

AFRICAN DEVELOPMENT BANK GROUP



Sudan : Country Brief – 2012-2014

REGIONAL DEPARTMENT, EAST II (OREB)

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Abbreviations and Acronyms

ACW	Arrears Clearance Window
ADF	Africa Development Fund
AfDB	African Development Bank
AUHIP	African Union High Level Implementation Panel
AWF	African Water Facility
BoS	Bank of Sudan
BWIs	Bretton Woods Institutions
CB	Country Brief
CBOS	Central Bank of Sudan
CEDAW	Convention on the Elimination of All Forms of Discrimination Against Women
COMESA	Common Market for Eastern and Southern Africa
CPA	Comprehensive Peace Agreement
CPIA	Country Policy and Institutional Assessment
CSP	Country Strategy Paper
DRA	Darfur Regional Authority
DDPD	Doha Document for Peace in Darfur
ESW	Economic and Sector Work
EU	European Union
FDI	Foreign Direct Investment
FSF	Fragile States Facility
GDP	Gross Domestic Product
GECL	Legal Department
GoNU	Government of National Unity of Sudan (before independence of South Sudan)
GoS	Government of Sudan
GoSS	Government of Southern Sudan (before independence of South Sudan)
HIPC	Heavily Indebted Poor Countries
ICBPRGGP	Institutional Capacity Building for Poverty Reduction and Good Governance Project
IDPs	Internally Displaced Persons
IFIs	International Financial Institutions
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
KOAFEC	Korea Africa Economic Cooperation
LJM	Liberation and Justice Movement
MoFNE	Ministry of Finance and National Economy
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MDTF	Multi Donor Trust Fund
MIC	Ministry of International Cooperation
NBHS	National Baseline Household Survey
NCP	National Congress Party
NPC	Non-Paris Club
ODA	Official Development Assistance
OPEC	Organization of Petroleum Exporting Countries
OREB	Regional Department, East B
OSFU	Fragile States Unit
PRSP	Poverty Reduction Strategy Paper
PFM	Public Finance Management
RoSS	Republic of South Sudan
SAF	Sudan Armed Forces
SDFO	Sudan Field Office
SDG	Sudanese Pound
SMP	Staff Monitored Program of the IMF

SPLM	Sudanese People Liberation Movement
SPLM-N	Sudanese People Liberation Movement-North
TA	Technical Assistance
TWG	Technical Working Group of Creditors
UA	Units of Account
UNAMID	United Nations – African Union Hybrid Mission
UN	United Nations
UNCBD	United Nations Convention on Biodiversity
UNCCD	United Nations Convention on Combating Desertification
UNDP	United Nations Development Program
USA	United States of America
USD	United States Dollars

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Table 1: Sudan: Result Based Activity Framework					
Contributions / Activities	Expected Results	Target Population	Performance Indicators	Time Frame	Assumptions / Risks
<p>Dialogue on Debt and Arrears</p> <p>Technical Assistance to GoS on debt relief issues</p>	<p>HIPC/MDRI debt relief provided</p> <p>HIPC decision point reached</p> <p>Utilization of pillar 1 resources of FSF.</p>	GoS and entire population	<p>Debt scenarios established</p> <p>Agreement with GoS on a coordinated arrears clearance plan</p> <p>Operation approved under Pillar 1 of FSF</p> <p>Debt reconciliation fully completed</p> <p>Joint Staff Advisory Note on the I-PRSP done.</p>	<p>2013</p> <p>2013</p> <p>2013</p> <p>End-2012</p> <p>End-2012</p>	<p><u>Assumption:</u> Commitment to arrears clearance</p> <p>If Sudan becomes eligible for arrears clearance under Pillar II of the FSF in ADF-XII cycle, additional resource mobilization efforts will be undertaken</p> <p><u>Risk:</u> Lack of an arrears clearance plan</p> <p>This risk is being mitigated by the Bank's assistance to Sudan in preparing an arrears clearance plan.</p>
Technical Assistance for Updating the Darfur Joint Assessment Mission	Conditions for sustainable peace, recovery and development in Darfur created	Darfur population	<p>Darfur pledging conference organized and resources mobilized</p> <p>A Darfur Early Recovery Program Framework adopted and implementation initiated.</p> <p>A longer term recovery and development framework adopted and initiated</p>	<p>1st quarter 2013</p> <p>2nd quarter 2013</p> <p>4th quarter 2013</p>	<p><u>Assumption:</u> Donors are mobilized and Pledging conference is organized.</p> <p><u>Risk:</u> Failure to mobilize resources.</p>
Technical assistance to the African Union High Level Implementation panel (AUHIP)	Conditions for sustainable peace and security established	GoS and entire population	<p>Comprehensive agreement on CPA issues</p> <p>Framework for Implementation of Agreement established and implementation initiated</p>	<p>End 2012</p> <p>Continuous</p>	<p><u>Assumption:</u> Commitment of both GoS and GoSS to the peace agreement</p> <p><u>Risk:</u> Non-commitment of the Parties to the peace agreement</p>
Dialogue on Political and Economic Developments	Satisfactory implementation of I-PRSP and Staff Monitoring program	Government of Sudan and the entire population	<p>Monitoring and evaluation system established for the I-PRSP</p> <p>Regular Briefing, Update and Reviews</p>	Continuous	<p><u>Assumption:</u> commitment to the finalization of the I-PRSP</p> <p><u>Risk:</u> Derailing the process of finalizing the I-PRSP.</p>
Dialogue and Technical Assistance on Regional Initiatives	<p>Sudan component of Drought Resilience and Sustainable Livelihoods Program in the Horn of Africa (DRSLP) is approved</p> <p>At least one Regional Operation is identified</p>	Government of Sudan and the entire population	<p>Financing plan confirmed DRSLP</p> <p>Regular Dialogue and Conferences/Seminars with GoS and RECs on RISP East Africa</p>	<p>1st quarter 2014</p> <p>Continuous</p>	<p><u>Assumption:</u> commitment of the countries involved</p> <p><u>Risk:</u> Non availability of funds to undertake the project.</p>
Economic and Sector Work (energy, livestock, and private sector and diversification studies)	Clearly defined and well-articulated national and sector policies relating to private sector development, diversification, livestock and energy.	Government of Sudan and the entire population	Various studies completed with Action Plans	<p>4th quarter 2013</p>	<p><u>Assumption:</u> Funds will be available to undertake the various studies.</p> <p><u>Risk:</u> Non availability of funds to undertake the project</p> <p><u>Risks:</u> Difficulty in recruiting good consultants and on time</p> <p>This risk will be mitigated by competitive bidding</p>

					and requesting prospective consultants to produce an inception report for the various studies
<p>Project Activities</p> <p>i) Support to capacity enhancement for debt management and resource mobilization for Pillar III, FSF</p> <p>-</p>	<p>Transparency and accountability of the GoS in budget and expenditure management and reporting enhanced resulting in the reduction of incidences of fraud</p> <p>GoS debt management and debt sustainability framework enhanced.</p> <p>Availability of system or framework facilitates tracking of aid flows and disbursements with a database on door interventions.</p>	<p>Government of Sudan and the entire population of Sudan</p> <p>Ministry of Finance and National Economy, National Audit Chambers, Office of the Accountant General and the Budget Section of the Ministry of Finance and National Economy.</p>	<p>Installation of a financial management information system</p> <p>Installation of required hardware and connectivity at various user levels</p> <p>Elaboration of relevant operations manual to enable the proper utilization of information system.</p> <p>Training of relevant staff at various levels at entry, implementation and monitoring.</p> <p>Scoping study on resource mobilization undertaken</p> <p>Strategic study and design of future public investment program undertaken.</p> <p>Scoping study on institutional framework for budget management and debt management reform committee undertaken.</p> <p>Study tours for relevant staff of the Ministries undertaken</p> <p>TA in debt management provided</p> <p>Training of relevant staff in reforms related to debt management program undertaken.</p>	4 rd quarter 2013	<p><u>Assumption</u>: Government commitment to project implementation</p> <p><u>Risk</u>: Difficulty in identifying competent project management staff</p> <p>This risk will be mitigated by referring to the DACON data base on consultants with project management experience..</p>
<p>ii) Darfur Water Supply project</p>	<p>Recovery of water based livelihoods.</p> <p>People in IDP camps returning or relocating to towns</p> <p>Financing of \$50 to \$100 million mobilised to implement the planned investments</p> <p>Increased access to water and sanitation for domestic and livelihood purposes, and improved health, for up to 750,000 people in the towns</p> <p>Strong functioning water institutions at State, town and community levels effectively delivering water and sanitation services to the residents of the towns and the nomadic peoples.</p>	<p>The urban populations and water institutions of Darfur the three Darfur State in Sudan. (approx. 4,000,000 million people)</p> <p>Approx. 750,000 residents in 15 to 20 towns of North, West and South Darfur</p>	<p>Reduction in number of reported conflicts over water resources in the towns and nearby areas.</p> <p>Reduction in amount of food aid delivered to population in the towns</p> <p>Percentage of displaced former residents of the towns returning</p> <p><u>Source</u>: Ministry of Humanitarian Assistance, UNAMID, UN country team, International NGOs</p> <p><u>Periodicity</u>: Annual review</p>	4th quarter 2013	<p>Lack of security preventing work of project consultants and contractors.</p> <p>➤ Encourage use of local consultants and contractors with a track record of working in the area. Select towns in more secure areas for priority works.</p> <p>Inability of AWF to undertake site visits to the towns during supervision missions</p> <p>➤ Mobilize UNAMID capabilities to provide the necessary protection</p> <p>Continuing conflicts in the region reducing donor interest in funding large scale projects</p> <p>Investment plans will remain valid for an extended period, requiring only minor updates if implemented at a later date</p>

1. INTRODUCTION

1.1 The objectives of this Country Brief (CB) are to update the Boards of Directors on the recent developments and emerging challenges in Sudan since the last CB and to provide a short-term programming framework for the Bank's strategic and operational activities towards full reengagement. It also reviews the Bank's current activities in Sudan, in particular dialogue on arrears, capacity building and technical assistance.

