- ♦ Strengthen the capacities of the agencies for conflict resolution at federal, state and locality levels, linking these efforts to the national reconciliation process for capacity building and technical guidance;
- ♦ Review and revise existing land laws and policies including putting in place mechanisms for the allocation of land and the resolution of land disputes at community levels;
- ♦ Make operational the Human Rights Commission in consultation with the civil society;

- ◆ Strengthen the autonomy of the governments at locality levels including provisions for the election of the head of the locality government, and more autonomy over the budgets;
- ◆ Establish a transparent and predictable revenue sharing mechanism between the three levels of government;
- ◆ Strengthen the instruments for monitoring and fighting corruption
- ◆ Reform the institutions for public expenditure management including the adoption of policy-based and multi-year planning and budgeting framework; and
- ◆ Develop a national strategy for enhancing public sector institutional and technical capacity.

5 Reintegration of Internally Displaced Persons and Refugees

87. The conflicts in Sudan and neighboring countries have created a large number of internally displaced people (IDPs) and internationally displaced persons (refugees) fleeing conflict from neighboring countries. Estimates of IDPs range from 2 million to 5 million, with major concentration in the in the Darfur states, and significant presence in Khartoum state and East Sudan. Sudan is host to over 200,000 refugees and asylum seeker from neighboring countries, mainly Eritrea, Ethiopia, Somalia, Chad, Central Africa Republic and the Democratic Republic of the Congo. These are concentrated in East Sudan. Both Darfur and East Sudan have histories of internal conflict and also have large populations of poor people. The Darfur states are among the poorest regions in Northern Sudan while the Eastern states are in the mid range in terms of poverty in Northern Sudan (see Table 5). It is not the presence of these displaced persons that rendered these regions poor but the continuing presence in the temporary and dependent conditions will make the fight against poverty more difficult in these regions.

88. Reintegration involves a systematic approach to end the temporary, uncertain and dependent status of these displaced populations by providing permanent access to shelter and sustainable livelihoods in new or existing communities, 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. Integration programs cover several sectors and activities such as health, education, water supply, agriculture, permanent shelter, infrastructure, capacity building and formal and informal community dialogue. Integration could involve the specification and agreement on the legal rights of the new settlers, equivalent to those in the communities. For refugees, reintegration could involve sending them back to their countries of origin or to a third country where they could have access to the same legal rights and opportunities available to the residents in that country.

5.1 Reintegration for sustained peace and development

89. The systematic reintegration of displaced persons in a conflict-affected country is critical for bringing the conflict to a peaceful and sustainable conclusion. Temporary, uncertain and dependent status can result in the development of anti-social behaviors such collaboration with or subservience to negative and anti-peace forces that could create threats to peace and security and re-ignite the conflict, common crime and value-destroying activities such as deforestation and unsanitary practices that undermine sustainable economic development and welfare. Reintegration also helps to deal with the some of the legacies of the civil conflict such as the deterioration of social capital, environmental degradation, destruction of physical infrastructure, and exclusive governance. Effective reintegration is facilitated by efforts to improve governance in the country, including giving the people the opportunity to participate in decisions that affect their lives. A systematic and credible national reconciliation effort that aims to bring diverse groups of people together and helps to consolidate national economic and political aspirations, creates a supportive environment for reintegration. By reintegrating IDPs into communities and permanent self-sustaining livelihoods and away from dependence on relief assistance, largely funded by international relief agencies, the costs of maintaining them will be eliminated and they will begin to make value adding contributions to the national economy.

5.2 Main Challenges

90. Reintegration efforts need to be concentrated on the areas with the masses of displaced people. As noted above, the main concentrations are in Darfur and Eastern Sudan. These have been historically conflict affected and generally poor states (see Table 6). The Darfur region is the

Table 6: Selected Indicators of Development in States Hosting IDPs and Refugees

| | Poverty Headcount Rate | % Underweight children (0-59 months) | Doctors per 100000 of population |
|--------------|------------------------|--------------------------------------|----------------------------------|
| North Darfur | 69.4 | 34.4 | 6.1 |
| South Darfur | 61.2 | 32.3 | 2.5 |
| West Darfur | 55.6 | 38.1 | 3.9 |
| Red Sea | 56.5 | 30.8 | 9.1 |
| El-Ghadaref | 50.0 | 32.4 | 16.4 |
| Kassala | 36.3 | 29.5 | 9.0 |
| North Sudan | 46.5 | 29.6 | 35.0 |

Sources: NBHS 2009; Sudan MDGs Progress Report 2010; Central Bureau of Statistics, Sudan;

poorest region in Sudan and the Eastern Sudan is the third poorest region after Kordofan. Eastern Sudan has been relatively stable and peaceful and provides a strong base for launching reintegration efforts. However, the large number of long tenured refugees among the displaced population in Eastern Sudan presents some complications. Darfur has larger numbers of displaced people, the conflict has not been resolved but peace negotiations are under way. Yet, there are opportunities to undertake reintegration efforts as part of the process of bringing peace, stability and development to Darfur. Currently the priority of the Government is peace

security and reintegration in Darfur but East Sudan already has a peace agreement and related development plans and the challenging problems in the development and reintegration needs to be addressed.

91. The Government's approach to reintegration of IDPs and refugees has been elaborated in a number of strategy and policy documents including the CPA, the Interim Constitution and the Eastern Sudan Peace Agreement (ESPA). In 2009, the Government adopted a National Policy on Internally Displaced Persons (IDPs) that lays out the rights of IDPs and the principles for dealing with their unique problems. Subsequently in 2010, the Darfur Strategy for Achieving Comprehensive Peace, Security and Development was adopted to provide the framework for the Government's humanitarian strategy for Darfur including issues of reintegration.

92. **Eastern Sudan, comprising of the states of Red Sea, Kassala and El-Ghadaref**, with a total population of about 4.5 million, has eight refugee camps, some of which have been in refugee status for over many years. It is estimated that there are about 120,000 refugees of Eritrean origin. About 60,500 of these refugees are in the camps, 40,000 are integrated into urban settings and 15,000 are in closed camps. There is also a continuing stream of new arrivals of about an average of 1500 a month of young and educated Eritreans in transit to other destinations. It is estimated that there are 197,000 IDPs in eastern Sudan, of which 66,500 are in camps and an additional 38,000, mostly female-headed households, are receiving food aid. It is assumed that the rest are self-reliant. However, there references of estimates of the numbers of IDPs of up to 420,000. A new verification exercise is essential to ascertain the actual numbers of refugees and IDPs to assess the real dimensions of the problem.

93. The Eastern Sudan Peace Agreement (ESPA) and the programme: Sustainable Options for Livelihood Security in Eastern Sudan (SOLSES), provided the framework for recovery and development of eastern Sudan. The Eastern Sudan Reconstruction and Development Fund (ESRDF), established for the planning and allocation of development resources to the region, has faced

implementation problems, and the results have been less than planned. In particular, the releases of the resources pledged by donors to support the ESRDF have been very slow.

94. The major challenge in Eastern Sudan is to find durable solutions for the refugees from neighboring countries. Formal local integration, with its legal and socio-cultural dimensions, will need to be an option as many of these refugees are unlikely to be willing to return to their countries of origin after decades of living in Sudan, and many were born in Sudan by refugee parents. Reintegration efforts in Eastern Sudan will provide valuable experience and important lessons for similar efforts in other areas.

95. **In Darfur, comprising of the states of North Darfur, South Darfur and Western Darfur,** with a total population of about 7.5 million, including an estimated 1.68 million nomads, the conflicts remain unresolved but a peace process is under way. There are also an estimated 2 million IDPs and a total of 4 million recipients of humanitarian aid⁵. Recovery and development in Darfur faces interrelated conflict, governance, environmental, sustainable livelihood opportunities, and capacity challenges. Massive population movements due to the conflicts are exacerbating the delicate climatic conditions in the region and damaging the means of livelihoods. Large-scale deforestation, with unregulated clearance of forests for agriculture and as wood for brick-making that has been in demand by the growing urban population. This degradation of the environment is undermining the basis for economic recovery and sustained poverty reduction efforts when peace is restored to the region. The reintegration of the IDPs should be an important piece for ending the conflicts and the development plan for Darfur.

96. The Government has adopted Humanitarian Assistance Strategy for Darfur with the priority to re-establish security for all people, provide humanitarian assistance to vulnerable populations, provide incentives and assurances for IDPs to return home, and offer substantial developmental assistance in their habitats. In addition, in early 2011, a Work Plan for Voluntary Return for IDPs and Refugees in Darfur states was adopted. The work plan targets those IDPs and refugees interested and willing to voluntarily return or be reintegrated in the reorganized camps or in urban areas. This plan targets the reintegration of 111,000 families for the three-year period 2011-2013 at an estimated cost of US\$217.2 million. In the meantime, the GoS, in collaboration with humanitarian and UN agencies and NGOs, has been using its own resources to assist willing IDPs to return to their original homes.

5.3 International partnership for reintegration

97. The Government has been consulting the international agencies in Sudan to design its programs and policies for humanitarian assistance and the reintegration of IDPs and refugees. With limited resources and experience in the area of reintegration, the Government needs to build a strong partnership with the international relief and development agencies in this important effort. These agencies will help in raising funds for the programs as well as in bringing technical expertise gained from global experience in post-conflict reintegration and development over the last fifteen years. Integration weans displaced persons away from dependence on relief largely provided by international relief agencies. Once the self-reliance is achieved, some of the saved resources could be deployed in Sudan as development assistance.

⁵ United Nations, Sudan: **Beyond Emergency Relief: Longer-term trends and priorities for UN agencies in Darfur**, September 2010.

5.4 Key actions in the short and medium-term

The key actions should include:

- ◆ Revise and restore the development plans for Eastern Sudan with consultations with international relief and development agencies;
- ◆ Revise policy framework for the reintegration of IDPs and refugees, with broad consultations with concerned communities and the international development community to take into account the views of the IDPs and the communities they are being integrated into as well as to gain from and contribute to global experience on reintegration and
- ◆ Build a partnership with international relief and development agencies for reintegration, with a strong coordinating mechanism led by the government.

6 Developing Human Resources

6.1 Empowerment and Building the Capabilities of the People

Empowering the Poor to take advantage of opportunities

98. The strategy recognizes 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. The growth of the GDP will not necessarily lead to reductions in the levels of poverty due to the low growth elasticity of poverty that characterizes Sudan economy. The poor's weak capabilities in terms of human capital in the form of knowledge, information and health, constrain their ability to take advantage of the opportunities offered by economic growth. Access to education, health and nutrition services, as well as to physical and financial capital such as land and credit will allow them to benefit from growth. Besides, accessible high quality education and health services are essential elements of the foundation of an innovative and productive labour force that underpins sustained economic growth.

99. The 2006 SHHS indicates large variations in the education and health outcomes between the states; generally with the worst affected areas in southern and western states of the country. School enrollment and child health also vary according to socioeconomic conditions; most notably with mother's education level, confirming the well-known observation of the positive impact of parent's human capital on children education and health. Other factors found to be directly and positively linked with improvement in education and health of children include infrastructure, such as water and sanitation, and community social services, such as health clinic/centers and schools with good quality of service and low cost of access.

100. Sudan's budget and planning framework does not permit a rigorous analysis of sectoral expenditures. However, the analysis of the available budget data shows that Sudan's expenditure on human development has historically been low spending in comparison with other low-income countries. The result has been poor social indicators in comparison to countries at its level of income. Sudan ranked 154 out of 169 countries in the 2010 Human Development Index (HDI) while its income ranking was 134. The public expenditure review (2007) shows that although pro-poor expenditures including those on the social sectors, have been rising in recent years, the allocations are still low as a proportion of the overall spending and of GDP in comparison to many low African countries. This low level of expenditure is likely a legacy of the long years of conflict during which public resources were drained by expenditures on security. With the onset of peace, part of the peace dividends should come in the form of increased spending for improved access and quality of social services, particularly in the areas that were affected by the conflicts. The following recommendations of the PER is germane in this regard:

- i) An increase in the absolute level of pro-poor spending by reallocating from non pro-poor expenditure.
- ii) An Increase the transfer to the states since the responsibility of service provision in education and health lies with them, and within the states target the ones that are the worst affected in terms of achievement in human development.

- iii) An increase in capital and development spending on education and health is required to sustain any improvements in service provision.
- iv) Provide social protection services in a manner that strengthens the capacity of the poor for self-reliance.

101. However, these recommendations for increased spending confront the reality that (Northern) Sudan needs to make a large and downward fiscal adjustment because of losses of revenues from oil due to the partition of Sudan. However, improvement in human development outcomes is critical for poverty reduction and sustained growth. The expenditures on human resource development and other development priorities should, at the very least, be protected from the inevitable cuts in expenditures and should be increased proportionally more as the overall resources begin to rise again. Protection of expenditures on key priorities from cuts and above average increases in budget allocations has been a common good practice in low income developing countries, particularly those emerging from conflict.

Empowering Women: closing gender disparities

102. Empowering women, reducing gender disparities in access to economic and socio-political opportunities, and eliminating the cultural biases against women are essential to unlock the significant potential of the female population to contribute to improvements in the families, society and economy. In Sudan, female participation in the formal labor force is very low and unemployment is high for those females in the labour force. These are likely to be the result of the cultural biases against female education and formal non-farm employment. The positive effect of

| Table 7: Sudan Gender MDGs | | | | | |
|----------------------------|--|---------------------|-------------------|-------------------|----------------|
| | Indicators | Baseline in 1990 | Current Status | Reference Year | 2015 Target |
| MDG1.2 | Proportion of the population below the national poverty line | 90% (1992) | 46.5% | 2009 | 23.2% |
| MDG3.1 | Ratio of girls to boys in primary education | | 53.9 to 46,1% | 2007 | 100% |
| | Ratio of girls to boys in secondary academic and technical education | | 51.6 to 49.4 % | 2007 | 100% |
| | Ratio of girls to boys in tertiary education | | 54.1% | 2008 | 100% |
| MDG3.2 | Ratio of women to men in employment in non agricultural sectors | | 59% | 2008 | |
| MDG3.3: | Proportion of seats held by women in national parliament | | 25% | 2010 | 50% |
| Source: | <i>Sudan Millennium Development Goals Progress Report 2010</i> | | | | |

educated mothers on the health and education of their children and to the overall well being on the families is well known. Empowerment of women is a great investment for a society seeking socio-economic development. In recent year the GoS has taken action to reduce gender disparities and promote the empowerment of women and make progress towards the gender MDGs (Table 7).

103. The principles of equal pay for equal work and positive discrimination for women were affirmed by the Interim National Constitution Actions taken on gender empowerment include the promulgation of a national plan for Combating Gender Based Violence (CGBV) in 2005; the establishment of a unit in the Ministry of Justice to administer the CGBV plan; the establishment of the Family and Child Protection units; and the adoption of the national strategy for girls education

in 2007 and the national strategy on Female Genital Mutilation (FGM) in 2008. The adoption of a quota system in the general election law of 2008 guaranteed 25 percent of the total number of seats in the legislatures for women.

104. Gender gaps in enrollment in primary education have persisted but there have been considerable improvements over the last five years. The establishment of the directorate of girls education has helped in narrowing the gap. With respect to secondary education, gender parity is more or less achieved, but the general level of enrollment in secondary education is very low for both boys and girls, and there are considerable disparities among the states in the enrollment in secondary education as well as gender disparities. In some states, the enrollment of girls has surpassed that of boys and vice versa. One area with significant and widespread gender disparities is secondary technical education, with a predominance of boys. At the tertiary level, the enrollment of women is higher than that of men.

