

**AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPEMENT FUND**



PROGRAM TITLE: ECONOMIC AND FINANCIAL REFORMS SUPPORT PROGRAM (EFRSP)

COUNTRY: REPUBLIC OF SUDAN

Appraisal Team	<p>Task Manager: Camille KARAMAGA, Principal Governance Officer, ECGF/RDGE</p> <p>Team Members: Mr. Yousif ELTAHIR, Senior Economist, COSD Mr. Sisay WOLDENTASAY, Procurement Officer, COET/RDGE Ms. Faith KAMAU, Regional Principal Legal Counsel Officer, PGCL.1 Mr. Erick BAKILANA, Principal Legal Counsel Officer, PGCL1 Mr. Maurice WANYAMA, CPO, COSD Mr. Emile KEMAYOU, Chief Fragility and Resilience Officer, RDTS Mr. Godfrey KAIJAGE, Principal Financial Management Officer, COTZ/RDGE Ms. Annah RUTEBUKA, Chief Social Safeguards Officer/E&S Regional Coordinator Mr. Olufunso, SOMORIN, Principal Climate Change & Green Growth Officer, RDGE Ms. Dana ELHASSAN, Senior Gender Expert, RDGE2 Mr. Emilio Dava, Senior Fragility and Resilience Officer, RDTS Mr. Charles MUTHUTHI, Consultant Macroeconomist, ECGF/RDGE</p> <p>Director General: Nnenna NWABUFO, DG, RDGE Deputy Director General: Abdul KAMARA, DDG, RDGE Sector Directors: Abdoulaye COULIBALY, Director ECGF Yero BALDEH, Director RDTS Country Manager: Raubil DUROWUJU, Country Manager, COSD</p>
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Peer Reviewers	<ol style="list-style-type: none"> 1. Angelique UMUBYEYI, Principal Country Program Officer, Kenya/RDGE 2. Albert MAFUSIRE, Principal Country Economist, Somalia/RDGE 3. Alieu JENG, Consultant/Economist, ECGF 4. Samuel IJEH, Consultant/Financial Economist, ECGF
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March 2021

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April 2021

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CURRENCY EQUIVALENTS

(As of March 2021)

1 UA = 1SDR

1 UA = 544.74 Sudanese Pounds

1 UA = 1.44 United States Dollars (USD)

1 UA=1.19 Euros (EUR)

Sudan Fiscal Year: 1 January – 31 December

Weights and Measures

1 metric tonne	=	2204 pounds
1 kilogramme (kg)	=	2.200 pounds
1 meter (m)	=	3.28 feet (ft)
1 millimeter (mm)	=	0.03937 inch (“)
1 kilometer (km)	=	0.62 mile
1 hectare (ha)	=	2.471 acres

ACRONYMS

ADF	African Development Fund
AfDB	African Development Bank Group
CBS	Central Bank of Sudan
CFRA	Country Fiduciary Risk Assessment
CPIA	Country Policy and Institutional Assessment
DP	Development Partners
DPO	World Bank Development Policy Operation
ECGF	Economic Governance and Financial Management Coordination Office
EU	European Union
EFRSP	Sudan Economic and Financial Reforms Support Program
FATF	Financial Action Task Force
GBS	General Budget Support
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries
IDA	International Development Association
IFI	International Financial Institutions
IMF	International Monetary Fund
MDA	Ministries, Departments and Agencies
MDRI	Multilateral Debt Relief Initiative
MoFEP	Ministry of Finance & Economic Planning
NDP	National Development Plan
PBO	Policy Based Operations
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
RDGE	East Africa Regional and Business Delivery Office
SFSP	Sudan Family Support Program
SOE	State-Owned Enterprise
SME	Small and Medium Enterprises
TSA	Treasury Single Account
TSF	Transition Support Facility
TYS	Bank Group's Ten-Year Strategy
UA	Unit of Account
UK	United Kingdom
USD	United States of America Dollar
WB	World Bank

GRANT INFORMATION

Client's Information

Grant Recipient: Republic of the Sudan
Executing Agency: Ministry of Finance and Economic Planning

ADB/ADF key financing information (2020)

Source	Amount	Instrument	Currency
TSF	UA 144 million	TSF Pillar I Grant	UA

Program Timeframe - Main Milestones (expected)

Concept Note approval	NA
Program Appraisal	March 2021
Negotiation	March 2021
Board approval	23 April 2021
Effectiveness	May 2021
Disbursement Closing Date	30 June 2022
Completion	30 September 2022