1.2 The last CB for Sudan was approved by the Boards of Directors in December 2010.¹ It was prepared in the context of the "one country two-system" governance framework under the Comprehensive Peace Agreement (CPA), signed in 2005 which paved the way for the establishment of the Government of National Unity (GoNU) of Sudan and the Government of Southern Sudan (GoSS).

1.3 Subsequently and prior to the imminent independence of South Sudan on 9 July 2011, the Boards exceptionally approved in June 2011, as an addendum to the CB, Sudan's eligibility for the first cycle of the supplemental support window (Pillar 1) of the Fragile States Facility (FSF) under ADF-12 for UA40 million.² In a subsequent document, Management prepared an Information Note to the Boards apportioning resources between the continuing state of Sudan and the new Republic of South Sudan (RoSS).³

1.4 Since then, a number of developments have taken place, including the independence of South Sudan, the ongoing protracted post-secession negotiations and the tense political situation between the two countries, the closure of the oil pipelines by South Sudan, the mitigating austerity measures by the Government of Sudan (GoS) and the resulting economic and social hardships

which threaten internal peace and social cohesion.

1.5 There has been some encouraging progress in the recent past, including the finalization of the Interim Poverty Reduction Strategy Paper (I-PRSP), the major deal signed on 27 September 2012 with South Sudan on oil, security and trade issues, facilitated by the AU High Level Implementation Panel (AUHIP). The implementation of the Doha Document for Peace in Darfur (DDPD), signed in 2011, has also recently evolved positively.

1.6 On its part, the Bank Group has also intensified its dialogue and technical assistance to the GoS and the AUHIP, as well as its coordination with other development partners, in particular on debt relief.

2. RECENT DEVELOPMENTS

2.1 Political Developments

2.1.1 The independence of the South and the unresolved post-secession issues have further rendered the political, security, economic and social situations of Sudan fragile. **The political landscape remains complex and volatile, dominated by external and internal threats to sustainable peace, security and stability.** The situation has remained fluid, shifting between conflict and post-conflict, with wide spatial variations.

2.1.2 The **external threat** to peace and security emanates essentially from pending post-secession issues with South Sudan, notably on oil, debt and arrears, security, border demarcation, the final status of Abyei and the issues surrounding the other so-called Two Protocol Areas (Blue Nile and South Kordofan States). The deadlock in negotiations on oil transit fees and the subsequent closure of the oil pipelines by South Sudan in late January 2012 had until recently exacerbated the tense political situation, culminating in intermittent borders clashes.⁴ The sudden deterioration of relations between the two countries shifted

¹ Ref: ABD/BD/WP/2010/179 - ADF/BD/WP/2010/128.

² ADB/BD/WP/2010/179/Add.1 - ADF/BD/WP/2010/128/Add.1.

³ The resources apportioned consisted of FSF Pillar I (UA40 million) and Sudan's 2011 ADF-12 country performance-based allocation (PBA) amounting to UA 23.51 million. As a result, 57% of the resources accrued to Sudan, i.e. UA 36.47 million, of which UA22.97 million under FSF Pillar 1.

⁴ This includes the brief capture and occupation of Heglig (Sudan's main oil field, producing about half of national oil production) by South Sudan in April 2012 as well as mounting militarization on both sides of the disputed Sudan-South Sudan border (Abyei Area, Southern Kordofan and Blue Nile).

the focus of the negotiations to that of borders and security. The adverse social and economic impacts for both countries have been immense.

2.1.3 More recently, the negotiations have evolved positively. On 3 August 2012, the Parties agreed on the financial arrangements on oil.⁵ However, the implementation of the deal was conditional upon agreements over some key remaining unresolved issues, particularly on security matters and border demarcation.⁶ This obstacle was lifted on 27 September 2012, when the two leaders of South Sudan and Sudan signed a partial deal on security, the common border and economic relations between the two countries.⁷ The buffer zone, established under the deal, will enable the two countries to implement the August agreement for the resumption of oil production and exports in the coming months. However, no agreement was reached on the final status of Abyei,⁸ the key disputed region, Blue Nile and South Kordofan States.

2.1.4 The international community, in particular the UN Security Council (UNSC), commended the partial deal reached and stressed the importance of full implementation of the agreements signed as

well as the rapid resolution of the final status of Abyei and other disputed and unclaimed areas.

2.1.5 The key to sustainable progress and development for both South Sudan and Sudan is reconciliation, peace and security through a genuine strong commitment by the Parties to resolve rapidly the remaining contentious post-secession issues. Concerted efforts by the international community and AUHIP⁹ for peaceful settlement of issues and the viability of two States must be sustained.¹⁰

2.1.6 The international community is also to be approached, jointly by Sudan and South Sudan, to provide financial assistance to address the urgent needs of both countries, lift all sanctions against the former. Creditor nations are also being encouraged to expeditiously forgive Sudan's external debt in accordance with the "*zero option*".¹¹

2.1.7 Internal threats to peace and security tend to be localized regionally, in particular Blue Nile, South Kordofan, Darfur and to a lesser extent Eastern Sudan.¹² Security in other parts of the country remains satisfactory in general. The main triggers for conflict tend to be competition over scarce resources (water for instance), regional disparities, marginalization, and the demographic shifts, resulting in particular in youth unemployment.

2.1.8 A new wave of internal demonstrations has emerged against newly imposed economic austerity measures, notably the removal of subsidy on fuel. Although, they do not carry any political

⁵ The agreement entails a weighted average of \$10 a barrel to be paid by South Sudan for the sum of all transportation, transit and processing fees. South Sudan has also agreed to pay a lump sum of \$3.028 billion over a period of three and half years. This amount is based on the proposal made in November 2011 that Sudan, South Sudan and the international community should contribute a third each of the potential financial gap faced as a result of the loss of revenues previously received from oil exports generated from the territory of South Sudan. The amount was calculated to range \$7.8-10.4 billion.

⁶ The GoS also reiterated the implementation of the oil deal rests upon a comprehensive agreement over the remaining unresolved issues, particularly the security matters relating to the disengagement with the northern sector (SPLM-N), the expulsion of the armed movements, the withdrawal of the ninth and tenth (SPLM) divisions (from South Kordofan and Blue Nile) and the demarcation of the border.

⁷ The deal includes a general agreement and eight protocols on border security arrangements; oil, economic and trade issues; and the four freedoms agreement which will allow citizens of each country the freedoms of movement, property ownership, work and residence in the other country. The implementation of those protocols should come into effect after being endorsed by the parliaments of both countries.

⁸ The leaders of both countries agreed, however, to continue the implementation of the deal they signed in June 2011 on Abyei, which stipulates the establishment of joint administrative and legislative bodies to run the region. They also agreed to keep the UN-mandated force of 4200 Ethiopian peacekeepers that are deployed in Abyei as part of the same deal.

⁹ The Bank has been providing technical assistance to the AUHIP as early as December 2010, to assist in accelerating peaceful settlement of post-referendum issues. Four Working Groups comprising: (i) Citizenship; (ii) Security; (iii) International Treaties and Agreements & other Legal Issues; and (iv) Financial, Economic Issues & National Resources, were formed to resolve outstanding issues.

¹⁰ Implementing the agreements on security issues and halting the alleged support for armed combatants on either sides of the border (by the other party) are critical for regaining trust in the negotiations.

¹¹ Sudan, the continuing State assumes all the debt conditional upon: (i) a joint outreach to the donor community by both countries; and, (ii) Sudan benefiting from debt relief within two years from July 2011, failing which there will be debt apportionment between the two countries. However, the Parties have still not signed on this option.

¹² Sudan is particularly urged to ensure international humanitarian access in those areas and bringing durable peace in Darfur.

demands yet, the potential for escalation and the security risk exist. The situation has also been exacerbated by the dwindling international assistance.

2.1.9 On Darfur, progress has been made in the implementation of the Doha Document for Peace in Darfur (DDPD), signed in 2011 by the GoS and contending parties. The DDPD provides a roadmap for bringing a permanent seizure to hostilities and sustaining peace in Darfur. In accordance with the DDPD, the Darfur Regional Authority (DRA) was established in early 2012 and two new states were created in addition to the existing three. The goal is to enhance power sharing, by broadening participation of marginalized groups and access to decision making.