105. Progress has been made on political empowerment of women but economic empowerment remains a hurdle. The female labor force participation rate is less than a third of males and gender disparities are substantial in formal employment, particularly at the upper echelons as well as the representation in legislative bodies. However, the expansion education and other social services is changing the pattern of female labour force participation and employment. The numbers of women in formal employment is growing in the low and middle ranks. Since independence, Sudanese women have been active in public life. Participation of women in the political process has recently become significant with women members comprising 28 percent of the parliament elected in 2010 in Northern Sudan.

Challenges and Priorities

106. Sudan has made significant progress towards the gender empowerment related MDGs. It is on track to meet those MDGs on closing the disparities on educational enrollment. However, the regional disparities in access to education by girls as well as boys will remain a challenge for Sudan. Furthermore, there will still be a large number of girls as well as boys that may not be in school, or have dropped out of schools because the schools are not easily accessible by being too far from home. The MDG indicator of formal employment by women is not likely to be met. Progress on this indicator will depend on the ability of the economy to create formal sector jobs. Consequently, the priorities for progress in the empowerment of women include:

- ◆ Ensuring that the gains made over the last five years are maintained, with close monitoring of progress and taking corrective measures to deal with slippages in implementation. This includes continued and vigorous implementation of the actions for CGBV and on FGM, expanding activities to all the states.
- ◆ Monitoring gender related developments and producing gender-aggregated statistics for monitoring labor market and employment developments;
- ◆ Promotion of economic opportunities for women, for example, access to formal employment in the private sector;
- ◆ Investments in educational infrastructure to improve to put schools within easy reach of girls in the community, particularly in the underserved states;
- ◆ Promotion of non-formal adult education classes targeted to women;
- ◆ Promoting vocational and technical secondary education for girls;

- ◆ Enhancing women’s participation in elections through civic education and voter education programs.
- ◆ Adopting gender-based budgeting to ensure gender disparities and issues of specific importance to the development of women is taken into account in public resource allocation decisions.

6.2 Meeting the MDG Education Targets

107. 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. Investments in education are associated with direct increase in individuals’ income earnings. This is confirmed for Sudan, with estimates of an average rate of return to an additional year spent in schooling amounts to 9 percent, with higher average rate of returns for females (12 percent) compared to men (9 percent). Average returns by level of schooling indicate rates of 18 percent for higher education and 14 percent for the primary level of education. Generally, education through its positive effect on income growth has a favorable impact on reducing the incidence of poverty. As indicated by the analysis of the 2009 National Baseline

| Table 8: Sudan Selected Education MDGs | | | | | |
|--|--|---------------------|-------------------|-------------------|----------------|
| | Indicators | Baseline in 1990 | Current Status | Reference Year | 2015 Target |
| MDG1.2 | Proportion of the population below the national poverty line | 90% (1992) | 46.5% | 2009 | 23.2% |
| MDG2.1 | Gross enrolment in basic education | 57% | 71.1% | 2009 | 100% |
| MDG2.2 | Literacy Rates of 15-24 year olds, women and men | 27,1% | 77.5% | 2009 | 100% |

Source: Sudan Millennium Development Goals Progress Report 2010

Household Survey NBHS), education of household head was found to be an important factor in the differences in household income per capita and with the incidence of poverty. Per capita consumption was higher by 24 percent for households whose head had completed some primary education compared to those households with heads with no education. The incidence of poverty was also lower at 44 percent compared to 59.5 percent.

108. The commitment of the governments in Sudan to free and compulsory basic education for all is enshrined in the Interim National Constitution as well as in the various medium and long-term development plans. The Five Year Education Sector Strategic Plan (ESSP) for 2007-2011 expressed the country’s commitment to the Education for All (EFA) goals and outlined activities to meet the MDG education targets. The Sudan Education Status Report (2011) provides a detailed diagnostic of the education sector and the knowledge base to identify the priority actions for meeting the EFA targets and the MDGs. A medium-term education sector strategy (ESS (2012-2016)) and plan is under preparation, building on the findings of the Status Report.

109. The Status Report found that student enrollments have expanded for all sub-sectors of education since 2000. The fastest growth in enrollments since 2000-01 occurred in pre-school (10 percent per year), followed by higher education (7 percent per year), secondary education (6 percent per year) and basic education (5 percent per year). The expansion in enrollments is evidence of strong demand for education in the society. At the state levels, there is evidence of the positive impact of peace on basic school enrollments for the populations that were affected by conflict prior to 2005. In the conflict-affected states of North, South and West Darfur, North

Kordofan, South Kordofan, Blue Nile, Kassala and Red Sea, basic school enrollments has grown rapidly since 2005. In most of the other states, basic enrollment growth slowed down as these states were already close to enrolling all children in basic education.

110. The number of academic secondary schools increased significantly since 2004-05, leading to smaller schools and lower student-teacher ratios. At this level, the average school size has dropped from 269 students per school in 2004-05 to 212 students per school in 2008-09. The student-teacher ratio also dropped from 19 to 17 over the same period. The low student-teacher ratio in secondary schools is likely a result of the greater use of specialized subject teachers at this level. There was a strong expansion in the number of technical secondary schools and teachers, but no growth in enrollments, according to available statistics.

111. Private sector involvement in providing schooling is a long-standing practice in Sudan. The private/non-government sector role is important for pre-school and secondary education. However, government schools account for about 95 percent of enrollments in basic schools, 100 percent of enrollments in technical secondary, and almost 90 percent of enrollments in higher education. In the pre-school sector, non-government schools—which include the religious Khalwa schools as well as fee-charging private schools—enroll as many as 38 percent of all students. In academic secondary schools, non-government schools—including Teacher Union tutorial classes—enroll 24 percent of all students

112. Transition rates between the cycles are very high: about 74 percent of basic school completers continue in secondary education, and about 87 percent of secondary school completers continue in higher education. Thus, relatively few complete a cycle without continuing in the next cycle.

Key challenges

113. The literacy rate in northern Sudan for both sexes in the age group 15-24 in 2008 was 77 percent, according to the NBHS (2009), and 84 percent for males and 71% for females. In basic education drop outs have remained high. About 90 percent of children enroll in the first grade of basic school but only about 57 percent of them remain in school by grade 8, indicating a drop-out rate that averages 7 percent per grade. As a result, the primary completion rate—a key indicator of progress towards universal primary completion—was only 57 percent in 2008/09. Retention at the secondary level, at 74 percent, is lower than in primary education when adjusted for length of the cycles. A retention rate of 74 percent corresponds to a dropout rate of 13 percent per year in the first two years of the cycle. Student dropout is therefore a serious concern. A high rate of dropout could indicate that students are not learning enough, i.e. that the quality of schooling is simply too low to justify students' time and the direct cost in terms of parental contributions. More research is needed to understand the causes and risk factors for dropout in North Sudan so that appropriate measures to improve retention can be put in place.

114. With a gross enrollment rate of 77 percent, the number of those who have never attended school is high. Out of the population of six million 10-17 year-olds in northern Sudan, it is estimated that one in six, or close to one million, never attended school in 2010. Of these out of school children, 62 percent are girls, and 84 percent are from rural areas. The longer distances to schools in rural areas may pose more of a constraint to school attendance for girls than for boys in addition to early marriage for girls and the lower value assigned to girls education by parents in rural areas. The low levels of public expenditures in education have resulted in physical deterioration of schools and facilities and limited geographical spread. Since 2000 the share of education in total

public spending has increased by about 4 percentage points to 12 percent, and as a share of GDP it has more than doubled to 2.7 percent. However, these are still low levels. With the decentralization since the 2005 CPA, education spending has increased at the state level and, in 2009, 83 percent of public education spending took place at state level. Teacher training has fallen behind; the result has been the deterioration in the quality of teachers, with an estimated 50 percent of primary school teachers unqualified. While pre-schools and basic schools have student-teacher ratios of around 33, there is a very wide variation among states. The Darfur states have high student teacher ratios, with West Darfur at 65.7, nearly double the national average. Overcrowded classrooms and untrained teachers make for poor education. The dearth of trained teachers was aggravated by significant waves of brain drain to Gulf countries.

115. Household out-of-pocket payments cover a large share of school running costs, in particular for basic education, implying that basic education is not always free in practice. Moreover, education accounts for a larger share of consumption for poor rural households than non-poor rural households with implications for equity in access to education.

116. Education opportunities for vulnerable groups, nomads and IDPs remain a significant challenge due to their non-sedentary lifestyle. Northern Sudan is host to 4.3 million IDPs located in the three Darfur states and Khartoum state, equivalent to nearly 14 percent of the total population⁶. Nomads account for about 9.1 percent of the total population in Northern Sudan. In 2008/09, 8.7 percent of basic schools in northern Sudan were nomadic and 1.6 percent was IDP schools (these schools are typically much larger than nomadic schools).

Strategy and Priorities for Basic Education

117. The main education priorities are the following with special focus on those areas that were particularly affected by civil strife, drought and/or desertification (lagging regions).

- ◆ Bridging the gap between States in enrolment and thereby raising the average enrolment and increasing the completion rate in primary school from 57 percent in 2009 to 70 percent in 2011, with further improvements in subsequent years;
- ◆ Bridging the enrolment gap between boys and girls that persist in some states so as to eliminate gender disparities in access to education at the basic level and achieve gender equality;
- ◆ Improving the literacy rate of those between ages 15-24 through programmes targeting school dropouts especially those between 9 and 14 years of age; and
- ◆ The preparation of a medium sector education sector strategy to bring focus to these priorities as well as on the quality of education, and help to develop concrete actions and targets.

118. The above priorities will be implemented with the concentration of the expansion of primary education in disadvantaged States. This programme would entail the building of an estimated 2519 classrooms, training of 14000 teachers and improving the school environment by providing every child and teacher with educational aids books as well as school furniture. In recognition of the large size of the country and the effect this has on attendance, the programme calls for the establishment of boarding schools for pupils from distant areas within each State. In

⁶ UNHCR 2010; The Joint Assessment Mission (2005).

this respect at least four boarding schools are planned for each State in Northern Sudan. Along the same lines and also in recognition of local conditions, the programmes call for the provision of one nutritious meal each day for some ¾ million primary school students.

119. To increase access and quality of education will require increased numbers of high quality teachers. This in turn will require an increase numbers and enhanced quality of teacher training institutes and other associated facilities. Incentives urgent to halt and reverse the brain drain and retain the good teachers in the system. Moreover, incentives are needed to make it attractive for teachers to work in rural areas. These incentives could include additional financial compensation and assistance for housing and transport. Without these incentives, emphasis on spreading primary education and reducing the distance to school in neglected rural communities would not materialize.

120. The stagnant enrolment in technical secondary schools may indicate a strong preference for academic secondary schools. It raises questions about whether the skills acquired from this subsector are preparing students adequately for higher technical education or providing them the skills that match the labor market requirements. A reform this subsector to provide it with the appropriate focus and structure to meet its goals and in particular to determine whether these schools are secondary schools with provision to acquire technical skills, or vocational training centers that impart professional technical skills t meet the demand of the industrial sector for skilled labor.

Strategy and Priorities for Tertiary Education

121. Although tertiary education targets are not included in the MDGs, high quality and relevant tertiary education is crucial for shared growth and sustained poverty reduction strategy. From 1990s, tertiary education has rapidly expanded in Sudan with the number of universities going from 4 in 1990 to currently 30 public and 6 private universities, and 48 specialized degree granting colleges. In 1990, student intake was 6000 per annum; this risen to an annual intake of 160,000 with a student population exceeding 500,000, equivalent to an enrolment rate of 10 percent of the relevant population. Over half the students are females. Expansion has not been accompanied by matching financial resources and the quality of tertiary education has been deteriorating.

122. The main challenge facing the tertiary education sector is to improve the quality of education. The National Council of Higher Education in the Ministry of Higher Education and Research, which is responsible for setting policies and regulating the system of tertiary education, has set up a commission for quality assurance. This will monitor and evaluate quality of education and set standards. The Council has promoted the establishment of internal quality monitoring and evaluation units in some universities and a pilot program to apply the standards it developed before these standards are generalized. Another challenge to the tertiary education is to have a definitive policy towards technical education that recognizes the importance for technical knowledge and skills for growth and diversification and makes technical education an attractive option for students. Furthermore, as public universities are poorly funded by the federal and state governments and the universities are increasingly relying on cost-sharing with students for additional resources. While the cost-sharing schemes take family income into account, there is a risk that the costs could be excluding poor people from tertiary education.

6.3 Meeting the MDG Health Targets

123. The Sudan Household Health Survey (2006) confirmed that the inequality in outcomes and access to health services is among the major challenge facing Sudan's progress towards the MDGs. Since the CPA was signed, some progress has been made in addressing the wide disparities in access to health services across different regions in the country. However, the situation remains dire in some regions and sectors—and particularly in conflict-affected areas, such as Darfur.

| Table 9: Sudan Selected Health MDGs | | | | | |
|-------------------------------------|--|---------------------|-------------------|-------------------|----------------|
| | Indicators | Baseline in 1990 | Current Status | Reference Year | 2015 Target |
| MDG1.2 | Proportion of the population below the national poverty line | 90% (1992) | 46.5% | 2009 | 23.2% |
| MDG1.3 | Prevalence of underweight children under 5 years of age | | 29.6% | 2006 | |
| MDG4.1 | Under 5 mortality rate | 123 | 102 | 2008 | 41 |
| | Infant Mortality Rate | 80 | 71 | 2006 | 53 |
| MDG4.2 | Maternal Mortality | 537 | 534 | 2006 | 134 |

Source: Sudan Millennium Development Goals Progress Report 2010

Key challenges

124. **Health Status:** Sudan is lagging behind in the achievement of the health related MDGs. The 2006 Sudan Household Health Survey results indicated that nationwide, 31 percent of children under age five in Sudan were underweight, 32.5 percent were stunted and 14.8 percent were wasted⁷. The maternal mortality ratio is 534 per 100,000 live births in North Sudan and skilled health staff attended 57 percent of the births. In 2006 in the North, under-5 mortality is estimated at 102 per 1000 live birth and infant mortality at 71 per 1000 live births, an improvement from the high levels estimated in 1990 at 123 and 80, respectively. Malnutrition is one of the important causes of child morbidity and mortality in Sudan. Children suffer from high rates of malnutrition and slow growth. According to SHHS, in 2006 approximately 30 percent of children under five in North Sudan were found to be underweight, with 7.2 percent severely underweight. The proportion of children who are stunted was 31.3 percent with 9.5 percent severely stunted. Around 13.7 percent and 3.4 percent of children under-five suffered from moderate and severe acute malnutrition respectively.

125. Communicable diseases constitute a major cause for morbidity and mortality in Sudan, while non-communicable diseases are on the rise. Malaria represents up to a third of total morbidity. A marked reduction in malaria prevalence occurred as a result of the support given to Malaria Control Programme through Global Fund (GFTAM) and through government resources poverty alleviation programme in 2001-2003⁸. The annual risk of infection of TB is estimated to be 180 cases per 100,000 populations. Neglected diseases such as leishmaniasis, bilharziasis, onchocerciasis, and sleeping sickness are of significant occurrence in many regions in the country.