PROGRAM EXECUTIVE SUMMARY

Paragraph	Topics to cover
Program overview	<p><u>Program name:</u> Sudan: Economic and Financial Reform Support Program (EFRSP)</p> <p><u>Expected outputs:</u> The key outputs of the Program are (i) Elimination of diesel and gasoline subsidies to reduce expenditures; (ii) Number of families benefitting from the Sudan Family Support Program; (iii) Debt policy and framework for monitoring debt in place; (iv) Publication of monthly budget execution reports on the Ministry of Finance and Economic Planning (MoFEP) website consistent with the Government Finance Statistics Manual (2001); (v) Comprehensive inventory of SOEs included as part of the budget; (vi) Updated Central Bank Act which provides for independence and enhanced governance; (vii) Anti-money laundering & counterfeit currency regulations that are compliant with FATF standards; (viii) New anti-corruption law, in line with international best practices; and (vii) PPP legal and regulatory framework</p> <p><u>Overall timeframe:</u> June 2021-June 2022</p> <p><u>Program Cost:</u> UA 144 million.</p>
Program outcomes	The expected outcomes of the program are: (i) <i>Fiscal stability enhanced</i> ; (ii) <i>Foreign exchange market distortions removed</i> , and (iii) <i>Business enabling environment improved</i> ; and (iv) <i>Reduced GHG emissions from reduction in diesel/gasoline consumption</i> .
Beneficiaries	The direct beneficiaries of the program are Sudan’s key economic governance and financial sector oversight institutions notably the Ministry of Finance and Economic Planning and the Central Bank of Sudan. The indirect beneficiaries are the people of Sudan who will benefit from enhanced fiscal space for basic service delivery resulting from the unlocking of access to concessional funding. Efforts will be made to ensure that benefits accrue to both males and females with particular attention to women engagement as part of the agents of change in the economic, political and social sectors of the country.
Alignment with Bank priorities	The proposed operation is aligned to the Bank’s Sudan Country Brief (CB), 2017-2019, extended to December 2021. Specifically, it is linked to the first pillar of the CB namely, capacity building for improving social service delivery. The Bank’s key objectives under the CB are closely aligned with the priorities announced by the authorities in the Transitional Government (TG) Program (2020) as well as the Sudan’s Economic Revival Plan (2019-2030). The program is also fully aligned with the Bank Group Ten Year Strategy (TYS) (2013-2022) and one of the High 5s priorities, which is “Improve the Quality of Life of the People of Africa”. It is particularly consistent with the Governance and Accountability pillar of the TYS and considers the TYS inclusive growth objective, given that good governance is one of the prerequisites for sustainable and inclusive development. It is also closely linked to all the three pillars of the of the recently approved Bank Group Governance Framework called “Strategy for Economic Governance in Africa (SEGA) 2021-2025”, which are: i) Public sector effectiveness at national and sub-national levels; (ii) Governance for structural transformation; and (iii) Participatory governance and accountability. It is also well aligned with the Bank’s Strategy for Addressing Fragility and Building Resilience in Africa (2014-2019, extended to December 2021). The operation is also aligned to Pillar I of the Bank Gender Strategy (2021-2025) that aims at “Empowering women through access to finance and markets”. Removal of fuel subsidies will facilitate investment in renewable energy thereby contributing to Pillar II of Bank’s 2nd Climate Change Action Pan (2016-2020, Extended to December 2021), namely Promoting Mitigation and Low-Carbon Development in Africa.
Needs Assessment and Justification	The proposed operation is premised on the fragility of Sudan, a country constrained by severe arrears on its debts to international financial institutions (IFIs) and other creditors, for which debt relief is needed in order to unlock access to concessional funding. Such funding will enable Sudan to finance public investments and activities that boost economic growth and reduce poverty. In view of the financial constraints, the country has been struggling to pay public wages in full without central bank financing, and public debt and arrears continue to accumulate. Thus, the budget support operation will allow the Bank Group to support macroeconomic stability, strengthen institutions and contribute to consolidating the peace process. The reforms supported by the proposed operation are essential to advance the on-going economic and financial reforms and consolidate the foundation being laid for enhancing state capacity in Sudan in post HIPC era.
Harmonization	The proposed program has been developed taking into consideration the IMF-supported SMP in Sudan and in collaboration with the World Bank (WB), which prepared a Development Policy Operation (DPO) for Sudan that drew upon grant resources that have been set aside for HIPC eligible countries. The WB DPO was approved by the Board on 23 March 2021. The IMF will be facilitating Sudan’s arrears clearance through a multi-year financing program under

	its Extended Credit Facility (ECF) before HIPC decision point in May/June 2021. Under an internationally coordinated plan and in harmonization with the WB and IMF, the AfDB is ready to step up re-engagement with Sudan, after clearance of the country's arrears, through the proposed self-standing (one-off) General Budget Support (GBS) operation. The main components of the proposed program, and envisaged policy actions under the program, are fully aligned with the indicative targets of the IMF-SMP. Harmonization with IMF and the WB, particularly on macro-economic and fiscal policy, monetary and financial sector as well as public debt, will continue during program implementation in terms of monitoring of performance and the associated policy dialogue.
Bank's Added Value	The Bank has a track record of reengagement with post-conflict countries, including Liberia, the Central African Republic, Cote d'Ivoire and Somalia (where a similar operation was approved by the Board in 2020). By providing predictable and timely budget finance and engaging transition states in Regional Member Countries (RMCs), the Bank has proved itself as a "preferred" and "trusted" partner for the support of the recovery path of its member countries. The Bank has supported critical areas of governance such as debt management, revenue administration, PFM and state capacity building and rebuilding basic infrastructure across transition states in Africa. The Bank has also contributed to generation of knowledge products on the provision of budget support in fragile situations, for example the AfDB-WB common approach paper on budget support in fragile situations, which has generated useful lessons. The Bank will draw on these positive experiences during the implementation of this budget support operation in Sudan.
Contributions to Gender Equality and women's empowerment.	The policy focus of the proposed program on economic and financial governance reforms, including promoting financial accountability, procurement efficiency and enhancement of domestic revenue mobilization, improving business environment, as well as monetary and financial sector, are expected to expand the fiscal space, enhance banking sector soundness and create fiscal savings, part of which could be used to fund social programs in health and education, amongst others, targeting the most vulnerable and poor, including women and youth.
Policy dialogue and linked technical assistance	The proposed operation will focus on supporting fiscal stability and macroeconomic management reforms including revenue mobilization, public financial management (PFM), financial sector development reforms and enhancing business environment. Through this operation and on-going institutional support projects, the Bank will continue the dialogue to encourage and support best practices in financial sector regulation, revenue administration, PFM and reforms to enhance financial stability in Sudan. In addition, policy dialogue will focus on new reforms, as defined in the ongoing IMF-SMP and its successor programs, to support and enable Sudan to achieve HIPC completion point. The program will thus create a strong platform for policy dialogue and advisory services, with RDGE playing a pivotal role in the dialogue and engagement framework. Focus will particularly be given to supporting the Government of Sudan in mainstreaming gender, climate change and green growth issues in national policy processes.

RESULTS FRAMEWORK

A PROJECT INFORMATION					
PROJECT NAME AND SAP CODE: Economic and Financial Reforms Support Program (EFRSP)PROJECT CODE: P-SD-KF0-006				COUNTRY: Republic of Sudan	
PROJECT DEVELOPMENT OBJECTIVE: Restoring fiscal and economic stability through improved economic and financial governance.					
ALIGNMENT INDICATORS ¹ : i) Fiscal stability (ii) debt sustainability					
B RESULTS MATRIX					
RESULTS CHAIN AND INDICATOR DESCRIPTION	RMF INDICATOR	UNIT OF MEASUREMENT	BASELINE (Date)	TARGET AT COMPLETION(Date)	MEANS OF VERIFICATION
OUTCOME STATEMENT 1: Fiscal stability enhanced					
OUTCOME INDICATOR 1.1: Fiscal deficit/GDP ratio		Reduction in fiscal deficit as a %/GDP	7.3% (2021))	2.3% (2022)	AfDB Projections
OUTCOME INDICATOR 1.2: Debt/GDP ratio		Reduction in debt stock as %/GDP	249.1% (2020)	203.5% (202)	IMF Reports
OUTCOME INDICATOR 1.3: Sudan Family Support Program, well-developed, expanded and in place		% increase social spending/GDP	1.5% of GDP (2020)	1.8% of GDP (2022)	Budget document + IMF reports
OUTCOME STATEMENT 2: Foreign exchange market distortions removed					
OUTCOME INDICATOR 2.1: Financial sector governance		Legal/regulatory instrument	Outdated central banking law (2019)	New Central Bank law applicable (2022)	Copy of new CBS law
OUTCOME INDICATOR 2.2: Market-driven real exchange rate		Monthly exchange rate reports	Distorted multiple currency practices exchange rates (2021)	Unified exchange rate monitored by the Central Bank (2021)	CBS circulars + IMF Reports