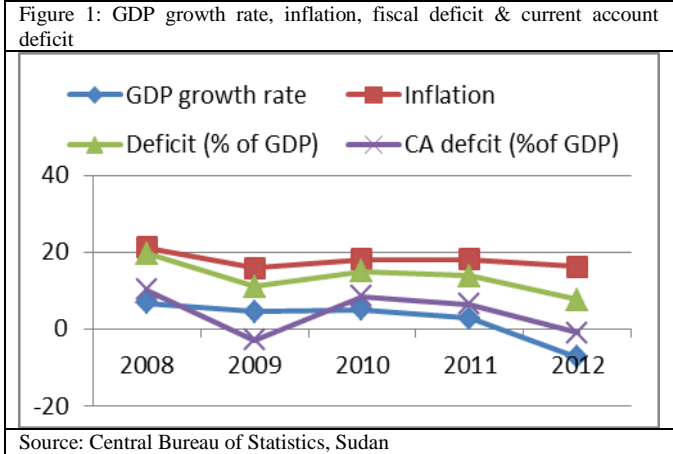
2.1.10 The DRA is partnering with the GoS to organize a donor pledging conference for Darfur in Qatar in December 2012 to discuss the roadmap and mobilize resources for the implementation of the DDPD. The donor community, including the Bank, is mobilized to provide support for the preparation for the conference, including a detailed post-conflict assessment in Darfur and identification of early recovery investment opportunities and associated programs of intervention.

2.2 Economic Developments

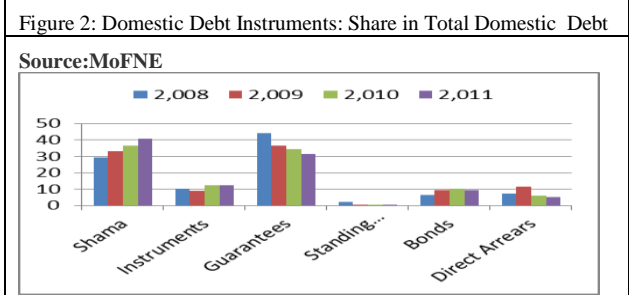
2.2.1 The secession of South Sudan and the shutdown of oil pipelines have contributed to creating severe macroeconomic imbalances and deteriorating considerably the economic conditions in Sudan (cf. Annexes 1-2). During the period 2008-2010, **real GDP** growth averaged 5.4%, compared with a growth rate of 2.8% in 2011. Real GDP is projected to contract by -7.35 in 2012 (figure 1).

2.2.2 The falling oil revenue also contributed to a slight deterioration in the **fiscal deficit** of 3.1% of GDP in 2010 to 4.3% in 2011, and is projected to decline further to 8.6% of GDP in 2012. Similarly, the **current account** deficit of 7.5% of GDP in 2011 is projected to deteriorate further, with a deficit of 8.6% of GDP projected in 2012.

2.2.3 The Bank of Sudan (BoS) issues bonds or *Musharaka* Certificates (GMCs) and other debt instruments to finance the deficit (Figure 2). As a result, **domestic debt** increased from SDG18.67 billion in 2008 to SDG22.76 billion in 2011, which represents an increase of about 22%. The domestic debt as at December 2011 constitutes 12.7% of GDP. Combined with the huge **foreign debt overhang** (about USD38 billion), the financial situation of the country remains very challenging.



2.2.4 Deficit financing and the pressure on the exchange rate contributed to escalating **inflation**. Average inflation surged to 15.3% in 2011 up from 13.0% in 2010, and is expected to increase to about 25% in 2012.



2.2.5 The official **exchange rate** has been kept at SDG2.7 per USD since April 2012, while the parallel market rate was SDG5 per USD, representing a difference of almost 50%. This presents a serious challenge to the on-going exchange rate anchoring.

2.2.6 In addition to the three-year *Economic Salvation Program* (ESP) 2012-2014 that was prepared to address the fiscal

and economic shock of the secession of South Sudan, the GoS adopted new austerity measures, including increases in revenue collection and expenditure cuts (cf. Annex 2). The GoS is also in discussion with the IMF for a 10th tenth *Staff Monitored Program* (SMP), after the successful implementation of the nine successive ones.

2.2.7 The medium term macroeconomic prospects appear brighter with the recent partial agreements with South Sudan. However, the coming months will continue to be challenging, in particular the macro-economic, financial, social and humanitarian situations. Long-term peace, stability and the viability of Sudan and South Sudan hinge upon reaching a comprehensive agreement on the remaining contentious unresolved issues, in particular border demarcation and the so-called protocol areas.

2.3 Social Developments

2.3.1 Poverty in Sudan is deeply entrenched and largely rural, with wide regional disparities. According to the 2009 Sudan Baseline Household Survey (NBHS), financed by the Bank, 46.5% of Sudanese are considered poor with 26.5% in urban areas and 57.6% in rural areas. Clearly, the recent relatively long growth episode prior to the South's secession has not been broad-based enough to make a significant dent on poverty.¹³ Furthermore, poverty levels might have risen considerably given increased internal conflicts, insecurity in some of the productive areas in South Kordofan and Blue Nile, and displacement of people.

2.3.2 As indicated in annexes 4 and 5, the GoS is facing major challenges for the attainment of the **MDGs**, regarding in particular those related to poverty, universal primary education, child and maternal mortality rates. The GoS has adopted pro-poor policy measures in the current 2012 budget to mitigate the impact of the austerity measures on the vulnerable groups (cf. Annex 2). The GoS has also finalized the I-

PRSP. Creating the appropriate conditions for the implementation of the I-PRSP will be crucial for progress towards the MDGs.

3. CHALLENGES AND OPPORTUNITIES

3.1 Challenges

3.1.1 Sudan is foremost confronted with the major challenge of creating sustainable conditions for durable peace and stability, in order to transition credibly from recovery and humanitarian situations to addressing reconstruction and long term development issues. Indeed, vigorous responses to the internal and external threats (cf. section 2.1) will help create the appropriate conditions for tackling the well-known economic and social constraints of **debt relief, capacity deficits** (institutional, human and physical), **food insecurity, poverty and MDGs**, as well as the emerging challenges.

3.1.2 The **emerging challenges** mainly pertain to the need to implement credible reforms to address the *macroeconomic imbalances*, promote *inclusive and new sources of growth* through economic *diversification* (e.g. to agriculture and industry) and *strengthening the private sector*.

3.1.3 The overall average rating of Sudan for the Country Policy and Institutional Assessment (CPIA) stood at 2.7 in 2011, which is below the cut-off score of 3.2 for fragile states. This still reflects the **high degree of fragility** of Sudan.

3.2 Opportunities

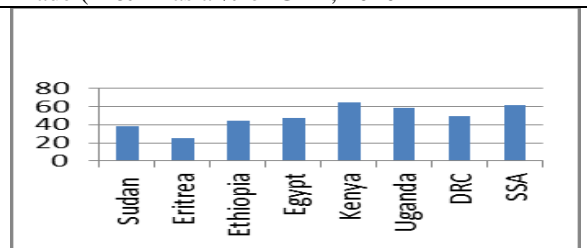
3.2.1 Good momentum for addressing internal and external threats to peace and stability. *Externally*, the prospects for sustainable peace look favorable with the signing of the partial agreements with South Sudan on security, the common border and economic relations between the two countries. Both countries should sustain this momentum and seize the opportunity of the good will of the international community to negotiate in good faith towards resolving the remaining contentious issues.

¹³ Although no accurate recent surveys exist on the impacts of the South secession on poverty levels, it is likely that rising unemployment and deteriorating standards of living have aggravated poverty.

3.2.2 *Internally*, the GoS, the DRA and development partners, including the Bank, are partnering to prepare the Darfur Pledging Conference in Qatar in December 2012. The main expected outcome would be to mobilize resources for the implementation of the Darfur Early Recovery Program and a longer term Recovery and Development framework.

3.2.3 **Sudan has large tracts of arable land of 170 million acres with only 20 percent of cultivated land being farmed using modern technology.** This offers opportunities for diversification of the economy into other sectors such as agriculture and agro-industries. Since 2000, the average growth rate of the agricultural sector has been 3.6%, down from 10.8% during the previous decade. The revival of agriculture is critical for overall economic growth and poverty reduction particularly in rural areas. The GoS will need to revamp the Agricultural Revitalization Program.¹⁴

Figure 3: Sudan and Comparator Countries Total Trade (X & M) as a % of GDP, 2010

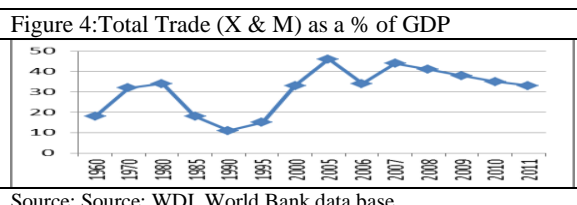


Source: Source: WDI, World Bank data base

3.2.4 **Sudan's existing regional trade areas (COMESA, Eastern and Southern African Group) can help the country to address some of its challenges in post-conflict reconstruction and development, through deepening economic integration.** Figure 3 shows the actual degree of Sudan's trade integration with other countries through total trade (exports and imports of goods and services) as a percentage of GDP. It also gives the degree of trade integration of neighboring countries and Sub-Saharan Africa (SSA). It reveals that Sudan is less integrated into the global economy than its

most important neighbors (with the only exception of Eritrea).