⁷ Sudan Household Health Survey, 2006

⁸ FMOH reports

126. The estimated prevalence rate of HIV/AIDS in (North) Sudan was 0.67 percent (0.5 for males and 1.24 for females) among the population 15-49 years old in 2009. Sudan launched its national policy in 2004 and the Government has shown strong commitment to the effort. The main focus of the national HIV/AIDS control program (SNAP) has been on advocacy, involvement of all sectors in the national response, testing, prevention, treatment and control services for sexually transmitted diseases, and monitoring and evaluation. HIV treatment and care services have been introduced in all the states, with 32 Anti-retroviral sites in the country in 2009. The HIV/AIDS efforts have received assistance from the Global Fund, UN agencies, and the private sector.

127. **Health Facilities:** Overall coverage with basic health facilities is poor. In 2009, there were 365 hospitals and over 4,800 primary health care facilities in North Sudan. This works out to one hospital to 90,000 people primary health care facility to 7,000 people. The health system employed a total of 97,303 health workers in all Sudan comprising over 20 different professions. However, according to the WHO criteria Sudan falls within the critical shortage zone considering the density of physicians, nurses and midwives of 1.23 per 1,000 people⁹. There are substantial regional variations in the availability of health services. For instance, Khartoum state has 65.5 general practitioners per 100,000 people, compared to 12.1 in Kassala, 7.7 in North Kordofan and 3.6 in West Darfur state. Together, Khartoum and El-Gezira states account for more than 50 percent of the public hospitals and private clinics, the practicing physicians and medical technicians.

128. **Health Expenditures:** Total health expenditure amounted to 6.2 percent of the GDP and US\$122 per-capita for the year 2008, with 66.8 percent of total expenditure on health out-of-pocket, exposing many to catastrophic health expenditures. This compares with an average of 41 percent in sub-Saharan Africa and 47 percent in the low-income group¹⁰. Also, health spending is skewed towards curative and hospitals care, and most of the allocation is for salaries. As a consequence, primary and first-referral care, particularly in the poorer states, suffers from lack of resources¹¹.

129. The states have become dominant in health expenditures, with he states accounting for 63 percent of all federal and state expenditures. Not surprisingly, there are significant variations between states in the levels of spending (total and per capita). States that receive high per capita levels of federal transfers (Blue Nile) or mobilize significant amounts of own revenues (Khartoum, Red Sea) tend to spend more per capita on health services. The recent public expenditure tracking survey (PETS) of the health sector found that some states generate revenue from the sector in the form of various facility level fees. It found significant disparities among the studied regarding the retention or transfer of fees to state and local governments.¹² The PETS study noted that there was scope to allocate more resources to service delivery levels in several states. It made a number of recommendations towards improving service delivery in health facilities, including the harmonization of systems of allocation of resources across states at all levels and types of facilities,

⁹ Human Resources for Health (HRH), Strategic Work Plan for Sudan, (2008-2012)

¹⁰ <http://healthsystems2020.healthsystemsdatabase.org> accessed on 13 September, 2009

¹¹ National Health Account preliminary report, 2010

¹² World Bank (2011): **Sudan, Public Expenditure Tracking Survey of the Health Sector**. The study is the first of its kind in Sudan, looking at the operations and management of resources at primary care facilities in Sudan.

strengthening the management and monitoring of inputs from state and local governments to facilities; provision of incentives to attract/retain staff in rural communities, harmonize the administration of user fees across states and increase the share retained by the facilities while ensuring that user fees do not hinder access to services by vulnerable groups.

Strategy, Priorities and Actions

130. The main objective of the health sector strategy is to increase utilization and strengthen quality of primary and first-referral healthcare services. The strategy aims to increase basic health service coverage from the current estimated 50 percent to 75 percent of the population; improve equity in health service coverage, access, and outcomes, in particular through reducing geographic, urban/rural, gender and socioeconomic inequalities. The overall coverage targets should be achieved by larger improvements in service delivery to under-served populations. The achievement of these objectives will involve financing reforms, strengthening of institutional capacity particularly in more deprived states, policy and strategy development in key areas, infrastructure investment and human resource investment.

131. The strategy worked out by the Federal Ministry of Health rests on four pillars i.e. 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. This programme will have a distinct rural bias with incentives such as housing, generous hardship allowances and better benefits to attract trained health personnel to rural areas. It will concentrate on a broadened primary health care concept that is accessible, focused on the poor and vulnerable, gender sensitive and environment friendly with adoption of health area policy and community involvement and empowerment.

132. Health services that address the main causes of child and maternal morbidity and mortality will be given priority. Actions will focus on improved access to quality first-referral services, expanded and integrated management of childhood illnesses, expansion of immunization programmes including against measles and vitamin A supplementation campaigns targeting under-five children. Other actions will focus on the organization of the safe motherhood initiative that essentially targets village midwives, training for all practicing midwives, increasing their numbers and providing safe delivery kits, and prevention of harmful practices, including Female Genital Mutilation (FGM).

133. The programme accords a high priority to control of high burden communicable diseases and for emerging non-communicable diseases. Specifically and for the control of communicable diseases, the health programme plans to implement various initiatives to address these diseases such as, Roll Back Malaria and Directly Observed Therapy Short Course (TB DOTS) in endemic areas including provision of essential drugs for prompt case management and mosquito nets impregnated with insecticide particularly for pregnant women and children under 5 years. For HIV/AIDS the national strategy targets those most at risk and includes provision of materials for blood transfusion, health and educational material for safe sex, drugs to reduce mother to child transmission and community awareness programmes. The main areas of interventions include for the implementation of the health program include:

- ◆ **Healthcare financing:** based on the result of the National Health Accounts Survey a clear health financing policy will be developed with the aim of substantially increasing public spending and reducing regional inequalities by targeting the more deprived regions. A substantial effort will be put in strengthening financial management at the central and state

levels through technical assistance and training. Ways to reach universal coverage and expand collective prepaid mechanisms will be explored to ensure that healthcare is never denied for economic, social or ethnic reasons.

- ◆ **Increases in public funding:** Expanding service delivery will involve significant increases in public funding for recurrent costs, investments in new facilities and small-scale rehabilitation and re-equipping of the health system. The health development programme based on this strategy assumes that public expenditures, both current and development will be significantly increased as part of budgeting that has a clear pro-poor bias. The management and monitoring of inputs provided by the states and local governments should be strengthened, with more resources focused on service delivery. Systems for resource allocation by states and local government to facilities and the levying and administration of user fees should be harmonized across states. Donor funding will also be actively sought, particularly for health services delivery in the rural areas.
- ◆ **Technical assistance and capacity building:** Priority areas are policy development, planning/regulation/supervision, financial management, human resources strategy, pharmaceutical policy and regulation, and health information systems. In particular, support is needed for strengthening capacity, particularly with technical assistance to the neediest states.
- ◆ **Investment in infrastructure:** investment in infrastructure will be guided by development of a comprehensive plan. The focus will be on the most deprived areas and the target is to increase in service coverage. The strategy also aims to encourage more investments and participation of the private sector in the provision of health care.
- ◆ **Investment in human resources:** This component focuses on skilled primary healthcare (PHC) workers with an average of three years training to increase the PHC workforce by about 25 percent. Incentives will be provided for most PHC training program graduates to be posted in areas of need, for the re-allocation of a number of existing staff, and for an intense program of in-service training. Incentives should be provided to attract/retain qualified staff as well as efforts to strengthen human resource management in rural facilities.
- ◆ **Partnerships:** Expanding and improving service delivery will also involve strengthened partnership with international and national NGOs, particularly for the expansion of services to under-served areas.

6.4 Safe Drinking Water and Sanitation for Better Life

Key Challenges

134. Safe drinking water is a basic necessity for good health. Unsafe water can be a significant cause of diseases such as trachoma, cholera, typhoid and schistosomiasis. Drinking water can also contain hazardous physical, chemical and radiological contaminants with harmful effects on human health. In addition to its association with disease, access to drinking water is particularly important for the women and children, particularly in rural areas, who bear the responsibility for fetching water, often for long distances.

135. Sudan is an arid to semi arid country with an average annual rainfall of 350 mm/y. The available water resources in the country comprise 31.5 billion cubic meters from different sources including River Nile, seasonal streams and groundwater. With a total population of 40 million

people in 2008, the per capita share from the available water resources is estimated at 790 m/y. This categorizes Sudan among the countries that fall below the water poverty line. The consumed water is used for irrigation (67 percent), industry (5 percent), human and livestock drinking and domestic use (28 percent). The evapo-transpiration losses account for 17 percent.

| Table 10: Sudan MDGs for Water and Sanitation | | | | | |
|--|--|---------------------|-------------------|-------------------|----------------|
| | Indicators | Baseline in 1990 | Current Status | Reference Year | 2015 Target |
| MDG1.2 | Proportion of the population below the national poverty line | 90% (1992) | 46.5% | 2009 | 23.2% |
| MDG6.3 | Proportion of population using an improved water source | 64% | 65% | 2009 | 82% |
| | Proportion of population using improved sanitation facility | 33% | 42% | 2009 | 67% |

Source: Sudan Millennium Development Goals Progress Report 2010

136. In 2006, Sudan Household Health Survey indicated that access to safe drinking was 56.1 percent and access to improved sanitation was 31.4 percent at the national level. In 2009 in northern Sudan the proportion of population with sustainable access to an improved water source reached 65 percent, and the proportion with improved sanitation stood at 42 percent. This indicates that there has been limited improvement compared with the beginning of the 90's when the percentages with access to drinking water and sanitation were 64 percent and 33 percent respectively.

137. The key challenges in the area of safe water provision include inadequate implementation, management and sector coordination capacities and sector policies and plans; the lack of resources for investment in conservation, water quality and monitoring, lack of community awareness of water supply and sanitation issues; and the poor record of sustainability of interventions. Available information indicates that problems of sustainability are often due to inappropriate technology type, location or design. There is a general bias towards borehole technologies but these frequently break down because users do not have the technical and financial capacity to maintain them without financial assistance. Additionally, communities live in remote and inaccessible areas that make it difficult to maintain supply chains for spare parts. Based on the current situation, the access gap is still big to reach the water and sanitation MDG targets.

138. Using 1990 as a baseline year, it was calculated that in order to achieve the MDGs by 2015 for water and sanitation, North Sudan has to attain 82 percent access to improved drinking water sources and 67 percent access to adequate sanitation. Moving forward, it is important to build and improve on the recent successful and coordinated efforts by the government, the UN agencies and the NGOs, to increase the access to safe drinking water and sanitation

Strategy and policies

139. Considerable coordinated efforts are currently in place by the government and Water Supply, Sanitation and Hygiene (WASH) sector partners including UNICEF, UN agencies and NGOs at federal and state levels to narrow the gap between the current situation and MDGs water and sanitation targets. Sector coordination forums were formed at federal and key states levels. A final draft for WASH policy has been prepared and was approved by the end of 2010. WASH Strategic Plans (2010-2016) for federal and 15 states are currently under preparation. National 14 WASH service design and management manuals and guidelines were prepared and approved. State,

national and international fund raising and advocacy efforts are in place to mobilize the required funding for the sector. The Nile Trans-boundary Environmental Project (NTEP) has prepared a draft paper on River Nile environment safeguarding for monitoring the Nile water quality.

140. Community Action for Total Sanitation (CATS) approach for community-based sanitation promotion is currently under implementation to scale-up sanitation interventions. The signing of Khartoum Declaration by 6 federal ministers reflects their commitment to the promotion of community-based sanitation and to a clear institutional setup for sanitation within the governmental structure.

Priorities and Actions

141. To improve the water supply situation, the basic goal of the Government is to increase access to safe drinking water and basic sanitation need by 20 percent and 25 percent respectively in the coming 5 years (2010-2015). To achieve these strategic objectives, the Government will undertake the following actions:

- ◆ Maintain a consumption rate of 90 liters per capita per day (L/C/D) for urban centers, and 20 L/C/D for rural areas.
- ◆ Construct 15 new small capacity water supply plants at designated rural towns.
- ◆ Rehabilitate deteriorating water supply sources with emphasis on replacement of obsolete and low efficiency systems.
- ◆ Rehabilitate and extend 15 aging water supply stations at country level.
- ◆ Construct new water treatment plant in urban areas.
- ◆ Introduce simple low cost technologies particularly in the rural areas followed by development of new water supply sources.
- ◆ Promote the provision and use of latrines of rural areas.
- ◆ 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.

142. Higher priority is currently given to capacity building and community empowerment training programs of sector partners at federal, state, locality and community level. Community participation and cost-sharing approaches to water management are being put in place to phase out emergency type interventions. The WASH information system is being strengthened to improve reporting, planning and informed decision-making.

6.5 Social Safety Net Programs: Protecting the Vulnerable Poor

143. The primary social protection mechanism in Sudan is Zakat, which is an Islamic measure for wealth distribution and building of productive capabilities, and is playing an important role as a source of social assistance for the poor. Total Zakat resources have increased from SDG 13.5 billion in 2001 to SDG 27.1 billion in 2005. Most of the resources are allocated to the poor, the indigent, road farers and insolvent, who received 68 percent of the Zakat spending in 2005. Out of the total spent on the poor in 2005, an amount equivalent to 19 percent went to education, health and water services. The Government, through the Ministry of Social Welfare, has programs to support vulnerable groups including the extreme poor, the homeless, the orphans and poor pensioners. The

Community Development Fund (CDF), supported by the government and the donor community, has been supporting projects identified and implemented by poor communities in 4 states. This CDF has made notable contributions to community development and poverty reduction. Health insurance is available in all states and in 2009 covered 30 percent of the population.

144. The large humanitarian aid flows into Sudan supported by UN agencies, international NGOs, and other organizations have been instrumental in reaching vulnerable populations. Many affected communities would have not survived without these life-saving interventions. The provision of basic services to an estimated 2.5 million IDPs comprises the key interventions under humanitarian assistance. However, the link between humanitarian and development assistance has been weak, and an important priority of the government is to begin to reorient resources toward more sustainable, developmentally-oriented activities.

Community Driven Initiatives

145. Community driven initiatives empowers the community to mobilize local resources to find local solutions to their problems. The government and local and international NGOs support a large number of community development initiatives in the Northern Sudan. The biggest initiative by far is the Community Development Fund (CDF) which is financed by Government of National Unity and MDTF donors. The main objective of CDF is to meet urgent community-driven recovery and development needs in the war-affected and underdeveloped areas of North Sudan, including North Kordofan, South Kordofan, Blue Nile, Kassala States and Abyei area by providing social and economic infrastructure. Another key objective of the CDF is the empowerment of communities and local government entities to initiate and lead local level community driven development activities.

146. CDF provides supports to community driven initiatives with the resource envelop of \$75million; of which \$32.2 million 43 percent is contributed by the Central Government and the remaining \$42.8 million comes from the Multi Donor trust Fund (MDTF). In addition to the contribution from Federal government, State and Local governments also provide support to the community driven activities through provision of resources including finance i.e. counterpart funds, human resources working for the project, facilities such as offices, staff residence and political support and enabling environment under which community driven development approach is promoted.

147. Since the start of CDF in 2006, it has supported over 1100 community initiatives that are intended to improve access and quality of basic services for the communities affected by the conflict and less developed in the past. With assistance from the CDF, communities have constructed 600 schools, 100 health units, and 150 water projects. It has introduced solar energy in 100 communities. Communities provide 10 percent of the project cost in cash or in kind. The sense of ownership is reinforced by the active participation in project implementation and management of the operations. The state and locality governments provide support to operate the facilities. Close to a million poor people are benefiting from the services provided by the completed subprojects.