¹ These indicators will measure alignment with the country priorities identified for the operation

OUTCOME STATEMENT 3: Business enabling environment improved					
OUTCOME INDICATOR 3.1: Foreign Direct Investment		Increase in FDI as a % of GDP	3% (2019)	5% (2022)	MoFEP + IMF reports
OUTCOME INDICATOR 3.2: Credit to private sector		Increase in private sector credit as a % of GDP	12% (2019)	14% (2021)	Government Budget Performance report.
OUTPUT STATEMENT 1: Domestic resource mobilization enhanced					
OUTPUT INDICATOR 1.1: Customs exchange rate reform and expansion of the tax base		Tax base expansion as a % of GDP	6% of GDP (2019)	8.6% of GDP (2021)	IMF + MoFEP reports
OUTPUT INDICATOR 1.2: Removal of tax exemptions on selected products/GDP		% of GDP	3.5 % (2019)	2% of GDP (2021)	Approved Budget 2021
OUTPUT STATEMENT 2: Expenditure streamlined and rationalized, while pro-poor expenditure is protected					
OUTPUT INDICATOR 2.1: % of families benefitting from the expanded Sudan Family Support Program*		% of targeted families	7.5% (2020)	80% (2022)	Approved Budget
OUTPUT INDICATOR 2.2: Elimination of diesel and gasoline subsidies to reduce expenditures*		% subsidies/GDP	18.8%/GDP (2020)	15.6% of GDP (2022)	Copy of Approved Budget 2022
OUTPUT INDICATOR 2.3: Debt policy and framework for monitoring debt in place		Policy	None (2020)	Monitoring tool in use (2022)	Budget Statement
OUTPUT STATEMENT 3: Budget transparency improved					
OUTPUT INDICATOR 3.1: Publication of monthly budget execution reports on the MoFEP website consistent		Budget execution reports	None (2019)	Yes (2021)	Fiscal reports on MoFEP website

with the Government Finance Statistics Manual (2001.) *					
OUTPUT INDICATOR 3.2: Comprehensive inventory of SOEs included as part of the budget		List of SOEs	58 SOEs (2020) None (2019)	70 SOEs (2022)	Approved Budget + MoFEP website
OUTPUT STATEMENT 4: Improved governance of the financial sector					
OUTPUT INDICATOR 4.1: Updated Central Bank Act, which provides for independence and enhanced governance		Legal/regulatory instrument	Old law (2019)	Yes (2022)	Copy of Central Bank of Sudan reports
OUTPUT INDICATOR 4.2: Anti-money laundering & counterfeit currency regulations that are compliant with FATF standards.		Directive	No (2019)	2021	Copy of Central Bank Circular/Directive
OUTPUT INDICATOR 4.3: Unification of all but the customs exchange rate*		Central Bank Circular/Directive	None (2019)	2021	Copy of Central Bank Circular
OUTPUT STATEMENT 5: Trade and investment enhanced					
OUTPUT INDICATOR 5.1: New anti-corruption law passed in line with international best practices		Legal/regulatory instrument	None (2019)	Yes (2022)	MoFEP reports
OUTPUT INDICATOR 5.2: PPP legal and regulatory framework		Legal/regulatory instrument	None (2019)	(2022)	MoFEP reports

REPORT AND RECOMMENDATION OF MANAGEMENT TO THE BOARDS OF DIRECTORS OF THE BANK AND THE FUND ON A PROPOSED GRANT FOR SUDAN'S ECONOMIC AND FINANCIAL REFORMS SUPPORT PROGRAM (EFRSP)

I – THE PROPOSAL

1.1. Management submits the following Report and Recommendation on a proposed grant of UA 144 million to the Republic of Sudan from Pillar I of the Transition Support Facility (TSF) ADF-15 resources, to finance the EFRSP. The main goal of the operation is to complement Sudan's efforts to advance its development agenda, notably to consolidate peace, accelerate poverty reduction, reduce income inequality and catalyze the much-needed financing for transformative and inclusive growth. A self-standing (one-off) GBS has been selected for this operation in line with the overall framework for concerted and complementary interventions of Technical and Financial Partners (TFPs) to support Sudan's efforts at normalizing relations with the International Financial Institutions (IFIs) and the international community and reviving the country's economic sustainability. With anticipated normalization of relations with the international community, the Bank will be able to adopt a programmatic approach for Sudan in successive cycles.

1.2. The proposed operation has been designed in anticipation of Sudan's arrears clearance; a process being undertaken in collaboration with other development partners (DPs) including the United Kingdom (UK). It considers the need for the Bank to step up its re-engagement with Sudan in post-arrears clearance era, and to support the country's on-going economic and financial governance reforms. The implementation of the reforms being supported by the program is expected to lead to high, sustainable and inclusive growth for Sudan. The proposed operation is strongly coordinated with those of the WB and IMF. In addition, it is in line with WB action facilitating Sudan's arrears clearance through a proposed DPO, and full normalization of relations with IDA. The Bank's operation and that of the WB are being processed sequentially. The IMF also intends to facilitate Sudan's arrears clearance through a proposed multi-year financing program under its ECF.

1.3. The program is aligned with Sudan's national development priorities as articulated in its Economic Revival Plan (2019-2030), which prioritizes capacity and institutional strengthening to attain sustainable and inclusive growth through, inter-alia, access to basic social services and value chain development in productive sectors. The authorities are preparing a new PRSP (2021-2023) with support from the Bank to replace the country's medium-term National Development Plan (NDP) 2012-2016, which has already lapsed. The PRSP preparation is expected to be completed by April 2021 and is designed to focus on accelerating inclusive growth and creating gainful employment for Sudan's population, particularly the youth and women.

1.4. The program is aligned to pillar I of the Sudan Country Brief (CB 2017-2019) extended to December 2021), namely “capacity building for improving social service delivery”. Under Pillar 1, Bank support aims to build institutional capacity to improve social service delivery particularly amongst the vulnerable population and hence contribute to addressing fragility. It is also consistent with the governance and accountability pillar of the Bank Group's Ten-Year Strategy (TYS) 2013-2022. In particular, it takes into account the TYS inclusive growth objective, given that good governance is one of the bedrocks of sustainable and inclusive development. It is also aligned with the Operational Guidelines for the Implementation of the Bank Group Strategy for Addressing Fragility and Building Resilience in Africa and for the Transition Support Facility. Moreover, the program is aligned with the three pillars of the recently approved Bank Strategy for Economic Governance in Africa (SEGA) 2021-

2025². With the deepening of debt management, financial sector development, PFM (including improving budget oversight and execution) and domestic revenue mobilization reforms, the economic management capacity of the Republic of Sudan is expected to improve. It is expected that this, together with Sudan's ongoing arrears clearance actions, will unlock access to increased concessionary financing. The resulting relief from debt servicing will strengthen the capacity of government to implement urgently needed programs for service delivery and poverty reduction. The interventions under this program are in accordance with ADF 15 operational priorities notably on strengthening governance capacity for public sector and fiscal accountability, supporting public financial management reforms, sustainable and transparent debt management, and increasing domestic revenue mobilization.