3.2.5 Figure 4 shows the values of trade integration of Sudan over time, from 1960-2011. It indicates that trade dropped sharply at the end of the 1980s (to one third of the values of the 1970s). From the mid-1990s and driven primarily by the oil sector, trade rose again considerably to the present level, which is still substantially lower than that of other comparable countries. This can be explained by the lack of diversification and the restrictive trade environment of Sudan. This provides Sudan with an opportunity to accelerate its regional integration agenda. It must, however, invest considerably in its capacity to implement and monitor regional trade protocols and their impacts.



Source: Source: WDI, World Bank data base

4. SUDAN'S NATIONAL PLANNING FRAMEWORK

4.1 Prior to the secession of the South, the Three-Year Economic Salvation Program (ESP) was meant to address the fiscal and economic shock. The ESP appeared to be an appropriate response if implemented. Events, including notably the then stalled oil negotiations and the shutdown of pipelines, prevented its credible translation into the budget process. In addition and with the view to addressing the aforementioned structural constraints and challenges, the GoS formulated an I-PRSP 2011-2013 and a National Development Plan (NDP) 2012-2016.

4.2 The I-PRSP, recently approved by the Parliament, has four main pillars: (i) strengthening governance and institutional capacity; (ii) reintegration of IDPs; (iii) developing human resources; and, (iv) promotion of economic growth and employment creation.

¹⁴ The program, launched in 2002, aimed at greater commercialization of the traditional farming sub-sector, with private and public investments to stimulate growth in the irrigation and semi-mechanized farming areas.

4.3 The NDP focuses on five priority areas: (i) governance and administration; (ii) building institutional capacity; (iii) economic growth and sustainable development; (iv) social development and culture; and, (v) consolidation of the value system.

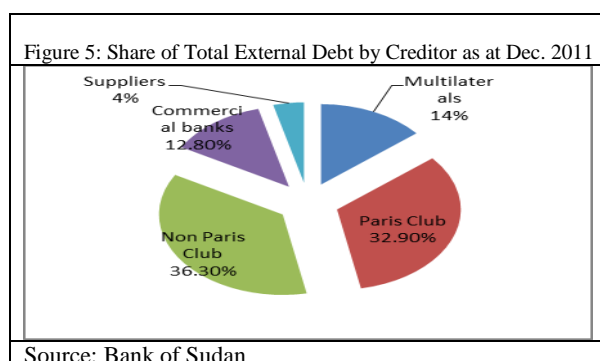
4.4 Both the I-PRSP and the NDP seek to promote economic growth, build institutional capacity and strengthen governance and are, therefore, meant to be complementary and mutually reinforcing. Work is underway on the Monitoring and Evaluation (M&E) mechanism, including data generation at the State level and MDG tracking.

4.5 In its dialogue with the GoS and in coordination with other development partners, the Bank has underlined: (i) the progress made by the authorities in putting in place all these planning tools; (ii) the importance of ensuring consistency among them, given the risk of overlaps; (iii) putting in place an appropriate monitoring and evaluation (M&E) system, to ensure effective implementation; and, (iv) the need for a credible medium term macroeconomic framework, which has been hampered by the uncertainty around the oil issues with South Sudan.

5. CURENT EFFORTS AND BANK GROUP ENGAGEMENT IN SUDAN

5.1 Arrears and Debt Situation

5.1.1 Sudan's external public and publicly guaranteed debt as at end-2011 is estimated at about US\$38 billion in nominal terms or US\$37.8 billion in present value (PV) terms, with over 86% in arrears. Representing about 60% of GDP, the level is deemed unsustainable and well within the HIPC/MDRI thresholds for debt relief. As shown in Figure 5, about 70% of the debt is owed to bilaterals, namely the Paris Club (PC) and the Non Paris Club (NPC) members.

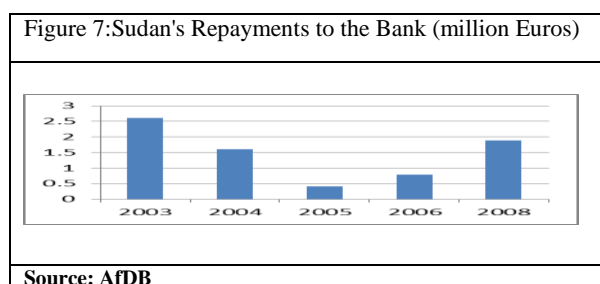


5.1.2 Regarding Sudan's debt to the Bank Group, it is now close to 18 years since the country entered the non-accrual status for not servicing its obligations which, as at mid-September 2012, stood at UA205million (equivalent to USD316 million), of which 58% in principal and 42% in interest.¹⁵

Sudan: Arrears to the ADB Group as at 15 September 2012
(Thousands UA)

	Total	Principal	Charges
ADF	81,513.16	58,575.66	22,937.50
ADB	123,537.75	60,820.03	62,717.72
Total	205,050.91	119,395.69	85,655.22

5.1.3 As a demonstration of its commitment to arrears clearance, Sudan had in the past been making token payments to the Bank amounting to Euro 7.27 million (Figure 7). However, repayments were discontinued in 2009, following the global financial crisis.



5.1.4 **Bank's dialogue on arrears clearance and debt relief:** The Bank has intensified its engagement mainly on three fronts: (i) providing technical assistance to the AUHIP to accelerate a peaceful settlement of post-independence issues, including on debt, currency and the payments system;¹⁶ (ii) coordination with other

¹⁵ It is estimated that the amount owed to the IMF and IDA, as at end-2012, would represent about USD1.5 billion for each.

¹⁶ The Bank participated at a high level and provided technical advice in all the rounds of negotiations. The Bank also provided technical assistance in preparing at the very beginning the

development partners, notably the Bretton Woods Institutions (BWIs) especially in the context of the Technical Working Group (TWG) on Sudan's debt relief established in early 2011;¹⁷ and, (iii) dialogue and technical assistance to the GoS.

5.1.5 The engagement with the GoS has particularly involved: (i) regular bilateral consultations with the Sudan Field Office (SDFO) and dialogue missions involving Headquarters; (ii) technical advice and inputs in the preparation of the I-PRSP; and, (iii) Bank's assistance in organizing: (a) the Sudan Forum on "Towards Two Viable States" in Lisbon in June 2011 during the Annual Meetings; and, (b) the Peer Learning Workshop on Arrears Clearance and Debt Relief in May 2011 in Khartoum.¹⁸ The workshop was particularly useful in guiding the GoS to reach out to domestic stakeholders and donors to finalize the I-PRSP.

5.1.6 *Outcome and issues arising* are related to the approach to debt relief, the progress made by the GoS in HIPC requirements, the urgent needed reforms and sustainability of the medium-term macro-economic framework, the arrears clearance plan and preferred creditor status, and the prospects for HIPC decision point and creditors' outreach.

5.1.7 On the approach, it is agreed that addressing the arrears and debt issue in a comprehensive and an internationally coordinated reengagement framework is critical to ensuring the significant level of strategic and operational engagement needed. The objective is to ensure the necessary fiscal space needed to address the poverty and development challenges of Sudan. In this regard, it is agreed that the GoS will: (i)

demonstrate strong commitment, leadership and ownership of the process; (ii) observe the preferred creditor principle, especially the with respect to the IFIs; and, (iii) work in close coordination with the BWIs in a process supported by all creditors, including the Paris and Non-Paris Club.

5.1.8 The GoS has made significant progress towards satisfying the technical requirements for debt relief under the HIPC initiative, including the finalization of the I-PRSP and its approval by the Parliament, and the reconciliation of about 92% of total stock of external debt as at March 2012.¹⁹ Going forward, key milestones will consist of the review of the I-PRSP by the BWIs and the issuing of the Joint Staff Advisory Note, and sustaining reforms to ensure a credible medium term framework that underpins the I-PRSP. In this regard, putting in place a well-functioning M&E system, concluding the 10th SMP with the IMF and implementing it effectively will be critical.²⁰

5.1.9 Furthermore, the GoS has committed to taking leadership in preparing a country-owned framework note on arrears clearance and debt relief for effective and constructive engagement with the donor community. The note will articulate the progress made, remaining challenges and the GoS proposed approach towards arrears clearance and debt relief. In this regard, the GoS has requested the Bank to assist in providing technical assistance to facilitate and accelerate the process.

5.1.10 On the resumption of token payments to the Bank, the authorities have reiterated their commitment, but have indicated the constraints posed by the current fiscal crisis. However, they committed to resuming such payments when the situation stabilizes. The Bank will ensure that this is articulated in the context of a credible arrears clearance, with

background documents on the framework for economic cooperation towards two viable States, options for debt and currency issues as well as the framework for trade and the payments system.

¹⁷ In particular, the Bank took an active part in: (i) the Technical Debt Workshop jointly organized by the GoNU, GoSS, the AfDB, the IMF and the World Bank in Khartoum in December 2010; (ii) the five meetings of the TWG that have taken place so far; and, (iii) the Economic Meetings on the economic situations of Sudan and South Sudan, hosted by the US in Washington, DC in June 2012.