148. CDF also supported a large number of capacity building activities to enhance the capability of communities and their organizations and local government leaders. Over 69,100 persons (40,040 male and 29,060 female) have participated in different community level workshops and training sessions. The capacity building activities empower communities to take the lead in identification of their priorities as well as the implementation of projects, including developing and implementing community contracting mechanisms. Through its local government leadership enhancement initiative, CDF trained 30 senior local government officials drawn from 13 localities. This training

was complemented by the matching grant from CDF to locality governments to help their officials translate their learning to practice by initiating and implementing community driven development activities in their respective localities. The local government officials responded positively to the training and the provision of the matching grants by demonstrations of strong leadership in coordinating the development work in their respective localities. The CDF project in Sudan is regarded as one of the most successful of its kind. This project has lessons for the nascent local government administrations in Sudan, particularly regarding the participation of communities in development projects.

Pensions

149. The public pension system is based on defined benefits but as an unfunded pension (pay-as-you-go) system, it is facing financial difficulties. In 2005 total pension liabilities amounted to SD 115.6 billion while revenue was only SD 30.4 billion, representing only 26 percent of expenditure. These deficits are related to poor management of the funds reserves. Moreover, the pension scheme was not designed to protect retirees from inflation, thus the purchasing power of pension entitlements have been eroded. Thus pensioners are impoverished and need support. The Social Affairs Administration of the Pension Fund has thus provided additional payments for food, health, and education expenditure to poor pensioners. In 2005 a total of SD 436.5 million was spent, 43 percent of it went to food, around a third for health and 23 percent for education of pensioners' children. As the pension systems covers only the formal sector while the majority of retirees are from the agricultural and the informal commercial sectors, the overall coverage of pensions is very limited and many have to depend on savings and support from family.

Health Insurance

150. Health insurance service started in 1994, with the objective of providing health services, and to alleviate the burden on health utilities. Medical services are provided free at all levels to the members, with subsidized prices of medicine at 25 percent of its value, at health centers and hospitals. Also, for children in emergency, and in case of surgery, and when referred to higher level of medical care, free services are provided. The Insurance services are available in all the states and the coverage has risen from 12.7 percent of the population in 2005 to 30 percent in 2009. The 25 years strategic plan 2003 - 2027 aims at comprehensive health coverage for all sections of the population.

7 Promotion of Economic Growth and Employment Creation

7.1 A New Vision for Sudan Growth Strategy

151. Inclusive development is not only essential for accelerated poverty reduction but, as global experience shows, will help Sudan reduce the risk of renewed conflict and achieve sustained peace and security. A sustained widespread opportunities for all citizens and improved access to economic and social services provide the foundation for poverty reduction and progress toward the Millennium Development Goals (MDGs). Over the last decade, Sudan has benefitted from an oil led growth spurt that has driven up per capita incomes. But with the secession of the South and the much lower and possibly stagnant oil production, (Northern) Sudan will need to find other drivers of growth.

152. In any case, with or without the stagnation of oil production, the focus of Sudan new growth strategy has to be on non-oil sectors that can impact the incomes of the poor and create employment opportunities for all categories of the labor force. In these non-oil sectors, the aim should be to attract domestic and foreign direct investment and to promote productivity growth. Sudanese firms to be globally competitive and hence sustain the growth. For stability of national income, government revenues and expenditures, the growth strategy needs to aim to create opportunities for growth in diverse fields of economic activity, to avoid the dependence on a few sectors. In the current context in Sudan, the growth strategy needs to focus on two areas: (i) targeted support for the agricultural sector, including livestock, forestry and fisheries, to promote growth and productivity change; and (ii) broad support for private sector development, with policies, institutions, incentives and infrastructural services to promote investments, innovation, productivity growth and employment creation in all sectors of the economy.

153. Productive activities will be the domain of the private sector. The key roles for the government in the strategy includes (i) the maintenance of macroeconomic stability that reduces macroeconomic risks, improves the confidence of the business sector in the management of the economy, helps to maintain the competitiveness of Sudanese firms; (ii) a policy and institutional framework that supports the strategic objectives of growth and poverty reduction; (iii) human development efforts that builds a skilled labor force consistent with the demands of the labor markets to foster innovation and productivity; and (iv) economic services including infrastructure, and for agriculture, knowledge related services (research, extension and capacity building).

154. This new vision and strategy for economic growth and poverty reduction is ambitious and will not be fully accomplished in the three-year time frame of the IPRSP. Nonetheless, Sudan has made a strong start in a private sector led growth and is committed to consolidating its efforts for significant and rapid progress in this new direction. The new growth strategy requires the strong commitment and focus of all government actors and the private sector, and the support and cooperation from the development partners and civil society organizations. The Government needs to actively engage these partners as well as the population in designing and implementing policies and plans.

155. The main sources of growth, employment creation and poverty reduction in the medium term are agriculture and livestock sector, manufacturing and services. To create jobs and reduce unemployment and poverty, the Sudanese economy will have to be growing at 6.5 percent per annum. The programs and initiatives described in the remainder of this document are aimed at

bringing together the key priorities for actions for rapid, sustainable and shared growth and poverty reduction.

7.2 Enabling Macroeconomic Environment for Growth

Maintaining Macroeconomic Stability: The Challenges Ahead

156. Macroeconomic stability is essential to growth and development. In recent years, the Government has been successful in maintaining growth with macroeconomic and financial stability in Sudan, despite the volatility of the oil prices and fiscal revenues. Inflation rates have been relatively low in comparison with past experience of Sudan but were still higher than planned. Average annual inflation dropped from well over 100 percent in 1996 to under 20 percent in 1998 and has averaged less than 10 percent throughout the last 10 years. However, inflation crept upwards to double digits of 14.9 percent and 13.4 percent in 2008 and 2009 respectively due to the volatilities in the global economic environment and increases in domestic food prices. Inflation continued to creep upwards in 2010, to an estimated 15.4 percent. Real GDP growth surged from about 5 percent in the 1990s to 7.5 percent in 2000–2008, one of the strongest in the region. Increases in oil production and international prices contributed to this vibrant performance. The macroeconomic stability achieved during this period underpinned the sustained high level of growth achieved.

157. The task of maintaining macroeconomic stability has even become more difficult for Sudan with the independence of the South. The effects are transmitted through the impact on the fiscal and external sectors. Government oil revenues are expected to drop by about 75 percent (equivalent to 6 percent of GDP); with about half of this revenue loss offset by the end of transfers to the South. In addition, the decline in Sudan's oil export revenues, an increase in petroleum product imports, and the decline in capital inflows, including FDI, will put pressure on external balances. To appreciate the extent of the needed adjustment, it is estimated that in the absence of strong remedial actions by the Government, the overall fiscal deficit would be 5.1 percent, 6.1 percent and 5.2 percent in 2011, 2012 and 2013 respectively compared to about an estimated 3.2 percent in 2010. In addition the deficit in the external current account balance would exceed 11 percent in 2012 and 2011. These are unsustainable levels of fiscal and external imbalances.

158. Maintaining macroeconomic stability will be predicated on implementing the necessary adjustments in a timely fashion. These include, exercising fiscal restraint, cutting back on non-priority spending, reducing/eliminating fuel subsidies and tax exemptions and enhancing revenue administration. Greater exchange rate flexibility, prudent monetary policy and a swift implementation of structural reforms will also be crucial for a smooth and sustainable adjustment. The 2011 budget reflected the efforts to begin to make fiscal adjustments, with a sizeable compression of current expenditure. The budget was prepared under the assumption of a unitary state; a supplementary budget was prepared for the second half of 2011 and adopted in July 2011, after the independence of the South became a reality. The supplementary budget provided for an increase in VAT on mobile communications from 20 percent to 30 percent and reduction in some non-priority spending. Discussions are underway for further expenditure and revenue actions to be in the context of the 2012 budget. Also, the I-PRSP implementation will take into consideration the ongoing discussions between the government and the IMF to structure a new Staff Monitored program (SMP), which will represent the overall macroeconomic framework.

159. The independence of the South and the loss of oil fiscal and export revenues has led to a slowdown of the Sudanese economy. It is estimated that even with the adjustment actions taken

and expected in the 2012 budget, GDP growth will be close to zero in 2011-2012, and a slight recovery in 2013, reflecting the steep declines in the contribution of the oil sector, the loss of the stimulation of non-oil sector activities by oil production, exports and revenues, and the reduced domestic absorption from the compression of public spending. Inflation is projected to remain high, to about 22 percent in 2011 and 17 percent in 2012 due to the pressure of domestic food prices and likely increases in fuel prices from the reduction of subsidies.

160. Fiscal adjustments to avoid macroeconomic instability and put the economy back on a growth path will include actions on revenues and expenditures; for the expansion on non-oil exports and the compression of imports. On the revenue side, the priorities include to diversify and widen the tax base, strengthen revenue administration, increase the efficiency, transparency and equity of revenue collection, and eliminate tax exemptions and revenue earmarking. Measures to strengthen revenue administration include: improvements in the taxpayer identification system; improvement in controls especially with respect to the VAT; and increased use of computer systems. To strengthen the customs administration, the government will reorganize customs services, strengthen verification and control, and improve equipment in operational units. While these measures could yield significant increases in revenues, the yields are uncertain and are likely to be significant in the medium term. Thus, in the short-term, significant burden of the adjustment will be on expenditures.

161. Sizable compression of expenditures is needed to bring the fiscal balance to manageable levels within 3 years. Measures include cutting non-priority spending, phasing out subsidies and focusing capital expenditures on priority activities that enhance growth and poverty reduction. The payroll and related staffing needs to be reviewed carefully to find where savings can be made. In general, this unavoidable fiscal adjustment presents an opportunity for an intensive review of expenditures in the context of the budgets for 2012 and 2013, to identify activities that are of low priorities that could be scaled back, postponed or dropped entirely from budget. This could include budgets for travel, diplomatic missions, purchase of vehicles, new buildings and furniture, the creation of new government units and recruitment of new staff and military expenditures. Furthermore, it is essential to strengthen budget financial controls, auditing, and monitoring to reduce fiduciary risks and possibly make savings.

162. While the next 2-3 years will be a period of difficult fiscal and external balance adjustments, it should also provide the impetus to commence structural reforms and related institutional and technical capacity for efficient and effective use of resources. Reforms of expenditure institutions and policies should be undertaken to focus of resources on key sustainable growth and poverty reduction priorities – infrastructure, human development, agricultural services, and private sector development. These reforms should be accompanied by the development of relevant institutional and technical capacity for the management of public finances to ensure that improved expenditure policies lead to efficient and improving delivery of public services.

163. With respect to restoring external sustainability, the key actions include (i) moving to a flexible exchange policy that allows the exchange rate to respond to market developments to improve/maintain the competitiveness of Sudanese goods in export markets; (ii) take other actions to yield quick results for non-oil exports such as gold and other minerals, manufactures and livestock; (iii) facilitate the exportation of Sudanese goods to the South Sudanese markets; and (iv) streamline and reduce government spending in foreign exchange. The need for fiscal and external adjustment puts a renewed focus on the revival and growth of traditional exports (cotton, gum Arabic, and sesame) and the development of new export lines. Furthermore, the adjustment challenge makes debt relief and concessional assistance urgent. In any case, the Government should

make efforts for international assistance for continued support and expansion of the programs targeting the poor and currently funded by the Multi-Donor Trust Fund (MDTF) as well as the programs for reintegration of displaced persons and refugees.

Table 11: Selected Economic Indicators 2010-2015

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---------|---------|---------|---------|---------|---------|
| Population (million) | 41.2 | 42.3 | 34.1 | 35.0 | 35.9 | 36.8 |
| GDP Growth Rate(%) | 5.2 | 2.8 | 2.0 | 3.0 | 4.0 | 5.0 |
| Inflation (average %change) | 13.0 | 18.0 | 17.0 | 16.0 | 13.0 | 10.0 |
| Per Capita income (US\$) | 1658 | 1562 | 2235 | 2496 | 2770 | 3027 |
| Gross Domestic Investment (% GDP) | 19.7 | 20.2 | 21.3 | 22.0 | 21.6 | 21.4 |
| Public Investment (% GDP) | 4.7 | 3.2 | 5.3 | 5.0 | 4.6 | 4.4 |
| Private Investments (% GDP) | 15.0 | 17.0 | 16.0 | 17.0 | 17.0 | 17.0 |
| Gross National Savings (%GDP) | 15.2 | 19.7 | 8.0 | 11.0 | 13.3 | 15.2 |
| Total Revenue and Grants (%GDP) | 12.8 | 11.8 | 10.4 | 9.4 | 7.9 | 6.7 |
| Revenue | 12.1 | 11.3 | 9.8 | 8.9 | 7.8 | 6.9 |
| Total Expenditure (% GDP) | 17.5 | 16.0 | 16.9 | 13.9 | 11.7 | 10.0 |
| Current | 14.9 | 14.4 | 14.5 | 11.5 | 9.6 | 8.2 |
| Capital | 4.7 | 3.2 | 3.8 | 3.6 | 3.1 | 2.9 |
| Deficit/Surplus (% GDP) | -4.7 | -4.1 | -6.6 | -4.5 | -3.8 | -3.3 |
| Merchandise Exports (US\$ million) | 11404.7 | 9433.9 | 2341.8 | 2576.0 | 2833.6 | 3117.0 |
| Crude Oil (US\$ million) | 9406.0 | 7305.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Gold (US\$ million) | 1018.0 | 1424.4 | 1566.9 | 1723.5 | 1895.9 | 2085.5 |
| Others (US\$ million) | 980.7 | 704.5 | 774.9 | 852.5 | 937.7 | 1031.5 |
| Merchandise Imports (US\$ million) | -9215.4 | -8204.2 | -6973.6 | -6276.2 | -5962.4 | -5664.3 |
| Trade Balance (US\$ million) | 2189.3 | 1229.7 | -4631.8 | -3700.2 | -3128.8 | -2547.3 |
| Current Account Balance (US\$ million) | -1534.5 | -175.2 | -5054.6 | -4812.2 | -4134.7 | -3457.7 |
| Curr Account Balance (% GDP) | -2.2 | -0.3 | -6.6 | -5.5 | -4.2 | -3.1 |
| External Debt (US\$ Billion) | 36.8 | 39.2 | 41.5 | | | |

Source: Government of Sudan
Note: 2010 and 2011 are estimates for North and South Sudan and 2012-2014 are projections for North Sudan only

7.3 The Enabling Environment for Private Sector-led Growth

164. As a sustainable source of employment, private sector-led growth is imperative for Sudan post-conflict economy. Sudan has undertaken active policy reform programs to encourage the involvement of the private sector in Sudan's future growth. In the early 1980s, the private sector was called upon to create urban employment and ameliorate the impact of rural-urban migration¹³

¹³ USAID 1980.

resulting from desertification and drought. The GoS's twenty-five year (2002-2027) strategy focused on restructuring the Sudanese economy with a major emphasis on agriculture and industry, with special attention to small and medium-scale industries. Sudan's Five-Year Plan (2007-2011) sought: "Sustainable development through building the infrastructure, modernizing and developing agriculture, increase production and productivity, enabling the private sector to guide the economic development and building an economy of equitable supply of basic services."

165. Sudan has made substantial progress in privatization, establishing macroeconomic stability, investments in infrastructure, and in liberalizing the economy including dismantling price and foreign exchange controls. The Government has made legal and institutional changes over the past several years to promote domestic and foreign investments and economic growth. For example, the Investment Encouragement Act (IEA) of 1999 and amended in 2003, and the establishment of a Ministry of Investment (MOI) with its one-stop-shop, demonstrates the government's commitment to pro-investment policies.