II – COUNTRY CONTEXT

2.1. Political Developments and Economic and Financial Governance Context

2.1.1. Sudan is currently going through a political transition aimed at achieving political reconciliation, justice and peace. Limited progress towards inclusive development during the last three decades with worsening economic conditions, poor accountability and increased people's dissatisfaction triggered peaceful demonstrations throughout the country and led to the overthrow of the previous regime in April 2019. In August 2019, a transitional government (TG) was inaugurated. A cabinet of 25 ministers was appointed to work under the overall guidance of a Sovereign Council. The new Government has been tasked with addressing the socio-economic crisis, especially fuel and bread shortages, high inflation and lack of employment opportunities. In October 2020, The Juba Peace Agreement, signed in October 2020 with former warring groups, put an end to two decades of civil war, and led to the formation of a coalition government on 10 February 2021. However, Sudan remains fragile due to its geography, long periods of violence and insecurity both within its borders and in neighboring countries, limited access to public services, environmental degradation and weak economic performance.

2.1.2 Relations with neighbouring South Sudan have witnessed significant improvement towards addressing contentious issues that dominated the immediate post-secession years. The two countries continue to cooperate on several issues, including oil transit fees and external debt to access the HIPC initiative. The TG has reached out to South Sudan to strengthen the relations further, a departure from past relations that were characterized by mutual mistrust. The TG has also been engaging the international community to ensure that economic and political sanctions are removed to enable the country access debt relief and other development financing. In this context, sustained dialogue with the US authorities culminated in Sudan's removal from the US State Sponsor of Terrorism List (SSTL), which became effective on 14 December 2020.

2.1.3 Ongoing and planned reforms. Sudan's longtime isolation from the global economy has led to limited adoption of global anti-corruption and corporate governance norms, and modern public procurement practices. PFM reforms need better sequencing and traction for effective implementation. The latest Bank's Fiduciary Risk Assessment (2021) and Country Policy and Institutional Assessment (CPIA) of 2020 for Sudan identified a number of PFM areas as deficient and needing improvement including, (i) budget planning and execution; (ii) efficiencies of the treasury management system; (iii) computerization of all financial management modules; (iv) revenue mobilization through strengthened revenue administration; (v) quality, efficiency and impact of audit system; (vi) effective parliamentary

² The three pillars of SEGA are: (i) Public sector effectiveness at national and sub-national levels; (ii) Governance for structural transformation; and (iii) Participatory governance and accountability.

and media oversight; (vii) economic management and public sector management and institution; and (viii) transparency, accountability, and corruption in the public sector.

2.1.4 Sudan has made modest progress in implementing reforms in financial transparency and accountability, and some efforts to improve governance, but further concerted action is needed.

Medium-term (2021-2023) economic and financial reforms initiated by the authorities to deepen fiscal sustainability and domestic revenues mobilization and strengthen PFM include: (i) implementing a progressive income tax regime and broadening the tax base; (ii) gradually adjusting the custom valuation exchange rate;; (iii) upgrading the capacity of the Taxation Chamber; (iv) rationalizing expenditures; (v) eliminating fuel subsidies and gradually reducing other subsidies; (vi) increasing social spending to mitigate the effects of reforms through the introduction of the Sudan Family Support Program (SFSP); (vii) strengthening transparency and oversight of semi-autonomous government agencies and SOEs; and (viii) improving PFM environment in general.

2.1.5 Central Bank of Sudan (CBS) continues to modernize banking regulation and strengthen supervisory capacity, while enhancing the compliance of banks with prudential regulations.

Under an enhanced supervision framework, the central bank will be conducting semi-annual stress tests to identify and address bank vulnerabilities, while laying the ground for adoption of a risk-based supervisory regime. Further reforms include a baseline anti-money laundering and combatting the financing of terrorism (AML/CFT) legal framework that is now in place. Remaining AML/CFT deficiencies will continue to be addressed, including through conducting thematic AML/CFT on-site inspections of the high-risk banks, strengthening the capacity of the Financial Intelligence Unit (FIU), and fully implementing risk-based AML/CFT supervision. Asset quality reviews of systemically important banks will be finalized by June 2021 and the bank recovery and resolution framework will be strengthened in line with international best practice.

2.2 Recent Economic Developments, Macroeconomic and Fiscal Analysis

2.2.1 Sudan's macroeconomic performance reflected negative but improving GDP growth prior to the coronavirus (COVID-19) crisis. Growth forecasts were positive due to improved investor confidence in the new Government, and prospects for the country's reintegration into the global economy. Real GDP growth had recovered after secession of South Sudan to an average of 3.5% during 2015-2017 but decreased to -2.1% in 2018 and -2.3% in 2019 due to social turmoil and poor and erratic rainfall which reduced agricultural production. The outbreak of COVID-19 pandemic affected Sudan's economic growth negatively as real GDP is estimated to contract further by 8.4% in 2020, due to negative impact of the pandemic on commodity prices and trade, travel and financial flows, which have significantly subdued economic activity.

2.2.2 Sudan's medium-term economic outlook is overshadowed by the impact of the COVID-19 crisis. Containment measures like border closures, quarantine, a national lockdown, negative consumer and investor sentiments slowed demand, while disruptions in global value chains reduced supply. Consequently, real GDP growth is projected to deteriorate from an estimated -2.3% in 2019 to -8.4% and -3.2% in 2020 and 2021, respectively. Weak global demand and low commodity prices have reduced export earnings and worsened the foreign exchange shortages. The global economic slowdown is also expected to reduce remittances³ and other transfers to Sudan, while containment measures, like travel

³ Remittances reduced from an estimated USD 3.5 billion in 2015 to only USD 1.2 billion during 2020, reflecting the huge impact of COVID-19.

restrictions, will curtail tourist arrivals, adversely affect financial flows and lead to a deterioration of the current account balance (Table 1). The improved political outlook and prudent policies, like gradual fiscal consolidation and tighter monetary policy, are expected to partially offset the downside risks.