¹⁸ In particular, the peer learning workshop provided the opportunity for GoS officials to learn from other African countries that have successfully implemented the HIPC/MDRI or a related process, e.g. Liberia, Nigeria, Ghana, Malawi, and Sierra Leone.

¹⁹ The remaining 8% un-reconciled debt is owed to creditors such as Russia and others.

²⁰ The last SMP expired in 2010. Thereafter, uncertainties in the political & economic context did not allow rapid process in the negotiations of the 10th SMP. Some progress seems to have been during the preparation of the Article IV Consultations in August 2012.

the observance of the Preferred Creditor status.

5.1.11 The international community generally agrees that Sudan debt relief will be based on the established HIPC/MDRI mechanisms. The “zero debt” option agreed between Sudan and South Sudan will apply, namely the continuing state Sudan retains all external liabilities, provided that it receives firm commitments for debt relief within two years starting July 2011 and both countries agree to reach out jointly to creditors. On reaching the oil agreement on 3 August 2012, the “joint approach” to the international community was reiterated.²¹

5.1.12 In this regard, the IMF, the World Bank and the Bank are expected to accelerate technical support to Sudan, in particular in the framework of the TWG. Overall, the creditors have expressed willingness to support Sudan’s debt relief, provided that conditions improve on the ground, particularly peace and security.

5.2 Bank Group Portfolio/Activities

5.2.1 The Bank project activities have been limited to some capacity building operations financed through resources that are not affected by the arrears situation of Sudan, in particular Pillar 3 of the FSF, the African Water Facility (AWF), the Emergency Relief Fund (SRF), and bilateral Trust Funds.

5.2.2 Since the last Country Brief, two projects were approved: (i) Phase 1 of Darfur Water Project for Conflict Resolution & Peace Building, approved in January 2012 under AWF (EUR3.3 million);²² and, (ii) Capacity Enhancement for Debt Management & Resource Mobilization, approved in March 2012 under FSF Pillar 3 (UA 1.05 million).

²¹ Both countries agreed to make a request to creditors for debt relief for Sudan in accordance with the “zero option” and the lifting of economic sanctions imposed on Sudan.

²² The goal of the project is to contribute to peace building by addressing one of the root causes of conflict in Darfur, i.e. competition of communities over scarce water resources. The first phase involves rehabilitation, investment planning and capacity building to meet water needs for 20 rural towns. The medium to long term goal is to use the outcome of this pilot phase I to secure and leverage up to USD100 million for investment projects under phase 2 for the expansion of water systems to meet emerging priorities.

5.2.3 The Institutional Capacity Building for Poverty Reduction and Good Governance Project (ICBPRGGP), approved in March 2007, is still ongoing. It was approved for UA 9.62 million through an ADF grant, with resources allocated to North (30%) and South (70%). For the Sudan (North) component, resources are disbursed at about 73%. The project will close in December 2012, by which time most activities will have been completed.

5.2.4 The main objectives have been achieved, in particular the Baseline Household Survey (NBHS), which had been nonexistent for decades, the finalization of the I-PRSP and other policy and planning instruments. Some weaknesses were experienced in project implementation capacity and financial management, in particular the quality and timely submission of audit reports.

5.2.5 In addition, the Emergency Relief Assistance to Khartoum State for Schools affected by Flood, approved in July 2010 for USD1.0 million, has been fully disbursed.

5.3 Non-lending activities

5.3.1 As discussed above, the Bank non-lending activities have primarily focused on donor coordination, dialogue and technical assistance to the GoS and the AUHIP on post-referendum negotiations, arrears clearance and debt relief, the I-PRSP, policy advice on development issues and poverty analysis. In addition to the various technical background documents prepared for the negotiations, two ESWs have been published.²³

5.3.2 Furthermore, a key aspect of the dialogue has consisted in identifying capacity and knowledge gaps to assist the country in addressing its emerging challenges going forward. The outcome is discussed below.

²³ *Sudan and South Sudan: Macro-economic Prospects and Framework for Economic Cooperation*; and, (ii) *Sudan: Challenges and Opportunities for Arrears Clearance and Debt Relief and Donor Coordination: Sharing African Experiences*.

6. DONOR COORDINATION

6.1 The main traditional donors in Sudan include the US, United Kingdom, Germany, Japan, Italy, some Arab countries, particularly Saudi Arabia, United Arab Emirates. Recently, there has been an influx of some new non-traditional donors, including China and India.

6.2 A systematic donor coordination mechanism has been difficult to establish, in particular in light of the difficult and volatile relations that have prevailed with the international community. Donors on the ground hold meetings and share information, to ensure some coordination. The Bank, through the SDFO, hosts donor economic working group meetings to discuss issues and perspectives relating to Sudan's challenges and development. These meetings and consultations have given the Bank an insight into donor programs in relation to the GoS's development agenda.

6.3 More recently, a joint coordination mechanism GoS/DRA/Donors was established in the context of the Update of the Darfur Joint Assessment Mission (DJAM) for the planned Darfur pledging conference. The Bank has been designated to play a leadership role in infrastructure. The Bank, through SDFO, is serving on the Technical Committee and is providing technical support in the preparation of the background documents.

6.4 On current and future areas of assistance, donors are faced with a dilemma: to either scale up humanitarian assistance for a growing number of vulnerable people and/or to support simultaneously the also urgent needs for reconstruction and medium to long-run development initiatives, focusing on inclusive growth, with poverty reduction and job creation, through economic diversification. The Multi-donor Trust Fund (MDTF), managed by the World Bank, will phase out in December 2013.²⁴

6.5 Going forward, the GoS will need to exert stronger ownership and leadership in donor coordination. In this regard, the GoS is encouraged to work towards putting in place a stronger country-owned donor coordination mechanism and an effective M&E system.²⁵ The HIPC/PRSP process has contributed to improving significantly relations between the GoS and the donor community. This momentum needs to be sustained.

7. PROPOSED BANK GROUP RE-ENGAGEMENT STRATEGY

7.1 Resource Issues

7.1.1 For the period 2011-2013, Sudan has been allocated some resources under ADF-12 as shown in table 3. In addition, Sudan can tap into other Bank Group resources (cf. para. 5.2.1). Except for Pillar 3 of the FSF, all other ADF-12 resources are affected by the arrears situation of Sudan. They can be used when arrears are cleared or exceptionally under specific conditions approved by the Boards.

	Total	Committed	Balance
ADF-12 (PBA Allocation)	46.05	-	46.05
FSF-Pillar1	22.97	-	22.97
FSF Pillar 3 **	4.48	2.35	2.13
Total	73.50	2.35	71.15

* Under Pillar 2, resources have been set aside for arrears clearance of Sudan or Zimbabwe, whichever comes first during ADF-12.

** Committed for activities in South Sudan in 2009-2010 (UA1.3 million) & the Capacity building project for debt management approved in March 2012 for Sudan (UA1.05 million).

7.1.2 As indicated above, eligibility to FSF Pillar 1 of the FSF was approved in June 2011. However, the utilization of the resources has been subject to the preparation of an arrears clearance plan, concrete steps towards its implementation and a relevant country programming document.

²⁴ The MDTF was extended for one year. The World Bank is also in the process of preparing a new Interim Strategy Note (ISN) 2013-14, expected to be approved by its Board in September 2012. The ISN is exploring three pillars: (i) Managing the transition to a new Sudan, by improving PFM & governance; (ii) Promoting Growth & Poverty

Reduction; and, (iii) Human Resources Development (social sectors, safety nets and service delivery).

²⁵ This will also entail enhancing the database on donor interventions to allow a more systematic tracking of aid flows and disbursements.

7.2 Proposed Re-engagement Program

7.2.1 Overall, the Bank's intense engagement in Sudan since the last CB has been very useful in making progress on a number of Sudan's major challenges (cf. section 5). They enabled the Bank to provide well targeted policy dialogue, demand-driven technical assistance, capacity building and analytical work. They also allowed an effective dialogue and coordination with other donors.

7.2.2 In this context, some major issues have emerged and need to be addressed going forward. The goal is to ensure Sudan's full re-engagement with the international community and to create the appropriate conditions for providing effective support.

7.2.3 Given the current country's non-accrual status, the Bank's engagement in Sudan in the context of this Country Brief will continue to focus on targeted policy dialogue, capacity building, technical assistance and analytical work. The assistance will support and also be informed and guided by the planning instruments recently developed by the GoS (cf. section 4). It takes account of the Bank's Enhanced Strategy and the recent Busan New Deal & Good International Practices and Engagement in Fragile States.²⁶

Policy Dialogue

7.2.4 **Creating the conditions for sustainable peace and stability** is a key prerequisite for Sudan for adequately addressing reconstruction and development issues. In this regard, the Bank will continue to provide technical assistance to the AUHIP, to accelerate peaceful settlement of outstanding contentious issues between Sudan and South Sudan. Key milestones will consist of reaching rapidly a Comprehensive Agreement and putting in place the appropriate framework for its implementation.