166. The IEA promotes investments in the agriculture, industry and service sectors. Foreign and domestic investors have access to the same incentives provided by the IEA. There are no negative lists for foreign investors, and they do not need Sudanese to benefit from the incentives under the Act. The incentives include low profits tax (15 percent and 10 percent for the services and industry sectors respectively, and 10 percent for agriculture; exemptions from customs duties for machinery and equipment including commercial vehicles; reduced duties on intermediate inputs and spare parts; and access to land below commercial prices. In addition, the Act provides for unlimited transfers of profits and salaries by foreign employees; and guarantees against nationalization and confiscation, in line with the related protocols of bilateral agreements that Sudan is party to and of Multilateral Investment Guarantee Association (MIGA), COMESA, and the Arab League.

167. The Ministry of Investment (MoI) is also actively involved in encouraging foreign and domestic private sector investment and in assisting investors to implement their investment plans. It operates a one stop shop to assist investors to overcome administrative hurdles (business registration, other licenses, immigration and taxation issues, obtaining land, registering property) and to facilitate access to the incentives. The Sudan Productivity and Investment Climate Survey (Sudan PICS 2008), carried out in collaboration with the World Bank, made recommendations for improving the investment climate in Sudan. The National High Council for Investments, chaired by the President was created to provide oversight on the implementation of the recommendations of the PICS. Committees were also created in line ministries to focus on the implementation of the recommendations and facilitate the operation of the one-stop shop.

168. Sudan has attracted substantial amounts of foreign direct investment (FDI) after the signing of the CPA in 2005, much of which originating from Asia and the Gulf. Much of this has been directed to the oil sector and to economic activities benefiting the central region of the country. According to the MoI, for the period 2000-2010, recorded investment in the services sector was predominant, accounting for 57.8 percent, with industry at 38.6 percent and agriculture a disappointing 3.8 percent. The sources of investment were local investors (57 percent), joint ventures of local and foreign investors (18.4 percent) and foreign direct investment (24.6 percent). Eighty percent of the investment in the service sector was by local investors and joint ventures. Investment generally picked after the CPA but seemed to have lost momentum in 2009 and 2010 perhaps due to the uncertainties on the status of South Sudan in the Federation.

169. The Government is working closely with the apex private sector organization in the implementation of the Investment Encouragement Act and discussing ways for improving the environment for private sector development and facilitating private sector activities.

Key Challenges to private sector-led growth

170. The climate for private business remains difficult. The number of steps, the time and costs to start a business in Sudan, has been significantly reduced. Sudan has registered significant changes in other areas as well, including registering property and paying taxes. Nevertheless, according to the 2011 Doing Business Report, Sudan ranks 154 out of 183 countries in Ease of Doing Business, behind Ethiopia, Kenya and Egypt. It is particularly weak in the categories of closing a business employing workers, protecting investors, enforcing contracts and trading across borders. As noted above, the Ministry of Investment and the high level National Council of Investments are working on these issues, yet the evidence from the Doing Business Survey indicates that whatever progress that has been made has not been sufficient to change perceptions. There is still a lot of work to do to improve to spruce up Sudan's image as destination for investments. Political stability, identified as a major concern by local businesses in the PICS, is an overarching factor in the perceptions of the business environment, progress on this front is needed to improve Sudan's image.

171. Manufacturing sector contributed only 6.1 percent of GDP in 2007 compared to 20 to 40 percent in other African countries. The manufacturing sector has been characterized by high capital intensity, high value added per worker and high labor costs. Sudan's median unit labor cost is 0.19, one of the highest among comparator countries. This high unit labor cost undermines the competitiveness of manufacturing firms, encourages capital intensive production and reduces employment creation. In the absence of wage controls, the high cost of labour might indicate the scarcity of the technical skills needed in the manufacturing industry. Manufacturing firms suffer from low capacity utilization rate of only 65 percent, which could be an indication of over investment in a few subsectors and the lack of competitiveness in export markets. With the exception of manufacturing in the food, garments and furniture and wood products sub-sectors, the level of the total factor productivity (TFP), or the efficiency of all factors of production in the production process in the Sudan, is low compared to neighboring countries, like Uganda, Tanzania and Kenya,.

172. Only a small percent (10 percent) of Sudan's manufacturing firms were able to export their products; according to the Productivity and Investment Climate Survey (PICS). The incidence of high labor costs is a factor in reducing the competitiveness of firms in Sudan but there are other factors. The 2008 Diagnostic Trade and Integration Study (DTIS) identified the reduction of trade costs, including modernizing customs, the development of trade logistics service, the need to build capacity in food and plant safety regulations, and the need to reduce bottlenecks, and fees and charges at Port Sudan as priorities for improving trade and competitiveness.

173. In the PICS, private sector firms identified two sets of constraints to investment and growth of the private sector. The top three constraints in the first set were political instability, lack of transparency and economic uncertainty and the second set of constraints included infrastructure, finance and taxation. The PICS also noted that due to weak formal institutions for contract enforcement, informal institutions and personal contacts remain important for contract enforcement. It suggested that formal laws and courts and other institutions be developed to facilitate commercial transactions and contract enforcement. The others include credit bureaus, product quality standards, training certification, food sanitary and phytosanitary standards, export facilitation agencies, a free press so that commercial fraud can be

exposed. Concerns about property rights, the justice system and contract enforcement influence the perceptions of the business environment.

174. Much of the formal private economic activity is concentrated to the central core of the country. The regions in the East, West and South are seriously lagging in formal private sector activity and employment. They are less attractive to private invests for many reasons, including poor infrastructure, lack of access to finance the low education and poor health status of the labor force in those areas, and insecurity and poor governance and other legacies of the civil conflicts which took place outside the core regions and are continuing in the west and the South. The PICS report found several regional differences to the disadvantage of the regions outside the central core.

175. **Small and informal enterprises:** According to the PICS, corruption, the legal system, access to land and access to loans are in the top five constraints for informal firms. The availability and cost of electricity, access to and cost of financing and access to land are perceived as more binding for informal firms outside Khartoum.

Priority Actions

176. There are number of challenges to private sector development and concerns about the environment for private business development. Some of the challenges such as peace and security, infrastructure services and human resource development are part of the broader development agenda that are being addressed elsewhere in this document. The concerns about the shortcomings of the business climate need to be reviewed and addressed in the coming years. Some of these can be addressed in the ongoing revision of the Investment Encouragement Act as well as by strengthening the implementation of the existing legislation and regulations. In this regard, the capacity and effectiveness of the “one stop shop” in the Ministry of Investment needs to be reviewed, given the persistent low rankings of Sudan in the Doing Business Surveys. Other concerns are broad issues of economic management and governance that require policy and institutional reforms. Strong commitment of the government and the participation of the private sector, the civil society and other stakeholders.

177. **Policy Instability:** Political instability often leads to policy instability and uncertainty that is bad for business. But political stability per se does not assure a stable policy regime. Rather a policy-making process that is transparent and participatory is an essential pillar of a stable public policies as well as strong ownership of policies. Participatory policy making is taking roots in Sudan, with the Government consultations with the Sudanese Business Employers Association (SBEA) on policy issues. However, the process needs to become more systematic and be broadened to include other stakeholders. It would also provide the private sector the forum to bring issues to the attention of the government. Managers and professionals in the private sector often have wide ranges of practical and organizational experiences that can contribute to designing policies. Public/private sector consultations in Sudan have yielded some improvements in reorganization of customs and immigration services and in reducing the administrative burdens of taxes. The process needs to be formalized and integrated into the policy-making process of the Government.

178. **Macroeconomic instability** was also a concern of the business firms surveyed in the PICS. In recent years Sudan has been successful in stabilizing its economy, relative to its past performance. But inflation rates in the range of 8-15 percent are high relative to industrial countries and the several developing countries. This differential inflation rates puts a large burden on exchange rates to maintain competitiveness. While Sudan has a flexible exchange rate in the form of a managed float, large adjustments of exchange rates often face political economy

constraints. Going forward, Sudan should aim to bring its inflation rates down, to reduce the burden on exchange rate adjustments to achieve competitiveness in export markets and maintain competitiveness with imports in the domestic markets. The high unit cost of labor and the high capital intensity in the manufacturing sector may have roots in the past history of overvalued exchange rates.

179. **Building alliances/partnership** between SBEA and foreign centers of excellence – firms, universities, and professional associations, can foster the inflow of innovation, productivity growth, access to new and appropriate technologies, breaking into export markets and capacity building for managers of Sudanese firms. The Government with its broad diplomatic and social contacts in foreign countries can help to facilitate this alliance building, For instance the Government should use its strong connections with the Chinese government to connect SBEA with Chinese business and professional establishments.

180. **Regional Disparities:** On the disparities between the core central states (Khartoum and Gezira) and the other regions in industrial activities, the ongoing revision of the IEC is looking at the incentives that may be provided to attract investors to lagging regions. Nevertheless, the fundamental constraints of infrastructure, human resources, uncertain peace and security will need to be addressed. It would also be useful to set up one stop shops in the states, preferably run by state administrations.

181. **Human resource development** is critical for economic growth and poverty reduction. Sudan needs high quality and relevant basic, secondary and tertiary education systems to grow and prosper economically and socially. The knowledge and skills that the private sector needs to be innovative and productive should be an important factor in the orientation of the education system. In a world driven by technology, education for building relevant technical skills is critical. Yet, Sudan has been going back and forth on its approach to technical education in its education system. At the secondary and tertiary levels, the incentives encourage the good students to prefer academic schools to technical schools. A distinction between academic and technical education that implies that technical education is intellectually less demanding, may be at the root of the problem. Sudan should put emphasis on technical education and move it away from second-class status.

182. **Institutions and infrastructure to integrate producers and markets:** The rollout of transport infrastructure, especially rural roads and connectivity of economically lagging areas, is a fundamental requirement for reducing costs and allowing improved access to markets. In addition, a basic rural roads network could be an important initiative to strengthen the infrastructure network, along with telecommunications and rural electrification.

183. **Leveraging on urban dynamism:** Due to conflict and drought/desertification, as well as the lure of growth in major cities, accelerated urbanization is likely to be a permanent phenomenon. Given the power of agglomeration economies and returns to scale, this can be a driver of growth with sufficient focus on reforms to increase the return on investment, including reforms to reduce administrative costs, provide access to finance, and building adequate transport infrastructure. Secondary cities throughout the country, including Nyala, Port Sudan, Ed Obeid and others, can raise productivity levels to that of Khartoum or higher. Key mechanisms may include focusing on the business-enabling environment, introducing microfinance and other financial services, incorporating the private sector in housing and infrastructure provision, and skill development.

Strengthening Financial Services

184. Access to credit is one of the major constraints to private sector economic activity in Sudan. The Productivity and Investment Climate Survey (PICS) in 2008 found that 47 percent of firms surveyed considered access to finance a major obstacle while 52 percent considered the cost of finance a major obstacle to doing business. In the 2011 Doing Business Survey, Sudan ranked 138 out of 183 countries in the Ease of Getting credit category, below comparators and neighbors Ethiopia, Egypt and Kenya. Banking infrastructure is relatively weak in Sudan and is concentrated in Khartoum and other main cities. This limits access to bank services by the population. In particular, agriculture contributes over 30 percent of GDP, but access to finance to the sector is limited. The share of financing to agriculture in total bank credit has been declining, from 18 percent in 2000 to 7.4 percent in 2006.

185. Sudan's financial system has been growing, but remains relatively small by regional standards. Deposits and credit to the private sector have doubled during 2005–09. Nonetheless, their ratio to GDP stood at 16 percent and 12 percent, respectively, at end-2009. Although both soundness and efficiency indicators are generally weaker than in other countries in the region, they differ widely across banks. Public banks account for about 50 percent of total banking sector assets; competition in the sector has been reduced by this large presence of public banks. The Government's phased divestiture of the public sector share in the sector is intended to foster competition and the modernization of the sector. Sudan's financial system is almost entirely dominated by the banking sector, comprising of about 30 institutions, accounting for over 95 percent of the system's assets as at December 2008.

186. **Commercial Banking:** Financial intermediation by the banking sector is constrained by high level of non-performing loans (NPLs), by the weaknesses in the lending environment and supporting institutions such as collateral legislation and the judicial system, creditor rights and lack of reliable financial information and credit information infrastructure. These affect small and medium enterprises more than large enterprises since micro, small and medium enterprises (MSMEs) often rely on unsecured and cash flow lending and rely on a lending environment that supports these modes of financing. Following the Financial Sector Assessment (FSAP) conducted by the IMF and the World Bank in 2005, the central bank embarked on reforms of the financial sector. As a result, progress has been made in banking regulation and supervision, the consolidation of the sector and capital adequacy. The Government continue to take actions to ensure the reduction in non-performing loans (NPLs) and loan provisioning, continued improvements in regulations and supervision and promoting the establishment of non-bank financial institutions as well as institutions to enhance financial intermediation,

187. **Microfinance: The Central** Bank of Sudan (CBoS) has formulated a strategy for developing and expanding the microfinance sector. The development of the strategy and accompanying action plan has sought to maximize the learning exposure by consulting with local and international experts and soliciting best practices from international and regional experiences. The major components of the Action Plan to develop the microfinance industry include:

- ♦ Building on the existing system and/or developing a reformed financial system for the poor with solid infrastructure and efficient financial intermediaries that having the required outreach to meet the financial needs of the poor;
- ♦ Creating the legislative and regulatory frameworks that enhances the performance of the microfinance industry;

- ◆ Adopting mechanisms that support transparency among microfinance lending institutions;
- ◆ Applying “best practices” and setting distinct performance standards for the sector;
- ◆ Creating an efficient information network that includes access to reliable, up-to-date, market information on the financial needs of the poor and MSEs, of gender and geographical imbalances;
- ◆ Increasing coordination among various stakeholders including Microfinance Institutions (MFI), government, NGO, practitioners, donors, etc.

188. The strategy to promote microfinance is through both banks and non-bank financial institutions and will facilitate the use of both government and non-government financial and technical resources. In 2007, CBoS mandated commercial banks to lend 12 percent of their lending portfolio to microfinance.

189. The Multi-Donor Trust Fund, administered by the World Bank, has supported this approach to micro finance, with funding for a microfinance project in the amount of \$20 million. This facility, approved in May 2007, is supporting new and existing microfinance institutions and providers by dissemination of best practices; technical assistance; training; financing; and managing donor resources. The objective is to provide affordable financial services to 200,000 households by supporting the emergence of commercially sustainable microfinance service providers including in the less developed parts of western, eastern and northern Sudan, as well as the urban working poor. The project will also assist the CBoS in building its regulatory capacity for deposit-taking and non-deposit taking MFI's.

190. The project is supporting innovations in the development of the microfinance sector in Sudan. One of the innovations is the introduction of a management information system (MIS) for microfinance institutions in Sudan. This Loan Tracking System (LTS) is intended to support microfinance institutions in managing data relating to loans disbursed to clients. A number of MFIs has applied to the MDTF for funding for the procurement of the LTS. Lessons from experience from this project will be useful for expanding and regulating microfinance institutions in Sudan.

7.4 Productivity and Growth in Agriculture

191. After two decades of neglect, agriculture, including livestock, forestry and fishes is back on the Sudan's growth agenda. Sudan is naturally agriculture endowed to be a large producer and exporter of agriculture products. Sudan is rich with large irrigated area as well as large herds of sheep, goats and camels. Sudan has three major agricultural production systems, namely irrigated, rain-fed semi-mechanized and rain-fed traditional agriculture. These farming systems are used for both crop and livestock production.