Description	2016	2017	2018	2019 ^e	2020 ^e	2021	2022
Real GDP Growth	2.9	1.7	-2.3	-2.5	-8.4	-1.1	1.4
Real GDP Growth per Capita	0.5	-0.8	-4.7	-4.9	-10.8	-3.6	-1.0
Inflation	32.4	63.3	51.0	82.4	124.9	129.7	63.3
Overall Fiscal Balance (Including Grants)	-4.6	-6.5	-7.9	-11.3	-12.4	-7.3	-6.5
Current Account Balance (cash basis)	-7.6	-10.0	-13.1	-15.1	-12.6	-9.8	-10.0

Source: Data from Ministry of Finance & Economic Planning, Government and AfDB estimates and projections

2.2.3 A fiscal consolidation strategy has been put in place to contain the rising fiscal deficit. Revenue mobilization measures have recently been implemented gradually at national and state levels but have often been too limited to generate the required public revenues. Revenues declined to 7.8% of GDP in 2019 from 14.5% in 2012. Fiscal deficit increased from 4.6% of GDP in 2016 to 6.5% of GDP in 2017 and rose to an estimated 7.9% and 11.3% in 2018 and 2019, respectively. The rising fiscal deficit reflects shortfalls in domestic revenues and increased spending due to rising fuel subsidies. Fiscal consolidation is expected to be sustained and complemented by public expenditure management reforms, including reforms to strengthen the civil service and improve the budget process to eliminate resource leakages as well as reduce (and eventually eliminate) fuel subsidies. However, in the near term, the fiscal deficit is expected to remain high at 12.4% and 7.3% of GDP in 2020 and 2021, respectively, on account of elevated public spending to mitigate the socio-economic impact of COVID-19 amid low public revenue mobilization.

2.3 Competitiveness of the Economy

2.3.1 Competitiveness remains low due to high transaction costs, limited access to credit, poor market institutions, lack of infrastructure, and high administrative barriers. Sudan ranked low at position number 49 out of 54 countries on the Bank 2020 CPIA business regulatory environment cluster. Improving the business climate is expected to enhance the role of the private sector in economic transformation and boost economic governance and management. Sudan's private sector is quite active and strong potential exists in increased investment in agriculture-based enterprises⁴. The private sector is diverse, including agriculture-based enterprises and firms engaged in the supply of goods and services. The formal private sector consists largely of small firms, structured as private limited companies (63%) and sole proprietorships (37%) spread over several sectors. The country holds huge private sector investment opportunities in small and medium-scale forest enterprises particularly in Gum Arabic, one of the country's most important non-wood forest products. In recent years, the country has supplied 71% of the global demand for Gum Arabic. Sudan also has strong comparative advantage in agriculture, animal husbandry, agro-processing, wool, and leather industries such as travel bags. There is a real opportunity to improve production levels through expanded agro-industry and manufacturing sectors that could grow further with the ongoing economic and financial governance reforms. Key business

⁴ The Bank's active involvement in approving two transactions to DAL Group and Elnefeidi Group will go a long way in supporting economic growth revival in Sudan

regulatory reforms under implementation include strengthening the mobile payment system to boost financial inclusion, simplification of business registration and access to market information.

2.4 Public Financial Management

2.4.1 The Bank undertook a Country Fiduciary Risk Assessment (CFRA) in March 2021 as part of the preparation of this operation (see Technical Annex I for full CFRA Report). The CFRA shows that the fiduciary risks are substantial, but they are being mitigated by Government commitment to reforms. Sudan has a constitutional and legal foundation for PFM which clearly defines the legislative and executive power for each level of government. Plans are under-way to review and update the existing legal and regulatory framework to make it more responsive to the current needs of Sudan and in line with internationally recognized good practices, and standards.

2.4.2 The review of the financial management and procurement laws will pave the way for the finalization of financial regulations and other supporting guidelines and manuals. The government has already initiated some revisions of the procurement law and related documents to harmonize them with the United Nations Commission on International Trade Law (UNICITRAL). Preparation of the second generation of public procurement documents, such as the procurement regulations, manuals, standard bidding and request for proposal documents, is expected to come after completion of the revision of the procurement legal framework. The implementation of the policy actions in this proposed operation, and under the IMF's SMP and the WB's envisaged DPO, will further mitigate the fiduciary risks.

2.5 Inclusive Growth, Poverty and Social Context

2.5.1 Poverty and inequality are widespread and exacerbated by inadequate delivery of basic social services, which is further complicated by rural to urban migration. Low agricultural productivity, limited value addition and value chain development are among the main causes of unemployment, malnutrition and poverty in Sudan. According to World Bank assessment, the subdued economic activities have increased poverty from 48.3% in 2019 to an estimated 56% in 2020. Poverty is substantially lower in urban areas at 26.5% compared to 57.6% for the rural population. It is anticipated that poverty may be reduced by 0.5 % points during 2021, as the Government rolls out training programs to enhance opportunities for youth in the labour market and implement plans to create about 40,000 jobs in the medium-term. However, significant population pressures on fragile ecosystems exist in some of the poorest rural communities due to unavailability of water, exposing more people to poverty. Erratic rainfall and droughts occasioned by the changing climate further compounds water unavailability, thereby diminishing agro-pastoral production.

2.5.2 There are concerted efforts by the authorities and other stakeholders to address the increasing unemployment and other social disparities that have been accentuated by the COVID-19 pandemic. The 2018 World Development Indicators reported that the unemployment rate among the youth (15-24 years old) rose from 22% in 2009 to 26.7% in 2018 due to skills mismatch and low employability of job seekers, which restrict their entry into urban labour markets. Youth unemployment is higher among female youth (43.6%) than among male youth (20.2%) and is higher in urban areas (36.5%) than in rural areas (15.3%). The Government is working closely with the Bank to reduce youth unemployment through the ENABLE Youth Program, which seeks to create business opportunities and employment for youth in priority agricultural value chains, agri-business and agro-processing. In addition, in 2020, the Bank provided emergency funding (UA 20 million) to beef up the capacity of the Sudan health sector in responding to the impact of the pandemic. The collective efforts are expected to strengthen the country's development agenda to deepen inclusive growth.

2.6. Addressing Structural Fragility and Prospects to Strengthen Resilience

2.6.1 Sudan is in a transitional phase towards peace and development; however, the country still faces significant risks to its development path. An analysis of its Country Resilience and Fragility Assessment (CRFA) indicates that the country displays general fragility in all 7 dimensions, while at the same time lacking the needed capacity to deal with it. The country faces accrued fragility in the areas of corruption and bribery, insecurity, poverty, regional spillover, youth and gender marginalization, food insecurity and nutrition, as well as vulnerability to natural disasters especially droughts. Two thirds of the population live in rural areas and the economy is heavily dependent on agriculture, which is predominantly rain-fed. As a result, increasing climate variability especially reduced and erratic rainfall poses a major problem for the economy, livelihoods and food security. Recent years have been marked by significant economic instability as the monetization of budget deficits, loosening of monetary policy, devaluation of the Sudanese pound, reduction of fuel subsidies, and removal of wheat subsidies have been factors in accelerating inflation. In addition, government institutions have shown limited capacity to address the emerging challenges of economic instability, climate variability, and conflict. The country has been confronted with the social and economic impact of the COVID-19 pandemic, which includes food inflation, rising unemployment, and falling exports.