7.2.5 The Bank will also provide technical assistance to the ongoing process of updating the Darfur Joint Assessment Mission (DJAM), by playing a leadership role in the area of infrastructure. Key outcomes will consist of the success of the Pledging conference and the resources mobilized to implement the Darfur Early Recovery Program and the Long term Recovery and Development Framework.

7.2.6 The Bank will also ensure that the pilot phase of the Darfur Water Project for Conflict Resolution and Peace Building is successfully implemented and resources are mobilized for the second phase. The medium to long term goal is to ensure that water resources, as a major source of conflict, are expanded to meet the emerging priorities for sustainable peace.

7.2.7 The Bank will also continue to actively participate in major international conferences, seminars and initiatives aimed at sustainable peace, stability and state building in Sudan.

7.2.8 **Arrears clearance and debt relief:** Given the numerous socio-economic challenges of Sudan, the reengagement with the international financial community and the full resumption of the Bank Group's operations, after arrears clearance and debt relief, will have significant development impact on the country and the population.

7.2.9 The Bank will continue its dialogue with the GoS and coordination with donors, particularly within the TWG, on Sudan's arrears clearance and debt relief within the broader context of HIPC/MDRI (cf. section 5.1). In this context, it will be important to sustain the momentum gained on peace, creditors' general willingness to provide debt relief and the TWG's readiness to accelerate technical assistance to achieve key outcomes. Enhancing joint outreach efforts to creditors will be critical.

7.2.10 Key milestones will include: (i) issuing of the I-PRSP Joint Advisory Note by the BWIs; (ii) completion of debt reconciliation; (iii) finalizing debt scenarios; and, (iv) agreeing with the GoS on a credible

²⁶ The New Deal commits donors and partner countries to use peace & state building goals as an important foundation for progress towards the MDGs, focus on country-led and country-owned transitions out of fragility, and commit to mutual trust by providing aid and managing resources more effectively and aligning them for results.

coordinated arrears clearance plan. The latter will particularly allow the utilization of resources from Pillar 1 of the FSF (cf. 7.2.1). The Bank will provide technical assistance to the GoS in developing a country-owned framework on arrears clearance and debt relief²⁷ and ensure effective implementation of the Capacity Enhancement for Debt Management and Resource Mobilization Project (CEDRMM), approved in March 2012 under FSF Pillar 3 (cf. para. 5.1.9 and 5.2.2).²⁸

7.2.11 Policy dialogue on economic and social developments: Sudan has reached a cross road in its economic history following the independence of South Sudan. This underscores the need for continued monitoring of the situation on the ground, dialogue on political and development issues, identifying emerging needs, providing advice, technical assistance and knowledge work as appropriate.

Targeted Analytical Work, Technical Assistance and Capacity Building Initiatives

7.2.12 These activities are intertwined and self-reinforcing to support effectively dialogue and prepare the ground for full scale assistance when all the reengagement conditions are met. The Bank will continue to undertake analytical work to underpin and inform its interventions in Sudan as well as government policies and strategies going forward. Analytical work envisaged includes studies in the areas of diversification and inclusive growth, poverty analysis, livestock, and energy. In addition, other critical themes will include issues related to drivers of conflict; vulnerability assessments; state building; the modernization and transparency of government structures.

7.2.13 Key outcomes will consist of the preparation of sector policies and strategies

as well as effective policy advice and response to fragility and conflict to sustain peace. Resource mobilization efforts from Trust Funds will be undertaken. Progress has been made in the processing of some of the TA and capacity building proposals.²⁹

7.2.14 In addition to the implementation of the operations already approved, the Bank will continue to identify and focus on the critical and emerging capacity building needs of the country, particularly in the areas of public financial management (PFM), planning, budgeting, monitoring and evaluation of policies and programs. These will be developed in the context of the planning and programming instruments put in place by the GoS, namely the I-PRSP and NDP. Given the government's drive for fiscal decentralization, the Bank will devote particular attention to enhancing capacity at the state levels. Lessons and emerging needs will also be drawn from the ICBPPRGG project.

7.2.15 Pillar 3 and potentially resources unlocked from Pillar 1 of the FSF will be used to finance some of these initiatives. In addition, the Bank will continue dialogue and identify opportunities for Sudan in the context of regional initiatives, in particular the Drought Resilience and Sustainable Livelihoods Program in the Horn of Africa (DRSLP) and the Regional Integration Strategy Paper (RISP) for East Africa.

7.2.16 Partnerships and co-financing: The Bank will continue to forge strategic alliances and partnerships with other development partners to co-finance activities, including demand-driven analytical work, program and project interventions. The Bank will take part in international fora to take advantage of opportunities for partnership with others in proposed activities given its limited resources.

²⁷ This will serve as Sudan's outreach instrument to appeal and outreach to partners/donors for potential support.

²⁸ The CEDRMM project has two main objectives: (i) improving transparency and accountability of the GoS in budget and expenditure management and reporting; and, (ii) enhancing the GoS's debt management and debt sustainability framework. Under (i), an automated system will be put in place with the requisite capacity. Under (ii), a debt management strategy will be elaborated and the relevant human and institutional capacity will be strengthened.

²⁹ Technical Assistance to Mamoun Beheiry Centre, Khartoum, Sudan for USD260,000 under Nigeria Technical Cooperation Fund; Capacity Building and Assessment of Options for Increasing Access to Energy in Sudan for USD376,750 from the South-South Cooperation Fund; Agricultural Growth: Capacity Building for Scientific Preservation of Livestock Breeds in Sudan for USD497,000 from KOAFEC; and Private Sector Development, Trade and Economic Diversification in Sudan for USD 479,010 being discussed.

8. MONITORING & EVALUATION

8.1 The program of activities articulated in this Country Brief (CB) is result-oriented. The Result-based Activity Framework attached to this CB will serve as the main joint monitoring tool. Given the fluid political, economic and social context of Sudan, close monitoring and regular updates and reviews will be critical. SDFO will play a key role on the ground.

8.2 In addition, the Bank will closely collaborate with the GoS and other donors to assist in putting in place an effective national M&E system, consistent with the I-PRSP and the NDP. At the request of the GoS, the Bank will be collaborating with UNDP to provide technical assistance in formulating an M & E system to track progress in poverty reduction and the MDGs, including at the state levels.

9. RISKS & MITIGATING MEASURES

9.1 The main risks Sudan is confronted with consist of the looming internal and external threats to peace and security, the macroeconomic instability exacerbated by the declining development assistance.

9.2 In terms of mitigating measures, the momentum gained in the coordinated efforts of the international community, including the UN and the AUHIP, must be sustained. The GoS commitment to reforms, securing a SMP with the IMF and sustaining efforts towards debt relief and the full reengagement of the international community will go a long way in mitigating the risks.

10. CONCLUSION AND RECOMMENDATIONS

10.1 Conclusion

10.1.1 Sudan is faced with numerous political, economic and social challenges, including achieving peace and stability to vigorously embark on reconstruction and long term development, through diversification, poverty reduction, inclusive growth with regional balance and job creation.

10.1.2 The medium term prospects are favorable for peace, stability and recovery.

Concerted efforts by Sudan and the international community must be sustained. Efforts at creating the appropriate conditions for effective and full reengagement with the international financial community are also critical. In this regard, the Bank intends to continue to play a leadership role in its areas of comparative advantage, through targeted policy dialogue, analytical work, technical assistance and capacity building activities articulated in this Country Brief. Owing to the non-accrual status of Sudan, the Bank will use its available instruments, in particular those that are not affected by the arrears situation. It will also work towards creating the conditions for the exceptional use of resources such as Pillar 1 of the FSF.

10.2 Recommendations

The Boards of Directors are invited to approve the Country Brief (CB) 2012-2014 for Sudan, in particular:

- (i) the strategic and operational activities outlined in this CB;
- (ii) the continued utilization of Pillar 3 of the Fragile State Facility (FSF) and other Bank Group resources not affected by the arrears situation such as the African Water Facility (AWF) and the Emergency Relief Fund (SRF), in line with the existing policy guidelines; and,
- (iii) working towards creating the conditions for the utilization of resources from Pillar 1 of the FSF, in line with the existing policy guidelines.

Annex 1: Impact of the Independence of South Sudan and the Fiscal Shock

The independence of South Sudan resulted in the loss of 20% in GDP in 2011 inducing an estimated contraction in GDP by 4.5% in 2012, 90% loss in exports, 36% loss in government revenue, fiscal deficit of about 5% of GDP and a current account deficit of about 9% in 2012. It has also resulted in high inflation and depletion of foreign exchange reserves (0.1 month of import cover). The estimated gap of oil loss is about USD10.4 billion of total foreign exchange receipts in the next five years thus affecting domestic and external balances and threatening stability in economic growth.

High poverty incidence of 46.5% is likely to further increase due to the economic shock. Unemployment is likely to rise as well. The variations in economic and social development among states (the incidence of poverty is 26% for the best performing states and 69.4% for the worst) will become even more pronounced and the same will be true of Millennium Development Goals (MDGs).

Large number of displaced persons due to conflict, climate change and economic conditions need to be reintegrated into sustainable livelihoods while large numbers of ex-combatants will need Disarmament, Demobilization & Resettlement programs.