192. Agriculture remains a large sector but has recently been overtaken by the service sector as the largest contributor to gross domestic product. With the significant potential, it has, agriculture can be a strong source of growth and diversification of the economy, poverty reduction and exports growth. As poverty predominantly rural and high in agricultural households, the growth in agriculture will should have a larger impact on poverty reduction relative to growth in other sectors. Livestock is the leading agricultural export product of Sudan. There are some 69 million sheep and goats in Northern Sudan, with most produced in the two poorest regions in Sudan Kordofan and Darfur, and exported to neighboring middle-eastern countries. There is considerable scope for growth in livestock to meet both domestic and export demands. The realization of this growth demand will alleviate poverty in these regions.

Key Challenges

193. The agriculture sector has performed poorly in the past decade (Table 12). Its share of GDP in the economy has declined, the rate of growth of rural incomes has decreased and poverty in rural areas remains high. The average annual growth rate of the agricultural sector between 2000 and 2008 was 3.6 percent, substantially lower than the 10.8 percent during the previous decade. The largest decline in recorded growth performance is for the traditional rain-fed farming sub sector, with a growth rate falling from 24.6 percent in the 1990s to 2.4 percent during 2000-2008, due to drought and declining average yields. The volume of food grains (sorghum, millet, wheat and groundnuts) produced in sector has, however grown, due mainly to an expansion of the area of cultivation

| Table 12: Growth of Production (Value Added) and Share in Agriculture GDP | | | | |
|--|-----------------|------------------------|-----------------|------------------------|
| Subsector/Production System | 1991/92-1999 | | 2000-2008 | |
| | Growth Rate (%) | Share in Agric GDP (%) | Growth Rate (%) | Share in Agric GDP (%) |
| Crops/Irrigated | 6.6 | 21.1 | 4.4 | 28.2 |
| Crops/Rain-fed semi-mechanized | 6.7 | 6.3 | 5.2 | 3.1 |
| Crops/Rain-fed traditional | 24.6 | 12.5 | 2.4 | 14.9 |
| Minor crops | -1.4 | 1.2 | Na | Na |
| By-products | 2.4 | 5.9 | Na | Na |
| Total Crops | 8.5 | 47.0 | 3.6 | 46.3 |
| Livestock | 15.9 | 46.9 | 3.6 | 47.2 |
| Forestry | -21.5 | 4.8 | 2.5 | 6.5 |
| Fisheries | 9.0 | 1.3 | Na | Na |
| Total Agriculture | 10.8 | 100.0 | 3.6 | 100.0 |
| <i>Source: Central Bureau of Statistics.</i> | | | | |

194. The semi-mechanized farming system has shrunk and ceased to be the dominant source of food (Sorghum) for Sudan. The contribution of the irrigated sector has remained relatively stagnant in most products cultivated (wheat, groundnuts and cotton) with some improvement in sorghum yield. The system has been characterized by low irrigation intensity and low productivity, mainly due to weak management with high costs water due to high operation and maintenance costs, and the inefficiently distribution to all farms. Low yield is the main reason driving the decline in sorghum production in the semi-mechanized farming systems. Yields in Sudan are well below their research potential and below those in other countries with broadly similar production conditions (e.g. Argentina, China and Nigeria). Yield is constrained by inadequate public management of areas at the state level and weak incentives to use improved technology. The weaknesses include low land rentals, the lack of a market for land rights, weak enforcement of soil management covenants in land lease, land use disputes between farmers and nomads, and lack of enforcement of environmental standard in the leases.

195. Mismanagement has been responsible in large part for the poor outcomes in the production of gum Arabic. Despite large increases in cultivation, its exports have declined at an average rate of 2.2 percent per annum between 1970 and 2005 as a result of inadequate incentives for small scale farmers, as well natural shocks such as droughts. The monopoly of the Gum Arabic Corporation (GAC) to export gum Arabic drove a wedge between world and domestic prices. Between 1998 and

2003, the floor prices implemented by GAC to buy gum Arabic hovered around 10 percent of the freight-on-board (FOB) price in Port Sudan. The very low floor price provided no incentives for producers, and the extension support to monitor the quality of raw gum Arabic exports and ensure a reliable supply of high quality, which is one justification for the monopoly through GAC, was very weak.

196. Livestock sector suffers from high marketing costs of production attributed mainly to transport costs, which for the route from Nyala through Port Sudan and Sawakin constitute over 50 percent of total costs. Furthermore, exports are vulnerable to disruptions where they are concentrated in a few foreign markets. For instance, imports of Sudanese sheep was banned by Saudi Arabia in 2000 and 2001 and again in 2007, which led to the value of livestock exports dropping to almost zero in 2001 and by about one third in 2000 and 2007. Currency appreciation from 2005 to 2007 also affected the competitiveness of agricultural products exports.

Objectives and Main Priorities

197. The revitalization of agriculture and its associated industries are essential to growth and to reducing mass poverty and food insecurity. A key conclusion drawn from the poverty profile is that productivity growth in agriculture remains a fundamental requirement for poverty reduction in Sudan. Two-thirds of Sudan population lives in rural areas, while most of the poorest those in the bottom 20 percent -are engaged in agriculture (crop farming and animal husbandry) for their livelihoods. A major goal the IPRSP is to emphasize that agriculture as a vehicle for shared growth and the reduction of poverty and hunger and therefore deserves very high priority. A growing agricultural sector can also provide the base for the development of a strong agro-industry and related employment. The key areas for action in the short-term include to:

- ◆ Assist smallholder farming to become more productive, competitive and sustainable. Actions here could include strengthening land rights, improving access to markets through developing rural infrastructure and providing access to financial services.
- ◆ Improve productivity of rain-fed semi-mechanized farming with improved seeds, modern irrigation technologies and the provision of fertilizers and other farm inputs.
- ◆ Improve access to markets and establish efficient value chains by enhancing local infrastructure, improve commodity trading and risk management; link producers to modern supply chains for higher-value urban markets; and adopt product standards for higher-value exports;
- ◆ Increase access to water and irrigation as a major determinant of land productivity and the stability of yields. With rising uncertainties in rain-fed agriculture as a result of climate change, investment in water collection and management will be increasingly critical.
- ◆ Enhance agricultural research and extension by increasing the allocation of research share in the budget and by fostering of public-private research partnership. This will enable closer connection between the problems faced by farmers and work done by researchers and an expansion of agricultural extension programs and access to relevant inputs. Commercial farming will receive more emphasis and support. An effective impetus of such investment program will require a land policy that provide most farmers with long term leases and hence a formal security of tenure, either through statutory or customary law.
- ◆ Improve livestock marketing through the regulation of stocking rates in Sudan's most vulnerable grazing environments such as North Darfur and North Kordofan with the aim of regenerating the pasture and other forage vegetation;

- ◆ Improve the quality of stock routes and a few strategic highways and rail tracks to facilitate efficient transport of livestock over long distances; rehabilitate unloading and loading infrastructure for road transport associated with the movement of livestock; regulating and enforcing the handling and transport of livestock to improve animal welfare, reduce deaths and weight loss, and hence improve marketing efficiency;
- ◆ Improve livestock traders' access to credit facilities to all commercial banks in Sudan; introduce auctions in livestock markets in Omdurman along with making commercial banking facilities available in the market-an action for the public authorities in Khartoum state;
- ◆ Improve the quality of livestock handling facilities at veterinary inspection and vaccination points to reduce weight loss for animals awaiting inspection;
- ◆ Expand the areas in Sudan which can be declared disease free and consider financing an expanded program for achieving this with a small targeted levy on livestock marketing at export locations-in return for a more streamlined export inspection system in Port Sudan and Sawakin.
- ◆ Make agricultural systems more environmentally sustainable through the Identification of the main drivers of resource degradation to reverse degradation in less-favored areas; improvements in agricultural water management; promotion of better management of intensive livestock systems; and maintaining payments for environmental services.

Recent Actions

198. In the short term, a number of steps were implemented to realize the broad objectives of the ARP, especially in the irrigated and semi-mechanized farming areas in collaboration with the private sector as well as actions for livestock and gum Arabic sub-sectors. In the irrigated subsector steps were taken to increase the efficiency of the irrigation schemes. In the Gezira scheme, a reform program was implemented based on the new Gezira Act 2005. In line with global best practice, Water Users Associations (WUAs) were introduced with greater responsibility for water management. The Act also guaranteed free crop choice for farmers and offered tradable long-term leases to farmers to replace short term land rental arrangements. It also substituted farmers' credit accounts with commercial banking and refocused the Sudan Gezira Board (SGB) responsibilities on agricultural research, market information services and farmer training.

199. To improve the productivity of the rain-fed semi-mechanized farming, a two-phase strategy is adapted to realize earnings dividends. The first phase of the strategy "tillage approach" focus on reviving the system through technical packages aimed at better soil moisture management. It is based on an improved timeliness of cultural practices such as plowing, fallowing, crop rotations and seeding. The strategy, which is being implemented with the available machinery on farms, is expected to result in higher yields. The second phase of the strategy "zero-tillage" aimed at achieving a more sustainable impact with modern technology based on zero or minimal cultivation, fertilizers and more advanced rotations that includes fodder crops for livestock in areas suitable for livestock production.

200. Decrees were issued at the end of April 2009 declaring the liberalization of the gum Arabic trade, cancelling the exclusive concession on raw gum Arabic export granted to GAC in 1969 and removal of all taxes imposed on gum production, similar to other agricultural products. The Decrees were intended to provide the incentives for gum Arabic producers through expected improvement in prices. Also, programs that provide the producers with support services to cultivate and market

gum Arabic at high standard and to improve the public export inspection of all forms of gum Arabic will be put in place.

The Revitalization Strategy

201. In response to the challenges of the performance of the agriculture sector, in 2007, the government set up the High Committee for the Study of the Current Situation in the Agricultural Sector and the Proposal of Appropriate Visions for its Future Development. The membership of the committee was comprehensive involving all stakeholders concerned with the development of the agricultural sector including politicians, executives, producers, university professors, researchers, private sector, civil society organizations, farmers' and pastoralists' unions. The Committee worked with a vision of a “comprehensive national socio-economic development led by a dynamic agricultural sector capable of rapid and sustainable growth and biased towards the weak and vulnerable sectors of the population” to develop an agricultural Revitalization Program (ARP) that seeks to transform agriculture from a sector dominated by subsistence production to a modern sector responsive to market signals and with substantial contributions to poverty reduction, growth, foreign exchange earnings and sustainable management of natural resources. The main elements of the ARP are to:

- ♦ Create the environment conducive to sustainable development of agricultural productivity and production through the implementation of conducive macro and sectoral policies which promote investment, develop infrastructure for water harvesting and irrigation storage capacities of the Nile waters, build feeder roads, establish livestock routes and provide marketing infrastructure;
- ♦ Build the capacities of producers through reforming their institutions, increasing their productive and managerial capacities;
- ♦ Resolve the land tenure issues which discourage optimal use of large areas in the irrigated and rain-fed sectors;
- ♦ Improve the agricultural support services including the development of the agricultural research, technology transfer and extension services, agricultural education, establishment and upgrading of markets, strengthening of information and communication technologies, adoption of measures for risk management and the expansion of agricultural insurance services;
- ♦ Develop and modernize agricultural systems with a view to increasing the efficiency of utilization of resources by increasing crop intensity, improving marketing efficiency, value addition through processing and introduction of new systems of livestock and fishery production, including irrigated farms and wildlife reserves;
- ♦ Protect natural resources through the development of forests, pastures and range lands and re-establishment of the vegetative cover and the development of the Gum Arabic Belt and the combat of desertification;
- ♦ Build the capacities of the industrial sector to manufacture agricultural inputs, satisfy agro-industries with their requirements of raw materials, connect the production processing – marketing chain and utilize the capacities in the agro-industries;
- ♦ Protect consumers and promote exports, by implementing the laws and procedures which ensure food safety and control of the quality of plant and livestock products whether processed locally or imported in accordance with the accredited international standards; and

- ♦ Establish strategic partnerships with a view to realizing the economies of scale, benefiting from new technologies, and getting access to international markets and financial institutions.

202. The Government launched the ARP with a proposed budget of SDG10.1 billion for 2008 to 2011. While the ARP emphasized strengthening the commercialization of the traditional farming sub-sector, it also envisaged substantial private and public investments to stimulate growth in the irrigation and semi-mechanized farming areas. The ARP is overseen by a Higher Council under the chairmanship of the Second Vice President of the Republic.

7.5 Economic Infrastructure Services for Recovery and Growth

203. High cost of infrastructure services (transport; electric power; telecommunications) is a major impediment to growth in internal and external trade and the competitiveness of Sudanese firms in global markets. A major factor behind the high cost of infrastructure is the paucity of infrastructure and related facilities, particularly in the lagging or relatively isolated areas. The disparities in infrastructural services are substantial. Poor infrastructure is also an impediment to national integration and the spreading of the benefits of growth to all parts of the country. Areas isolated due to poor infrastructure suffer from high costs of goods and services and the reluctance by investors to invest in those areas, and competent professionals – teachers, health workers, to work there, leading to poor social services and a reinforcement of poverty and political grievances.

204. Progress has been made in rehabilitating infrastructure damaged by conflicts or not properly maintained during the difficult years of conflict. Continuous and steady investment in infrastructure is crucial for integrating the nation, promoting the volume and competitiveness of domestic trade, and enhancing and maintaining the international competitiveness of domestic firms. These outcomes from sustained investments in infrastructure have positive effects on economic growth and the welfare of the population.

205. The major challenge for sustained new investments and maintenance of existing infrastructure is the lack of funding. With the very tight resource situation in the coming years, the ability of the public sector to fund infrastructure services will be severely tested. The Government will need to be selective in infrastructure investments, putting priority on maintenance and investments in infrastructure that support growth and poverty reduction and national integration, peace and stability. The Government will also seek funding for infrastructure from official development agencies in the form of grants and concessional credits, and from the private sector through public private partnership (PPP).

Transport

206. The three important modes of transport in Sudan are roads, railways and inland water transport. The Government has prepared a 30 year transport plan to guide the development of transport infrastructure, covering all modes of transport – road, railways, river, and air. This plan envisages the development of a transport sector that not only serves Sudan but also the neighboring land locked countries – Chad, Central Africa Republic and the new Republic of South Sudan, making Sudan an important gateway for international merchandise trade of these countries. This will also require the upgrading of the ports in Sudan. The plan also envisages the participation of the private sector in investments and management of transport services. To facilitate this, the preparation of a regulatory framework is near completion and regulatory body will be established to regulate the joint private/public activities in the sector.

Key Transport Projects

207. The National Emergency Transport Rehabilitation Project (NETREP), approved on August 2006, is one of the projects conceived within the framework of the Multi-Donor Trust Fund – National (MDTF-N) to improve selected transport infrastructure critical to enhancing the benefits of the peace agreement. The objective of NETREP is to improve physical access to goods, markets, and administrative and social services by rehabilitating critical rail infrastructure and services, and improving river transport services and roads.

208. The project focuses on key trade routes linking the North with Port Sudan, and addressing the isolation of communities in the Three Areas, a major impediment to recovery and development. Specifically, the project comprises three components:

- ◆ Rehabilitation of critical rail infrastructure and services, in particular, rehabilitating the Babanusa to Wau rail line damaged during the civil war, as well as constructing minor rail line links at Port Sudan and Kosti;
- ◆ Institutional developments and improvements to river transport services focused on: i) supporting the establishment of environmental and social assessment unit, including the preparation of an environmental and social assessment framework, ii) strengthening the Inland River Transport Regulatory Body, iii) Port Sudan trade facilitation, and iv) promoting private public partnership PPP in rail transport;
- ◆ Road improvements and design, especially in the three areas, including: i) the improvement of Gadamai-Hamashkoreib, Damazin-Kurmuk, and KadugliKaouda roads, about 280 km in total and ii) a detailed engineering design for about 1,125 km of national and rural roads. The latter component encapsulates establishing a pavement management system in NHA and building its institutional capacity.