2.6.2. Sudan is currently on a positive outlook fueled by the normalization of its relationship with the IFIs following a successful coordinated arrears clearance process under the Highly Indebted Poor Countries' (HIPC) initiative. The country's ability to mobilize domestic resources or to borrow on international markets needs to be strengthened. Access to concessionary funding will enable the country to finance public investments and engage in policy reforms that would boost economic growth and reduce poverty. Despite the difficult economic conditions worsened by the impacts of the Covid-19, the Sudanese authorities have already made tangible progress in implementing some difficult, yet key reforms, recommended under the IMF's SMP Program. Significant financial assistance from the international community will be needed to incentivize reform and support the Sudanese population through the difficult transition. The Bank must be at the forefront to support nationally developed program of reforms aimed at stabilizing the economy, strengthening social protection, boosting the private sector, and strengthening governance. To this end, the successful clearance of Sudan's arrears has provided the basis for building a framework for a resilient economy that encourages a significant inflow of investment, particularly in areas where there are immediate opportunities to exploit the value chain, such as agriculture. Given its abundant natural resources, Sudan has the means to stimulate investments, revive its economy and consolidate a level of development that promotes inclusiveness by reducing key factors of fragility and fostering community resilience.

III – GOVERNMENT DEVELOPMENT PROGRAM

3.1 Government overall development strategy and medium-term reform priorities

3.1.1 A comprehensive Poverty Reduction Strategy Paper (PRSP) has been prepared covering the period 2021-2023. The PRSP focuses on: i) economic reforms to achieve macroeconomic stability and improve the overall competitiveness of the Sudanese economy; ii) raising efficiency and accountability in the public sector, improving opportunities for the private sector and investment, and allocating a greater share of public resources to social sectors and poorer/conflict regions; and, iii) addressing Sudan's debt overhang and arrears to IFIs and raising additional resources to address root causes of fragility, and vulnerability and contributing towards socio-economic development.

3.1.2 The PRSP is built on a medium-term macroeconomic framework (2021-2023) that emphasizes the importance of appropriate policies in favor of macroeconomic stability, sustained growth and poverty reduction. The PRSP's main macroeconomic objectives over the medium-term

are to: (i) reduce overall budget deficit to 2% of GDP; (ii) reduce inflation to 20% from 167%; (iii) reduce current account deficit from 10.9 % of GDP to 5.4% of GDP; and; (iv) attain real GDP growth rate of 4% by 2023. The PRSP also emphasizes the need to increase social spending to improve the welfare of the population, build human capital, and mitigate the adverse effects of reforms.

3.2 Challenges to National/Sector Development Program

3.2.1 Sudan’s development challenges are enormous given its context as a transition state. Poverty level is high and social indicators are poor (paragraph 2.5.1); while growth is constrained by limited fiscal revenue and lack of access to concessional funding. Critical physical infrastructure is in poor state due to neglect and destruction during years of civil war and economic isolation. Macroeconomic management challenges have been aggravated by the effects of the coronavirus pandemic. Inflationary pressures remain elevated while fluctuations in international oil and food prices increase price volatility in the country. Moreover, economic outlook continues to be overshadowed by the COVID-19 pandemic.

3.2.2 Political and Security Challenges

Peace and stability internally and peaceful relationship with its neighbors are key to economic and social progress in Sudan. Following the nationwide peaceful demonstrations that led to the overthrow of the previous regime in April 2019, political stability is gradually being restored following the establishment of the TG. The TG is committed to addressing the inherited huge macroeconomic imbalances and strengthening the transition to a democratic state. These aspirations come in the face of a challenging fragile situation due to high poverty levels with estimated poverty headcount index at 48.3% (2019), limited access to public services, environmental degradation, changing weather patterns, and weak economic performance. The new Government has been tasked with addressing the socio-economic crisis, especially fuel and bread shortages, high inflation and lack of job opportunities. In October 2020, a remarkable achievement was made through the signing of the Juba Peace Agreement with combating groups. This has put an end to two-decades of civil war, and a coalition government was formed on 10 February 2021. Given that some of the political issues are driven by access to limited economic opportunities, supporting the country, through this operation, with additional financial resources needed for the country’s development, would partly address the insecurity situation.

3.2.3 Domestic Resource Management Challenges

Sudan lost about 75 % of oil production, 66 % of exports, and half of fiscal revenues after the secession of South Sudan in 2011. In addition, oil revenues dropped sharply to 2.2% of GDP during 2012–18 and further to less than 1.5% in 2019 due to plummeting international prices. Available data through December 2020 indicate total revenues and grants were 40% below initial budget projections due to COVID-19 pandemic, thereby compounding further the existing fiscal challenges. The low revenue collection effort in Sudan is partly explained by low personal and corporate income tax rates, high exemptions and tax holidays, and low compliance due to weak revenue administration. The reforms in domestic resource mobilization should be sustained as part of the government’s fiscal consolidation plan, supported by capacity building and modernization of revenue administration laws and practices.

3.2.4 Public Financial Management challenges. Sudan’s PFM environment continues to face critical challenges despite recent and ongoing reforms to mitigate inherent risks. The 2021 CFRA for Sudan has shown that the overall fiduciary risks associated with the PFM system are substantial. Notable weaknesses include: (i) Weak budget credibility framework; (ii) Institutional fragmentation of the treasury management system which operates outside the purview of MoFEP; (iii) Outdated legislations, and; (iv) Incomplete computerization of all financial management modules that has undermined the timeliness and quality of government accounting, and financial reporting.

3.2.5 Debt and Arrears Challenges

Sudan's external debt is unsustainable, and arrears severely limit access to external financing needed to invest in the country's capital assets. External debt is currently estimated at about \$49.8 billion, with 86% in arrears and 14% not yet due. The DSA undertaken by the World Bank and IMF in October 2020 showed that the Debt/GDP ratio was 172.9%, exceeding the 40% sustainability threshold for low income countries, and is expected to remain at 130.6% by 2040 if no urgent action is taken to address the crisis. Traditional debt relief at the HIPC decision point would still leave Sudan's debt situation unresolved as total debt/GDP ratio would fall to 75%, significantly above the sustainability threshold of 40% for HIPC countries. Given the limited options for domestic revenue mobilization highlighted in paragraph 3.2.3 above, addressing the debt and arrears crises remains critical to expanding Sudan's sources of development financing. Cognizant of the urgency of meeting the country's social and reconstruction needs, a substantial reduction in the debt burden, or debt relief, is an essential element of the Government's economic strategy for unlocking the country's access to concessional funding. To this effect, the authorities have demonstrated strong commitment to making debt repayments to the IFIs, including the Bank, and to implementing critical reform measures in a very difficult political and security environment.