In order to address the shock, the government has put in place an austerity program which emphasizes stringent fiscal discipline, tightening government expenditure, and boosting non-oil revenues; tightening monetary policy to curb inflation, contain exchange rate pressures and building foreign exchange reserves. Other measures include reorientation of growth to be broader based and equitable, investing in social services, reintegration of displaced persons into sustainable livelihoods, and implementation of DDR programs and peace agreements.

Source: Overview of Sudan Macroeconomic Policies for Growth, Employment and Poverty Reduction, March 2012.

Annex 2: Government Austerity Measures (Expenditure Cuts and Increase Revenue Collection) and Pro-Poor Policy Package

Expenditure Side

- Reducing the structure of the government by an average of 50%. The reduction includes reducing staff from the Office of Presidency, Cabinet of Ministers, National Assembly, Federal and State Ministers, experts and advisors working at different government levels. More than 350 positions are projected to be cut (100 at the federal and 250 at state levels). Drastic reduction and rationalization of government expenditure for the remaining government officials is also envisaged.
- Gradually alleviating government subsidies on oil products. The Government now considers such support as unfair and unjust for the poor segments of the society, and will thus be substituted by direct transfers to poor families.
- Reducing government-procured goods and services by strictly controlling the purchase of government supplies, including construction and renovation of public buildings.
- Eliminating exchange rate distortions through lowering the exchange rate for Sudanese pound to SDG 4.4 instead of SDG 2.7 per dollar (60% increase, essentially devaluation). Lowering the exchange rate was due to the huge gap between the official (SDG 2.7 to the USD) and parallel market (SDG 5.6 to the dollar), which was more than doubled.

Revenue Side

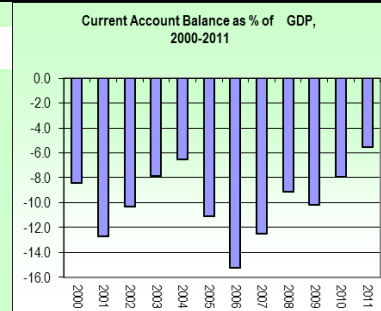
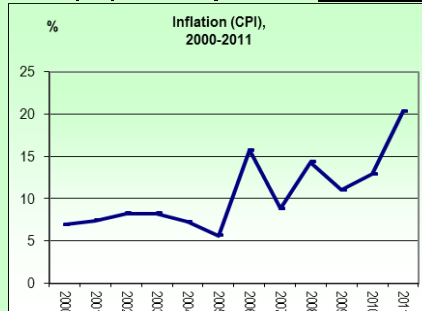
- Increase the value added tax (VAT) from 15% to 17%, development tax from 10% to 13%, and business profit tax on the banking system from 15% to 30%, as well as broadening the tax base.
- Take prudent measures to channel all public funds through the Ministry of Finance and prevent public institutions from directly implementing programs outside the purview of the Ministry of Finance, and expedite the process of executing proven cases of corruption and fraud.
- Assert more efforts to increase government oil production, which is expected to reach 180,000 bpd in 2013, from the current 115,000 bpd.
- Increasing gold production with companies to increase government share and channel additional resources in the budget.

Pro-Poor Policy Package

- Increase government employee wages and salaries by SDG 100, including pensions.
- Allocate funds for direct transfers to more than 750,000 poor families negatively affected by government economic reforms.
- Import basic food items using subsidized exchange rate in an attempt to make prices reasonable for poor households.
- Bear the cost of education (i.e. tuition fees and accommodation) of some 40,000 students from poor families at university level.
- Use the social safety nets available to create income for the poor. This includes programs executed by Social Security Funds, Zakat Fund, Social Development Banks, Microfinance and Health Insurance Funds.

Annex 3: Sudan - Selected Macroeconomic Indicators

Indicators	Unit	2000	2006	2007	2008	2009	2010	2011 (e)
National Accounts								
GNI at Current Prices	Million US \$	10,940	30,054	37,602	47,136	51,995	54,854	...
GNI per Capita	US\$	320	763	931	1,138	1,224	1,260	...
GDP at Current Prices	Million US \$	12,367.1	36,401.0	46,531.1	58,507.1	51,805.3	64,202.2	75,105.9
GDP at 2000 Constant prices	Million US \$	12,367.1	18,435.8	20,309.4	21,698.8	22,675.3	23,817.1	23,731.1
Real GDP Growth Rate	%	8.4	11.3	10.2	6.8	4.5	5.0	-0.4
Real per Capita GDP Growth Rate	%	5.8	8.6	7.5	4.2	1.9	2.5	-2.7
Gross Domestic Investment	% GDP	18.3	25.1	26.5	22.6	23.0	21.1	21.3
Public Investment	% GDP	2.3	6.7	9.5	6.5	5.8	5.3	5.1
Private Investment	% GDP	16.0	18.4	17.0	16.1	17.2	15.8	16.2
Gross National Savings	% GDP	9.9	9.7	14.0	13.6	8.2	14.5	14.0
Prices and Money								
Inflation (CPI)	%	6.9	15.7	8.8	14.3	11.0	12.9	20.3
Exchange Rate (Annual Average)	local currency/US\$	2.6	2.2	2.0	2.1	2.3	2.2	2.5
Monetary Growth (M2)	%	...	29.6	10.3	16.3	19.1	...	...
Money and Quasi Money as % of GDP	%	...	22.6	21.0	18.7	22.9	...	...
Government Finance								
Total Revenue and Grants	% GDP	10.3	21.0	20.6	21.6	16.7	16.8	17.3
Total Expenditure and Net Lending	% GDP	11.0	25.6	26.0	23.0	18.6	18.8	18.1
Overall Deficit (-) / Surplus (+)	% GDP	-0.7	-4.6	-5.4	-1.4	-1.9	-2.0	-0.8
External Sector								
Exports Volume Growth (Goods)	%	94.0	9.5	44.2	0.3	4.1	-3.1	-20.0
Imports Volume Growth (Goods)	%	13.0	12.8	-2.0	2.3	-1.0	-1.2	-0.3
Terms of Trade Growth	%	27.8	2.8	-4.2	20.6	-18.8	17.2	40.5
Current Account Balance	Million US \$	-1,040.9	-5,541.3	-5,812.2	-5,325.4	-5,254.2	-5,079.3	-4,155.6
Current Account Balance	% GDP	-8.4	-15.2	-12.5	-9.1	-10.1	-7.9	-5.5
External Reserves	months of imports	0.5	1.2	0.9	0.8	0.6	0.8	...
Debt and Financial Flows								
Debt Service	% exports	4.5	5.1	1.9	2.5	4.8	3.5	4.8
External Debt	% GDP	153.6	78.1	68.5	57.7	68.9	57.3	52.2
Net Total Financial Flows	Million US \$	315.4	2,115.2	2,147.7	2,404.3	2,332.9	...	...
Net Official Development Assistance	Million US \$	220.4	2,044.1	2,111.5	2,383.6	2,288.9	...	...
Net Foreign Direct Investment	Million US \$	392.2	3,534.1	2,425.6	2,600.5	2,682.2	1,600.0	...



Source : ADB Statistics Department; IMF: World Economic Outlook, September 2011 and International Financial Statistics, September 2011;

ADB Statistics Department: Development Data Portal Database, October 2011. United Nations: OECD, Reporting System Division.

Notes: Data Not Available

(e) Estimations

Last Update: October 2011

Annex 4: Sudan: Progress towards the Millennium Development Goals (MDGs)

Poverty: As revealed by the Bank-financed household survey of 2010, about 47 % of the population lives below the poverty line. The poverty gap ratio and the poverty severity index stand at 16.2% and 7.8% respectively, indicating that income poverty is wide and deep.

Universal Primary Education: There has been a slight increase in enrolment from 65.1% in 2004 to 71.1% in 2010. This translates into an annual average increase of 1.1 percentage point. If this trend continues, during the next three years, it is unlikely that Sudan will achieve the target for MDG 2.

Gender Equality and empowerment: Sudan is making encouraging progress towards achieving this goal by 2015.

Child Mortality: There are high percentages of malnutrition among children and slow progress in mortality reduction, raising a concern about progress towards achieving targets by 2015. Unless intensive and effective interventions that equally address underlying causes of child mortality are implemented, the rate would unlikely come down before 2015.

Maternal Mortality Rate (MMR): The MDG target for maternal mortality is to reduce the ratio by three-quarters from 509 per 100,000 to 140 per 100,000 live births. However, MMR for northern Sudan in 2006 was 534 per 100,000 live births. The instability in MMR estimates and lack of comparable data to measure the trend makes it difficult to tell the progress.

HIV/AIDS: Although progress has been made in provision and delivery of services related to HIV/AIDS (PMTCT, Condom distribution ART and VCT centers), still more effort is needed given the fact that only 4% of the respondents knew all the three ways to prevent HIV transmission.