Challenges for the transport sector

209. Domestic transport costs are high and higher than the neighboring countries. Improvements in infrastructure will require substantial investments over the next two decades or so. Substantial financial resources will be required and priorities will have to be established and investments phased out in the context of a series of medium term plans guided by the 30 year transport plan. PPPs will be important for financing of sector investments and management of transport sector services. External grants and concessional assistance will be sought but this depends on progress in the resolution of the external debt problem of Sudan. In summary, to develop transport infrastructure that supports the goals of sustainable growth and poverty reduction, public policy actions should aim to:

- ◆ Integrate transport needs into the national development priorities, growth and poverty reduction efforts;
- ◆ Increase investment in transport infrastructure, and fund operations and maintenance adequately to ensure the effective and efficient use the assets and protect them from rapid deterioration;

Prioritize investments in roads in the lagging regions and the rural areas, with emphasis on rehabilitating destroyed road assets, upgrading key roads to all-season roads, and constructing a network of rural roads linking production areas to markets.

- ◆ Rehabilitate Sudan Railways, particularly over those sections that travel across conflict areas.

- ◆ Rehabilitate and expand river transport with increase in vessels and ports, workshops and repair facilities, and the expansion in the use of barges to the South
- ◆ Promote the use of PPP for transport investments and service delivery.

Sub-sector challenges and actions

210. **Road transport** provides over 90 percent of inland transport services in Sudan. The total road network in the Sudan is estimated to be 32425 km, including both paved and unpaved roads for all types of roads (national high ways, state roads, and urban roads) except for tracks in rural areas. There are 7200 kilometers of paved roads in the Northern Sudan. The extreme low density of roads in war-affected areas causes their isolation. The poor quality of existing roads is lowering the efficiency of road transport services. About half of paved roads require rehabilitation or overlay. Inadequate funding for road maintenance and lack of cost recovery is causing rapid deterioration of the quality of existing roads. The roads subsector is a joint responsibility of the federal, state and local governments. The ability of the states and localities to play their part effectively depends on the transfers of resources from the federal government. The ability of the state and local governments to mobilize local resources and community participation for rural roads will be important for poverty reduction. The National Highways Corporation makes policies and sets standards for all roads.

211. **River Transport:** Transport on the River Nile is expected to play a greater role in the movement of goods, particularly to and from South Sudan. This will require investments in the dredging the river. To enhance the efficiency and growth of the system, the River Transport Corporation (RTC) has been privatized and two companies, Nile River Transport Corporation (NRTC) and the Sudan River Transport Corporation (SRTC) were established, with 70 percent private sector and the remaining 30 percent by the public sector. As of February 2009 there were six additional private operators of vessels. The privatization is expected to improve efficiency of on-shore services (uploading, downloading loading, warehousing) and port management.

212. **Railways:** The Sudan railway system has suffered significant deterioration. Yet the railway is a critical, potentially low cost transport mode, particularly for moving goods internally and to and from neighboring countries. A functioning railway system is a key element of the objective of Sudan becoming an international gateway for goods from neighboring land-locked countries. Considerable investments are required for rehabilitation and other improvements in the physical infrastructure, particularly the proposal to move from a narrow gauge to a wide gauge. In its Railway Strategy (2013-2017), the Sudan Railway Corporation (SRC) has proposed the rehabilitation of a number of key lines including the Khartoum-Port of Sudan line, and the preparation of a feasibility study to link different areas by railway lines. On the institutional reform side, the railway system has been restructured into two companies, a public company (the SRC) that owns the physical assets, and another company for operations, with private sector participation. Already 10 private companies are running operations in different lines.

Electric Power

213. Costs of electricity are also high. In the PICS survey in 2007, electricity was perceived as one of the most serious constraints for doing business by Sudanese enterprises. Among the manufacturing firms surveyed, 42 percent cited electricity as the first most serious constraint among 19 different constraints. Only about 27 percent of the population of Sudan has access to electricity and the existing national electricity grid does not cover all the states. Most of the consumers are around Khartoum where over 50 percent of the electricity is consumed.

214. The Government has put priority of improving electricity services. In 2010, it revised the corporate structure for the generation and supply of electricity that was monopolized by the National Electric Corporation. The reform created five specialized representing hydro-generation, thermal generation, power transmission and distribution under the supervision and regulation of Ministry of Electricity and Dams (MED). This new structure will facilitate private investment and financial participation in the industry. Sudan is a member of the East African Power Pool and is has been interconnecting with its neighbors – Ethiopia, Eritrea and Egypt.

215. There are a number of important recently completed and ongoing projects in the electric power sector. The construction of the Merowe dam, with a generation capacity of 1250 MW, and the related 1761 km transmission line to evacuate the power generated, was completed in 2009 and the electricity generated is now connected to the national grid. A number of other transmission projects, including the Sudan-Ethiopia Interconnection, have also been recently completed. The ongoing projects include the reconstruction of the Roseires Dam, to raise its level for additional irrigation water and electricity generation, the Upper Atbara Dams Complex, a number of thermal generation plans and construction of transmission lines to extend the national grid. The Upper Atbara project will include hydropower complex with a capacity of 135 MW, provide water supply through a reservoir and irrigation for an area of 500 thousand acres. All these investments will have considerable impact on poverty reduction by provision of irrigation water, expansion of cultivable land and generation and supply of electricity to firms and households.

Priorities and Plans

216. The Ministry of Electricity and Dams (MED) has a five-year (2011-2015) plan for electricity and dams. The main objectives include:

- ♦ Increase of the electrification ratio from 27.8 percent to 45 percent;
- ♦ Connect all Sudan States to the National Grid; and
- ♦ Double per capita consumption of electricity and significantly increase agricultural and industrial loads of electricity.

217. Meeting these objectives would require increasing the power generation capacity from 2,232 MW to 4,077 MW, and increase total transmission lines from 6,246 km to 9100 km. The MED has identified several projects that would meet these requirements. These include traditional hydro and thermal power generation and transmission projects, and renewable energy (wind and solar) generation projects. The new emphasis on wind and solar generation reflects the growing exhaustion of the hydro potential of Sudan. The plan is to add 551 MW of power from renewable energy during the plan period. A number of renewable projects including 20MW wind-power plants in Darfur, the Red Sea and the Northern states as well as solar power plants in Darfur and the Northern state. The main constraint to achieving the objectives of the sector is the funding for the projects. The Government is seeking private sector participation in investments in the sector.

Telecommunications

218. Telecommunication is an area where public private partnership has played a significant role in the development and modernization of the sector. Liberalization of the sector started in early nineties with the regulatory and the supervision function undertaken by the National Telecommunication Corporation (NTC) and the service provision function through the private operators. Sudan was a pioneer in Africa on the privatization of telecommunications services that started in 1993, with the establishment of a public-private landline telephone operator (Sudatel).

Government Shareholding in Sudatel has declined from 67 percent in 1993 to 26 percent in 2007, with the intention of the Government to gradually divest entirely. A second landline telephone company (Canar) was established in 2005 and is entirely private. However, the number of landline subscribers has been declining, from 774,720 in 2005 to 347,295 in 2010.

219. On the other hand, the subscription to mobile services has been expanding rapidly. There are three cellular operators, all private. The number of subscribers has risen very rapidly; from 7,467,946 in 2007 to 16,271,117 in 2010. This indicates that almost 42.6 percent of the population (North and South), use cellular phones for communications. Sudan has 6 operational internet service provider companies, although over 20 licenses have been issued for ISPs. In 2008, the number of internet users was estimated to be over 4 million and it has been rising rapidly.

7.6 Protection of the Natural Resources and the Environment

220. There are close links between environmental degradation and the capacity of the economy to grow and reduce poverty in a sustainable way. A healthy natural resources base and stable physical environment are prerequisites for the successful and sustained combat against poverty. Therefore the Government intends to continue implementing policies and reforms to ensure a real economic growth rate. Sudan is endowed with huge and diversified natural resources: fertile land, natural forests, fresh water biodiversity, wild and domestic animal stock, marine ecosystems, mineral and oil resources and reserves.

221. However, Sudan is facing numerous environmental challenges including desertification and land degradation, water pollution, deforestation, soil erosion and deterioration of biodiversity. Climate change is accelerating in Sudan. All these developments have serious negative impact on the livelihoods of the poor, particularly those that depend on livestock and rain-fed agriculture. In particular, climate change will reduce yields in agriculture. The World Development Report (WDR) 2010 estimated that Sudan's agricultural yields are expected to decline by 56% by 2080, the steepest decline in the world.¹⁴

222. The long civil wars in Sudan and neighboring countries and rapid demographic changes have directly or indirectly contributed to the degradation of the environment. Some conflicts have been rooted on disputes over ownership and use of natural resources, for instance the clash over resources by farmers and pastoralists. The uncertainty over ownership and use and the related conflicts lead to the degradation of the environment. Large and forced population movements due to the insecurity of civil damage the environment. In addition, the poor or benign governance in a conflict-affected country is not conducive for effective implementation of environmental protection regulations.

223. According to a recent UN paper of Darfur, Sudan has lost more forest cover than any other country in Africa, with Darfur a major contributor to the trend¹⁵. The developments in Darfur illustrate the role of conflict and demographic shifts on environmental degradation. Darfur, with about 25 percent of the population of North Sudan and an arena of ongoing conflict has the largest

¹⁴ The World Bank: **Climate Change and Development**, The World Development Report 2010

¹⁵ United Nations, Sudan: **Beyond Emergency Relief, Longer-term trends and priorities for UN agencies in Darfur**; September 2010

population of displaced persons in Sudan and rapid total and urban population growth. The loss of forest cover has accelerated in recent years due in part to the cutting down of trees for firewood for making bricks, whose demand is growing driven by the rapidly growing urban population. The camps for the IDPs are turning into peri-urban satellite towns, contributing to the surge in firewood for cooking and brick-making. The IDPs also find employment in the firewood business. Effective regulation and enforcement is not possible with the weak and uncertain governance associated with a conflict-affected region. The rapid deforestation is adding to the pressures on climate change that is already having a deleterious impact on the livelihoods of the people in Darfur.

Policies and Regulations for Protecting the Environment

224. Sudan has a fairly well developed environmental legislation, with several laws, regulations, policies and standard dealing with environmental protection, conservation and preservation. Sudan has also adopted a number of environmental strategies and plans including the national management plan for environment and the national adaptation plan of action. Sudan is rich in the biodiversity of its ecosystem; no comprehensive assessments have been carried out. The recent countrywide biodiversity assessment undertaken by NBSAP project was not comprehensive although it provides a benchmark and base information for future assessments.

225. The Government of Sudan has ratified a large number of environmental conditions such as the UN Convention on Biological Diversity and the Cartagena Protocol on Bio-safety; the UN Convention to Combat Desertification; the Framework Convention on Climate Change; Kyoto Protocol to Framework Convention on Climate Change; Protocol on the protection of World Culture and Natural Heritage; and the Convention on Wetlands. Sudan is also party to a number of the international conservation conventions such the African Convention of the Conservation of Natural Resources, the Regional Convention for the Conservation of the Red Sea and the Gulf of Aden; the Protocol concerning Regional Cooperation in Combating Pollution by Oil and other Harmful Substances in the Red Sea.

Key Challenges

226. The policy objective is to achieve the MDG7: ensuring environmental sustainability. This requires the integration of the principles of sustainable development into country policies and programs for the sustainable use of environmental resources for the benefit of all, reverse the loss of biological diversity, arrest desertification and deal with climate change. To achieve this global goal of environmental sustainability, the GoS would aim to (i) reduce the deterioration in biodiversity and the disappearance of wildlife; the proportion of the poor directly affected by degraded lands and eroded soil; the exposure of poor people to environmental factors such as air pollution...etc; (ii) reduce the proportion of people becoming increasingly vulnerable to environmental hazards and their vulnerability environmental risks such as floods, drought, desertification, natural disasters, severe weather fluctuations and climate change; and (iii) increase the proportion of people with environmental awareness and good understanding to linkages between environment and development; empower the local resource users especially at the grassroots to manage their own resources in sustainable manner.

227. There are a number of challenges to the achievement of these goals including:

- ◆ The lack of human and financial resources for environment policies, program design, implementation and management;

- ◆ The tenuous peace and insecurity in parts of the country, instability of the populations with large population of displaced people with a tendency to adopt coping strategies that are not environmentally sustainable;
- ◆ The lack of general awareness of environmental issues, the linkages to sustained national and personal well-being and income, and positive environmental behaviors
- ◆ The lack of inclusive governance that would facilitate needed coordinated actions at federal, state and community level; and
- ◆ The lack of comprehensive information on environmental developments and the effects of the changes in the environment on livelihoods and well-being.

Strategies and Actions

228. The approach to tackling the serious environmental challenges include the promotion of community participation in natural resource management programs; the development of a coordinated protected area system by bringing together institutions concerned with biological diversity conservation and management; and making environmental education mandatory in all formal education schools. The priorities include:

- ◆ Achieving durable peace throughout the country and stabilizing the population by reintegrating displaced people into viable communities;
- ◆ Providing poor peoples who depend on land, water, forests and biodiversity for livelihoods secure access to these assets and creating circumstances in which they can manage these resources sustainably.
- ◆ Changing behaviors on the environment by increasing public awareness and ensuring individual and community participation in environmental improvement decision-making and activities.
- ◆ Assembling comprehensive information of the status of the environment in Sudan, Integrating environmental concerns in all development policies, planning and activities at all levels and improving awareness among potential users and decision makers on climatic and atmospheric information.
- ◆ Strengthening the institutional and technical capacities for environmental management, enhancing cross-sectoral institutional coordination on environmental issues, and strengthening the enforcement of environmental laws and regulations.
- ◆ Developing a strategy for protecting natural resources and the environment, to be reflected in the full PRSP. The preparation of the strategy should be preceded by an environmental assessment.

8 The Road Map for the Preparation of the full PRSP

8.1 Indicative Road Map to the Full Poverty Reduction Strategy Paper

229. The Government of Sudan is committed to the PRSP process as the means to developing and implementing a shared growth and poverty reduction strategy (PRS) through a process of broad participation and consensus-building. In departure from the top-down culture of decision-making of the past, the PRSP process will be designed to open up considerable space for participation by all major stakeholders, including civil society organizations (even those which may be out of favor with the government), private sector representatives, trade unions, women's groups, direct representatives of the poor, and donors. Special efforts will be paid to reach traditionally less developed groups. Furthermore, the PRSP process in Sudan will be backed up by analytical work, to help to put the consultations on a firm foundation.

Participation

230. The blueprint for participation depending on local circumstances – will include the following:

- ◆ Involve parliaments, cabinets, and sectoral ministries in PRSP preparation at appropriate stages;
- ◆ Describe in the PRSP how conflict-related problems are being addressed;
- ◆ Focus on the public actions and institutions most urgently needed to rebuild core government systems and trust in public institutions;
- ◆ Improve mechanisms for giving feedback to local participants during the PRSP process, and report in it any concerns expressed by key stakeholders; and
- ◆ Make the PRSP and related information understandable and available to local civil society.