3.3 Consultation and Participation Process

3.3.1 Building on the foundations of the Economic Recovery Plan (2019-2020) and the short-term Salvation Program (September 2019-May 2020), the preparation of the PRSP (2021-2023) benefited from extensive consultations, to ensure the voice of Sudanese is reflected in the final document. The consultation process involved 60 days of engagement with stakeholders, in which a series of discussions and workshops were held in eighteen states, with representatives of Government agencies, civil society organizations, the private sector and DPs. The views expressed by stakeholders, especially on the causes of, and priority solutions to poverty, helped to shape the poverty reduction strategy. The PRSP which will be completed in April 2021, is owned and driven by the Office of the Prime Minister and Minister of Finance and Economic Planning. The results of the extensive consultations and poverty analysis led to the establishment of three national priorities, namely, achieve peace and stability, sustainable growth, and inclusive economic development for the Sudanese people. TG also plans to achieve debt relief with strong commitment to reforms under the HIPC initiative supported by the Bank, WB, IMF and other DPs.

IV – BANK SUPPORT TO GOVERNMENT STRATEGY

4.1 Link with the Bank Strategy

4.1.1 The proposed EFRSP is aligned to the Bank's CB (2017-2019 extended to December 2021). Specifically, it is linked to the first pillar of the CB namely "*capacity building for improving social service delivery*". The Bank's key objectives under the CB are closely aligned with the priorities announced by the authorities in the new PRSP (2021-2023). The proposed program is also fully aligned with the Bank Group Ten Year Strategy (TYS) (2013-2022) and one of the High 5s priorities namely, "improve the quality of life of the people of Africa". It is consistent with the Governance and Accountability pillar of the TYS and takes into account its inclusive growth objective given that good governance is one of the bedrocks of sustainable and inclusive development, which ultimately impacts on the quality of life of the people. It is also closely linked to the three pillars of the recently approved Bank Group Governance Strategy Framework-SEGA (2021-2025). It is equally aligned with the Bank's Strategy for Addressing Fragility and Building Resilience in Africa (2014-2019, extended to December 2021). The linkage of the proposed program with both the CB and the Government development agenda is summarized in Table 2 below:

Table 2: Link between the CB, NDP(PRSP) and the program		
PRSP 2021 – 2023	CB: 2017 – 2021	Program: 2021-2022
<p>Strategic Objectives:</p> <p>(i) Achieve peace and stability. (ii) Sustainable growth, and inclusive economic development for the Sudanese people.</p>	<p>Strategic Objectives:</p> <p>(i) Addressing the root causes of fragility and build resilience (ii) Achieving economic stabilization and poverty reduction</p>	<p>Program Goals and Objectives:</p> <p>(i) Support the building of a strong foundation for inclusive economic growth; and (ii) Building state capacity for transparent and accountable management of public resources and enhancing financial sector stability.</p>
<p>National Priorities:</p> <p>(i) Peace and stability, macroeconomic resilience and inclusive growth.</p> <p>National Development Goals:</p> <p>(i) Addressing root causes of fragility and vulnerability; and Contributing to socio-economic development</p>	<p>Strategic Pillars:</p> <p>(i) Capacity Building for Improving Social Service Delivery; and, (ii) Agriculture for Job Creation and Livelihoods.</p>	<p>Program Components:</p> <p>(i) Advancing fiscal consolidation & financial governance; (ii) Advancing financial sector reforms; and (iii) Improving business regulatory environment</p>

4.2 Meeting the PBO Eligibility Criteria

4.2.1 Sudan meets the eligibility criteria for General Budget Support Operation (GBS) being both a low-income country and transition state in a post-conflict situation. Eligibility criteria met are: (a) commitment to poverty reduction; (b) macroeconomic stability; and (c) harmonization. The country successfully implemented its Five-year Economic Program (2015-2019), and is currently preparing a comprehensive poverty reduction strategy, covering the period 2021–2023, expected to be approved by the government in April 2021. Prior to the COVID-19 pandemic, Sudan’s economic outlook reflected negative but improved real GDP growth forecasts due to enhanced investor confidence in the new Government and prospects for reintegration into the global economy. The 2020 real GDP growth projection has been revised downward by 5.6% compared to the pre-COVID-19 estimates. The PRSP (2021-2023) is built on a medium-term macroeconomic framework that emphasizes the importance of appropriate policies in favor of macroeconomic stability, sustained growth and poverty reduction. On harmonization, a new donor coordination framework is under development in the context of the PRSP. On the political stability criteria, Sudan has made significant progress with the establishment of the TG in late 2019. The TG has drawn a clear roadmap towards political settlement, peace, stability, institution-building and prosperity over the medium-term. Although the Bank CFRA (2021) indicates that Sudan’s PFM systems present an overall fiduciary risk of a substantial nature, it is noted that the fiduciary risks are being mitigated by Government commitment to reforms. Key improvements in the PFM system are expected to be achieved under the framework of the IMF SMP. The reforms being supported by this proposed operation are aimed at further strengthening the country’s PFM system. Sudan also meets the eligibility criteria for TSF Pillar I resources, as well as conditions specified under the Bank Group’s PBO Policy for the use of PBOs in fragile situations (paragraph 6.2.5 of the policy). In this context, the proposed operation responds to the need for the Bank to support Sudan’s efforts at state building and in rebuilding its core systems and institutions for economic and financial management. The program is fully coordinated with other development partners, including the IMF and the WB (see paragraph 4.3.1 below) in compliance with the relevant provision of the use of PBOs in fragile situations in the Bank Group’s PBO Policy.

4.2.2 The decision to use PBO in this case is accompanied by an assessment of the fiduciary risk environment given that PBOs can carry considerable risks in situation of fragility (see Technical Annex III). The fiduciary risk assessment shows substantial risks, but it also indicates a positive trajectory of change that would accrue from Sudan’s strong commitment and good record of accomplishment in implementing the IMF-SMP as demonstrated by the first review of the SMP conducted in February 2021. The fiduciary environment will further be assisted by credible PFM reforms being implemented by the Government and those supported by this operation, as well as complementary capacity building projects supported by other DPs and the Bank. It is important to highlight that PBOs provided through the Bank Group’s TSF financing window are consistent with the Operational Guidelines of the Bank Strategy for Addressing Fragility and Building Resilience in Africa, including the use of fiduciary safeguards (see section 6.6).