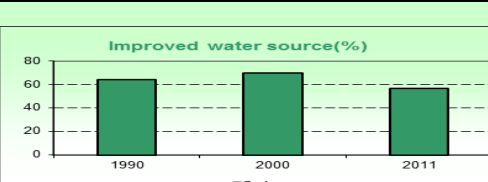
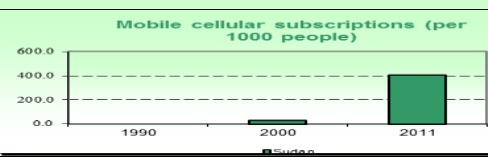
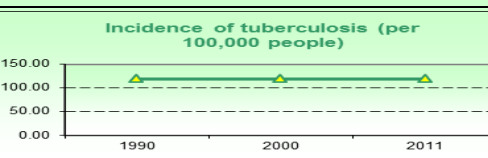
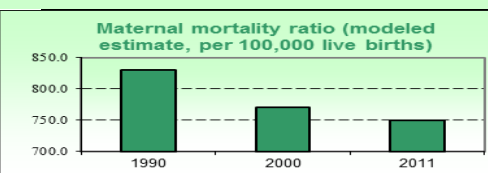
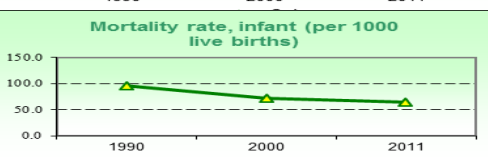
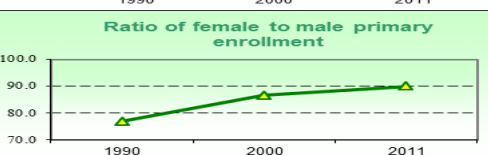
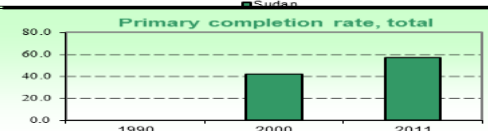
Malaria is one of the areas which Sudan has made tangible progress. Evidence shows that all states except Blue Nile (12.5%) and West Darfur (7.1%) reported prevalence of less than 3%.

TB: Although Sudan shows improvement from 2004 detection rate (40%), achievement is still far below the global target of 70%. This low case detection is particularly a problem in war-affected and post-conflict areas.

Annex 5

Sudan - PROGRESS TOWARD ACHIEVING THE MILLENNIUM DEVELOPMENT GOALS: INDICATORS

Goal 1: Eradicate extreme poverty and hunger	1990 ¹	2000 ²	2011 ³
Employment to population ratio, 15+, total (%)	46.1	47.0	47.3
Malnutrition prevalence, weight for age (% of children under 5)	...	38.4	...
Poverty headcount ratio at \$1,25 a day (PPP) (% of population)	...	...	...
Prevalence of undernourishment (% of population)	31.0	26.0	...
Goal 2: Achieve universal primary education			
Literacy rate, youth female (% of females ages 15-24)	...	72.3	82.7
Literacy rate, adult total (% of people ages 15 and above)	...	61.3	70.2
Primary completion rate, total (% of relevant age group)	...	42.3	57.2
Total enrollment, primary (% net)	...	39.2	...
Goal 3: Promote gender equality and empower women			
Proportion of seats held by women in national parliaments (%)	...	10.0	18.1
Ratio of female to male primary enrollment	77.0	86.6	90.0
Ratio of female to male secondary enrollment	79.3	92.1	88.1
Goal 4: Reduce child mortality			
Immunization, measles (% of children ages 12-23 months)	57.0	67.0	90.0
Mortality rate, infant (per 1,000 live births)	95.4	72.1	64.2
Mortality rate, under-5 (per 1,000)	161.1	117.3	102.7
Goal 5: Improve maternal health			
Births attended by skilled health staff (% of total)	69.4	87.0	...
Contraceptive prevalence (% of women ages 15-49)	9.0	...	...
Maternal mortality ratio (modeled estimate, per 100,000 live births)	830.0	770.0	750.0
Goal 6: Combat HIV/AIDS, malaria, and other diseases			
Incidence of tuberculosis (per 100,000 people)	119.0	119.0	119.0
Prevalence of HIV, female (% ages 15-24)	...	...	1.0
Prevalence of HIV, male (% ages 15-24)	...	...	0.3
Prevalence of HIV, total (% of population ages 15-49)	...	1.6	1.4
Goal 7: Ensure environmental sustainability			
CO2 emissions (kg per PPP \$ of GDP)	0.5	0.7	0.6
Improved sanitation facilities (% of population with access)	33.0	34.0	34.0
Improved water source (% of population with access)	64.0	70.0	57.0
Goal 8: Develop a global partnership for development			
Net total ODA/OA per capita (current US\$)	...	...	...
Internet users (per 1000 people)	...	...	...
Mobile cellular subscriptions (per 1000 people)	...	28.0	405.4
Telephone lines (per 1000 people)	...	...	...



Sources : ADB Statistics Department Databases; World Bank: World Development Indicators; UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports, last update :October , 2011

Note : n.a. : Not Applicable ; ... : Data Not Available,¹ Latest year available in the period 1990-1995; ² Latest year available in the period 2000-2004;

³ Latest year available in the period 2005-2011

Annex 6 – Sudan - COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Sudan	Africa	Developing Countries	Developed Countries
Basic Indicators					
Area ('000 Km ²)		2 506	30 323	80 976	54 658
Total Population (millions)	2011	44.6	1,044.3	5,732	1,123
Urban Population (% of Total)	2010	44.9	39.9	45.1	77.3
Population Density (per Km ²)	2011	17.8	34.0	59.9	33.2
GNI per Capita (US \$)	2010	1 260	1 565	3 304	38 657
Labor Force Participation - Total (%)	2011	32.0	40.1	65.6	60.7
Labor Force Participation - Female (%)	2011	29.8	41.0	51.7	52.2
Gender -Related Development Index Value	2007	0.516	0.433	0.694	0.911
Human Develop. Index (Rank among 187 countries)	2011	169	n.a	n.a	n.a
Popul. Living Below \$ 1 a Day (% of Population)	2007-09	...	42.3	25.2	...
Demographic Indicators					
Population Growth Rate - Total (%)	2011	2.5	2.3	1.3	0.6
Population Growth Rate - Urban (%)	2010	4.1	3.4	2.4	1.0
Population < 15 years (%)	2011	39.8	40.3	29.0	17.5
Population >= 65 years (%)	2011	3.6	3.8	6.0	15.4
Dependency Ratio (%)	2011	72.7	77.6	55.4	49.2
Sex Ratio (per 100 female)	2011	101.5	99.5	93.5	94.8
Female Population 15-49 years (% of total population)	2011	24.2	24.4	49.4	50.6
Life Expectancy at Birth - Total (years)	2011	59.2	56.0	67.1	79.8
Life Expectancy at Birth - Female (years)	2011	58.0	57.1	69.1	82.7
Crude Birth Rate (per 1,000)	2011	29.6	34.2	21.4	11.8
Crude Death Rate (per 1,000)	2011	9.7	12.6	8.2	8.4
Infant Mortality Rate (per 1,000)	2011	64.2	78.6	46.9	5.8
Child Mortality Rate (per 1,000)	2011	102.7	127.2	66.5	6.9
Total Fertility Rate (per woman)	2011	3.8	4.4	2.7	1.7
Maternal Mortality Rate (per 100,000)	2008	750.0	530.2	290.0	15.2
Women Using Contraception (%)	2007-09	...	...	61.0	...
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2008	28.0	58.3	109.5	286.0
Nurses (per 100,000 people)*	2008	78.5	113.3	204.0	786.5
Births attended by Trained Health Personnel (%)	2007-09	49.2	50.2	64.1	...
Access to Safe Water (% of Population)	2008	57.0	64.5	84.3	99.6
Access to Health Services (% of Population)	2007-09	...	65.4	80.0	100.0
Access to Sanitation (% of Population)	2008	34.0	41.0	53.6	99.5
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2007	1.4	4.9	0.9	0.3
Incidence of Tuberculosis (per 100,000)	2010	119.0	294.9	161.0	14.0
Child Immunization Against Tuberculosis (%)	2010	90.0	85.3	81.0	95.1
Child Immunization Against Measles (%)	2010	90.0	77.9	80.7	93.0
Underweight Children (% of children under 5 years)	2007-09	31.7	30.9	22.4	...
Daily Calorie Supply per Capita	2007	2 282	2 465	2 675	3 285
Public Expenditure on Health (as % of GDP)	2008	3.6	5.7	2.9	7.4
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2009	74.0	100.4	107.2	101.3
Primary School - Female	2009	70.0	90.0	109.2	101.1
Secondary School - Total	2009	38.0	37.7	62.9	100.1
Secondary School - Female	2009	35.5	33.7	61.3	99.6
Primary School Female Teaching Staff (% of Total)	2009	61.3	41.4	60.5	81.4
Adult literacy Rate - Total (%)	2009	70.2	65.1	80.3	98.4
Adult literacy Rate - Male (%)	2009	79.6	74.3	86.0	98.7
Adult literacy Rate - Female (%)	2009	60.8	56.2	74.8	98.1
Percentage of GDP Spent on Education	2007-09	...	4.7	3.8	5.0
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2008	8.7	7.8	10.6	10.9
Annual Rate of Deforestation (%)	2007-09	...	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	2007-09	...	10.9	...	...
Per Capita CO2 Emissions (metric tons)	2009	0.3	1.1	2.9	12.5