231. The participation process will be organized through five stages:

- ◆ Mobilization of key stakeholders in government, civil society, private sector, international community at all levels to raise their awareness and obtain their commitment to contribute to the design and implementation of the PRSP;
- ◆ Information/data gathering through discussion with focus groups, to understand the nature and perceptions of poverty by the population, and the views of what could be done to reduce and poverty;
- ◆ Priority setting: With broad sections of involved stakeholders, assessment of the results from the analytical work and the outcomes from focus group discussions, to begin to shape the growth and poverty reduction targets, priorities and policies
- ◆ Validation and approval: Following the draft of the PRSP, further consultations with stakeholders to attain national consensus on the PRSP prior to submission to the Government for adoption.
- ◆ Following the adoption, prepare implementation and monitoring plans and discuss these plans with all the implementing agencies in the Government and the representatives of stakeholders from the civil society.

232. Consultations will be held at three levels:

- ♦ National level (e.g. Line ministries and MDAs, Cabinet, parliament, leaders of political parties, private Sector, civil society including religious leaders, and research and academia).
- ♦ State and Locality level – ((e.g. State Governors, state Ministry of Finance, line ministries, CSOs including the service based and those for vulnerable groups, private sector, leaders from local government including legislatures – Administrative and technical officer's, and community –based organizations such as women group).
- ♦ Donors (e.g. ADB, IMF, WB, UNDP and other donors)

Analytical Work

233. The PRSP will be backed up by a visioning process and analytical work. This should be planned to start at the conclusion of the IPRSP. The areas that should be included in this process should include:

- ♦ Analytical work to establish a national accounting and other relevant statistics for the new Sudan.
- ♦ A broad assessment of the challenges, opportunities and prospects for economic growth and poverty reduction in Sudan, with recommendations of the key actions to put the economy on the desired path.
- ♦ A survey of living conditions, presumably with a light survey in the states, to get a better assessment of the diversity of the economic and social challenges as well as potential outcomes from policy actions. This will supplement the information and analysis from the 2008 household survey.
- ♦ Undertake status reports for key sectors and crosscutting areas – gender, governance, capacity development, social protection, etc. and develop sector strategies linked to the long-term growth and poverty reduction targets.
- ♦ Develop a long-term vision for Sudan through analytical and consultative processes. These would include targets for per capita incomes, the MDG indicators as well as other indicators deemed critical for assessing socio-economic development outcomes such as employment, measures of structural change and economic diversification, indicators of the quality of education, measures of deforestation or reforestation, etc; and
- ♦ Develop monitorable indicators relating to the development objectives and priorities.

Institutional Arrangements and Coordination

234. Institutional and coordination arrangements for participation will be built on and complement the existing institutional framework for the PRSP process:

- ♦ ***The Oversight Committee*** of the IPRSP will transition into the same role for the PRSP;
- ♦ ***The Steering Committee*** of the PRSP will be built on the Technical Committee of the IPRSP, strengthened to include representatives from the private sector, the civil society, one or two experts, and representatives of key sectors such as infrastructure and higher education. The steering committee will provide technical guidance to the process. And its implementation;
- ♦ ***Resource Team***, a strong technical team led by the PRSP coordinator, will be set up to coordinate the participation process i.e. ensure effective participation, timely flow of

information and communication throughout the process. The resource team will be responsible for drafting the PRSP document and taking it through the review and finalization process.

- ◆ **Thematic Working Groups** consisting of government representatives, academics and NGOs will be established to work on sectoral and cross-cutting themes of the PRSP with the sectoral and responsible line ministries;
- ◆ **A Network of Facilitators at the National, State, and Locality levels** will be established to work directly with stakeholder groups throughout the participation process. They will be trained and guided by the Resource Team and will work in close collaboration with Locality and State Authorities, Civil Society Organizations and other stakeholder groups in organizing local and regional workshops, public information campaigns and consultations. The Resource Team and Facilitators in collaboration with Civil Society (SCO) Networks will work towards the strengthening of SCO networks at local and states levels, linking them where possible to national level CSO networks. This will improve effective communication and information flow between center and grassroots.

| Table 13: Timetable for Preparation and Finalization of a PRSP | | |
|--|--|------------------|
| Activities | Stakeholders concerned | Timeframe |
| The PRSP concept note After the approval of the IPRSP, the formulation of the full PRSP will start, in collaboration with the civil society. | Ministry of Finance & National Economy, Technical Committee, line ministry and agencies concerned, Council of Ministers, National Assembly and the development partners | |
| Preparing and finalizing the sectoral strategies and action plans. | Line ministries and concerned agencies, sector thematic groups | |
| Analyzing the results of the poverty profile assessment at federal, state and locality levels. | Ministry of Finance & National Economy, in conjunction with mass organizations and representatives of the civil society. | |
| Translating the insights gained into policy and strategy priorities. | Ministry of Finance & National Economy, Technical Committee, and line ministry | |
| Identifying and finalizing a poverty line, poverty criteria and indicators for monitoring, and establishing an appropriate monitoring system. | Ministry of Finance & National Economy, and Technical Committee. | |
| Ensuring coherence among the sectoral action plans by identifying cross-cutting strategies of each sector with macro-economic management, and governance, with a view to creating maximum synergy, inter-sectoral programme clusters, and multiplier effects. | Ministry of Finance & National Economy, Technical Committee in co-operation with concerned line ministries, agencies, states and localities authorities. | |
| PRSP First Consultation workshop at federal level to: <ul style="list-style-type: none"> ▪ Sensitize the stakeholders about the PRSP and seek their active participation in the process. ▪ Stimulate debate and gain national consensus on key development issues and priorities for medium term period. | Ministry of Finance & National Economy, and the Technical Committee to take the lead Invitees at federal level: Vice president, Ministries, govt. institutions, private sector, civil society organizations, Political Parties, religious leaders, Youth and Student unions, trade unions, donors, universities...etc | |
| PRSP 2nd Consultation workshop at the States level | Participants will include members of the: States assembly, State governors States-level representatives of the private sector, civil society organizations, trade unions, universities...etc | |
| Approval of the Final PRSP by the council of Ministers | Ministry of Finance & National Economy, Technical Committee in co-operation with Council of Ministers. | |
| Adoption of the final PRSP by the National Assembly. | Ministry of Finance & National Economy, Technical Committee in co-operation with Ministry of Council of Ministers/ Concerned committees at the National Assembly. | |

Table 14: Mode of Consultations by Stake Holders Group

| Stakeholder | Mode of participation | Purpose of the participation | Responsible institutions | Date |
|---|---|--|--|------|
| Permanent Secretaries Poverty Unit | Forum of Permanent Secretaries Poverty Unit | Consultation | Head of Public Services with support of NPRSP Secretariat | |
| Technical Sectoral Committees of Cabinet Cabinet Meeting | Cabinet Meeting | -Share concept notes as a cabinet Memo. -Share draft. | Top leadership and management of MoFNE with support from NPRSP Secretariat (the economic sector, social sector at the Cabinet) | |
| Leaders of Political Parties | Meetings | Consultation | Top leadership at MoFNE and NPRSP Secretariat | |
| Federal Ministries, States and localities | Zonal Workshop | Consultation | Partners, Private Sector, Civil Society | |
| Legislative Authority (National Assembly + State Assembly) | Meetings | Consultation | PRSP Secretariat | |
| H.E the President | Press Conference | Declaration | State Minister of Finance, Concerned Ministers | |

ANNEX 1: POLICY MATRIX

Interim Poverty Reduction Strategy Paper 2011

| Area/Sector | Objectives and Targets | Policy Measures/Programs |
|--|---|--|
| <i>PILLAR I: Strengthening Governance and Institutional Capacity</i> | | |
| National Reconciliation | 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. |
| Conflict Resolution | 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. |
| Property Rights | Reduce conflicts associated with land and ensure long-term land use rights; | Review and revise existing land laws and policies including putting in place mechanisms for allocation of land and resolving land disputes at community levels |
| Human Rights | Enhance the protection of human rights | Make operational the Human Rights Commission |
| Decentralization | Improve the effectiveness of the decentralized governance | Strengthen the autonomy of the governments at locality levels, including the election of key executive officer; Promote the participation of the citizens in the governance of the localities; Establish a transparent and predictable revenue sharing mechanism between the three levels of government |
| Public Service Delivery | Effective and improving delivery of public services | Develop a national strategy for the enhancing public sector technical and institutional capacity; Reform the institutions for public expenditure management including the introduction of policy-based and multi-year planning and budgeting framework; Adopt the GFMS, a computer-based budgeting and accounting application, to strengthen financial controls, produce and make public periodic reports of budget execution ; Develop a national strategy for enhancing procurement capacity and systems at all levels of government. |
| <i>Pillar II: Reintegration of Internally Displaced Persons (IDPs) and Refugees</i> | | |
| Eastern Sudan | Invigorate the development of | Review the development plans for Eastern Sudan and re-launch the implementation; |

| Area/Sector | Objectives and Targets | Policy Measures/Programs |
|--|--|---|
| | Eastern Sudan | <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> |
| <i>Pillar III: Developing Human Resources</i> | | |
| Empowerment of the Poor | 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> |
| Empowerment of women | 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 budgeting to integrate gender issues of into public resource allocation decisions.</p> |
| Education | 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 rate 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</p> |

| Area/Sector | Objectives and Targets | Policy Measures/Programs |
|---|--|---|
| | | <p>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> <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> |
| Health | <p>Increase utilization and improve quality of primary and first-referral healthcare; improve equity in health service coverage, reducing geographic, urban/rural, and socio-economic inequalities</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, increase spending on deprived regions; explore ways to expand collective prepaid mechanisms (health insurance) to ensure that healthcare 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 healthcare 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> |
| Safe Drinking Water and Sanitation | <p>Increase access to safe drinking water and basic sanitation by 20 and 25 percent respectively in 2011-2015.</p> | <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;</p> <p>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> |

| Area/Sector | Objectives and Targets | Policy Measures/Programs |
|---|---|---|
| Social Safety Nets and Protection | 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> |
| <i>Pillar IV: Promotion of Economic Growth and Employment Creation</i> | | |
| Enabling Macroeconomic Environment for Growth | 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>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> |
| | Appropriate macroeconomic analysis for Sudan | Develop national accounts, trade and public financial and monetary statistics for the new Sudan to permit relevant macroeconomic and expenditure analysis. |
| The Enabling Environment for Private Sector-led | Promote the private sector to become innovative, productive and competitive and a source of | 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 |

| Area/Sector | Objectives and Targets | Policy Measures/Programs |
|---|--|--|
| Growth | employment creation and non-oil exports growth and diversification of the economy | <p>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 and regulatory reforms for PSD. Integrate the private sector consultations into the policy making process;</p> <p>Establish and environment of macroeconomic 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> <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, creditors rights and financial and creditor information systems to improve the lending environment;</p> <p>Adopt legislative and regulatory frameworks for the micro-finance sector;</p> <p>Motivate coordination among the key stakeholders in the micro-finance sector including the lenders, government, NGOs and supporting donors.</p> |
| Productivity and Growth in Agriculture | To revitalize the agricultural sector, increase its contribution to growth, exports and poverty reduction. The target would be a growth above 5 percent. | <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> |

| Area/Sector | Objectives and Targets | Policy Measures/Programs |
|---------------------------------|---|---|
| | | <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 provide 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 re-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> <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 o reduce deaths and weight loss.</p> <p>Establish new and upgrade old livestock training 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> |
| Infrastructural Services | 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>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 in 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</p> |

| Area/Sector | Objectives and Targets | Policy Measures/Programs |
|---|--|--|
| | | <p>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> |
| Natural Resources and the Environment | <p>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> | <p>Reintegrate the displaced and refugee population in permanent and sustainable livelihoods; 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 desertification.</p> <p>Comprehensive land reform and security of land use/title</p> <p>Pilot demonstration of soil and water harvesting programmes</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> |
| <i>Preparation of the full PRSP</i> | | |
| The preparation and implementation of the full PRSP. | <p>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> | <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 cross cutting areas and develop sector strategies,</p> |

| Area/Sector | Objectives and Targets | Policy Measures/Programs |
|-------------|------------------------|---|
| | | <p>linking them to the long and medium term targets for growth and poverty reduction;</p> <p>Carry out consultations at national state and local levels, with different stakeholders (legislators, the civil service, NGOs. private sector, academic community, donors) and at different stages of the preparation of the document as necessary</p> <p>At the final stage, hold validation consultations at national state and local levels and seek approval of the PRSP by the Government.</p> <p>Following the adoption, prepare plans for implementation, monitoring and evaluation .</p> |

ANNEX 2: REFERENCES

Interim Poverty Reduction Strategy Paper 2011

Building Blocks and Background Studies and Analysis

The key challenges, strategies and policy measures, data and analysis that inform the IPRSP are derived generated by a number of reports, background studies and data as follows:

Past patterns of economic performance

- Sudan Country Economic Memorandum (CEM), World Bank, 2009
- Governors of the States Roundtable Forum on the National Agenda for Economic Growth. Merowe – July 8-9, 2008.
- Sudan Five-Year Plan (2007-2011).
- IMF Article IV Consultations and Staff-Monitored Program Reports
- Sudan External Debt Position, Central Bank of Sudan April 2010

Poverty Diagnostics

- Poverty Assessment Report
- Sudan Millennium Development Goals Progress Report, 2010
- Sudan National Baseline Household Survey (NBHS) 2009

Cross Cutting Issues (Governance, Conflict)

- Governors' Roundtable on the Economic Growth: Towards Strengthening National Reconciliation and Integration. Wau, May 3 – 4, 2009
- Local Government in Sudan During the Interim Period (Federalism Research and Capacity Building Centre (FRCC), Khartoum)
- The Place of Federalism in a Renewed Sudan (Federations, Sudan Special Issue, 2010; Forum of Federations)
- Country Integrated Fiduciary Assessment (CIFA) report 2009.
- Sudan Public Expenditure Review (PER), 2007
- Forced Displacement, The Development Challenge (Christensen and Harild, The World Bank 2009)
- Beyond Emergency Relief: Long-Term Trends and priorities for UN agencies in Darfur; United Nations, Sudan

Developing Human Resources

- Education Sector Status Report, 2011
- Sudan Five Year Education Sector Strategic Plan (ESSP) for 2007-2011
- Sudan Millennium Development Goals Progress Report, 2010
- Ongoing Public Expenditure Tracking Survey (PETS) in the Health Sector
- Health Sector Status Report, 2011
- Sudan Households Health Utilization & Expenditure Survey in Northern States, 2011
- Free Health Care for Under-Five Children and Pregnant Women in Sudan, 2010
- National Health Accounts, 2008
- Sudan Household Health Survey, 2006

Promotion of Growth and Employment Creation

- IMF Article IV Consultation and Staff-Monitored Program Reports
- Sudan Country Economic Memorandum (CEM), 2009
- Governors' Roundtable on the Economic Growth: Towards Strengthening National Reconciliation and Integration. Wau, May 3 – 4, 2009
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- Sudan budget execution annual reports, MoFNE
- Central Bank of Sudan annual reports
- Sudan Investment Encouragement Act, 1999, amended in 2003, amended in 2010.
- Sudan Investment Climate Assessment, 2009
- Drivers of Change: Sudanese Private Sector, 2007
- Sudan Review of Administrative Barriers to Investment, 2006
- Agriculture Revitalization Program (ARP)
- Agriculture Green Mobilization Program (GMP)
- Sudan Country Economic Memorandum (CEM), 2009
- Revitalizing Sudan's Non-Oil Exports: A Diagnostic Trade Integration Study (DTIS, 2008)