4.3 Eligibility to the Supplementary Support Window of the TSF

4.3.1 Sudan is classified as a country in a fragile situation and eligible for the Transition Support Facility⁵ according to the Bank Group Strategy for Addressing Fragility and Building Resilience (2014-2019, extended to December 2021). In this context, the Bank Group has over the years remained engaged with Sudan in order to support its transition from fragility to resilience. However, the Bank Group’s engagement and support to Sudan has been constrained by the accumulated arrears on loans to the country. Under the 15th African Development Fund (ADF-15) cycle, Sudan received an allocation of UA 53.59 million from the Transition Support Facility (TSF)⁶ Pillar I and Performance-Based Allocation (PBA) of UA 56.24 million.

4.3.2 Despite socio-economic challenges, and the slow pace towards lasting political settlement, Sudan has reached the stage for partial debt relief under the HIPC initiative, thus enabling the country for full re-engagement with the international community, following political, economic, and institutional reforms that have been undertaken since 2016 with the support of the Bank, the IMF, the WB, and other bilateral partners. In addition, the country has successfully implemented economic and financial governance reforms including debt management, business regulation, improved core banking business and modernization of Khartoum Stock Exchange. Further bold reforms were initiated in October 2020 under the ambit of the IMF-SMP. In February 2021, the IMF assessed the current SMP that runs from October 2020 to June 2021 and noted that the authorities have made satisfactory progress on its implementation. Having demonstrated its commitment and capacity to implement policy reforms, coupled with the ongoing political dialogue, expectations are that Sudan could potentially reach Decision Point under the HIPC initiative in June 2021, when the IMF Board is due to consider a new financing program for the country under the Extended Credit Facility/Extended Financing Facility (ECF/EFF).

4.4 Collaboration and Coordination with Other Partners

4.4.1 The Bank has been participating in discussions, and coordinated, with the WB, the IMF and other partners, including the UK’s Foreign, Commonwealth, and Development Office, on broad economic development, debt, PFM and financial governance issues for Sudan. This includes active participation in dialogue on Sudan’s external debt arrears clearance and the HIPC process as well as

⁵ Transition Support Facility (available to countries in fragile situations only) comprises of three pillars: Pillar I is a special ADF financing window and supplementary to PBA allocations; Pillar II resources are earmarked for arrears clearance support; and TSF Pillar III resources are earmarked for institutional capacity building and technical assistance support.

technical support for the preparation of the PRSP and Sudan’s External Debt and Arrears Clearance Strategy (SEDRACS). The proposed operation has been developed taking into consideration the IMF-SMP and in collaboration with the WB, which prepared a DPO that drew upon grant resources for HIPC eligible countries. The DPO of the WB was approved by its Board on 23 March 2021. The IMF Board, on March 26, 2021 decided to proceed with mobilizing resources for Sudan’s arrears clearance, which is expected to be completed and presented to the Board by end May/early June 2021. The main components of the proposed operation and its policy actions are drawn mainly from the Government’s reform program which was agreed with the IMF under the ongoing SMP.

4.5 Relationship with Other Bank Operations

4.5.1 The Bank Group’s current portfolio in Sudan consists of eighteen (18) operations, of which sixteen (16) are public and two (2) are private, for a total commitment of UA 344.5 million. The agriculture sector has the largest allocation, amounting to UA 179.7 million (52%) followed by social sector with UA 74.0 million(21%), water supply and sanitation UA 53.8 million (16%), multi sector/policy dialogue UA 22.6 million (7%) and energy 14.4 million (4%). The disbursed amount as of February 2021 is UA 157.8 million (sovereign operations 25.19% disbursed while Non-sovereign operation 100% disbursed of total portfolio. The overall performance of the portfolio is rated satisfactory, with implementation Progress (IP) rating of 3 and a Development Objective (DO) score of 3.

4.5.2 The proposed EFRSP has strong links with two ongoing operations in Sudan. These are the Policy Support to Preparation for Debt Relief and Technical Assistance and Capacity Building for the Preparation of the full Poverty Reduction Strategy Paper. The operation will be complemented by ongoing technical assistance to develop institutional capacity and support PFM reforms being provided by the Bank and other DPs. The operation benefited from lessons learnt from budget support operations in other fragile situations, such as Somalia, Liberia, Sierra Leone and Cote d’Ivoire. These lessons reveal that the Bank should coordinate closely with the beneficiary country to ensure successful program implementation. It has also benefited from the recommendations of the AfDB-WB common approach paper on budget support in fragile situations and BDEV evaluation of PBOs completed in 2018. The lessons from these initiatives, and actions taken to integrate them into the proposed operation, are presented in Table 3 below.

Table 3: Lessons Learned from Previous Bank Operations in the Country

Key Lesson Learned	Action taken to integrate lesson into the Program
Strong coordination necessary among DPs comprising joint policy programs so as to ensure that there is a broad consensus among development partners on the rationale and objective of the PBO.	This PBO is harmonized with the operations of key DPs (notably the IMF and WB) in the context of debt relief and attaining the HIPC Completion Point. The World Bank is preparing a DPO that draws upon grant resources that have been set aside for HIPC eligible countries. The IMF on its part intends to facilitate Sudan’s arrears clearance through a multi-year financing program under its ECF.
Strong Country Ownership is important, and the policy program should be embedded in the Government’s reform program.	The operation supports critical financial sector reforms, and locks in important PFM reforms which were designed by the Government in collaboration with the IMF. The program also supports the business regulatory reforms, accountability and anti-corruption agenda of the Government.
The need for selectivity in the choice of disbursement conditions so as to ease program implementation; hence the importance of joint appraisal with other DPs and use of a common Policy measure framework;	The preparation of the Bank’s PBO was coordinated with that of the WB through joint meetings and discussions with the authorities. The policy measures of the PBO are drawn from the measures agreed between the government and the IMF. Moreover, the prior actions were selected taking into account the need to ease program implementation.
Given the weak capacity in transition states complementary capacity building projects are often necessary to ensure effective implementation of reform measures.	The Bank, the WB and other DPs will be providing complementary Technical Assistance support to develop institutional capacity to ensure effective implementation of the program.

4.6 Analytical Work Underpinning

4.6.1 The design of the proposed operation benefited from a number of analytical works and country reports prepared by the Bank, other DPs and the Government, including the home-grown reform program of the TG. The Government home-grown reform program laid the groundwork for the IMF-SMP. The SEDRACS provided inputs into the anticipated debt clearance process. The narrative of this appraisal report also benefitted from the CB (2017-2019, extended to December 2021), as well as assessments and reports conducted by the Bank including, Private Sector Development and Economic Diversification and Sudan Economic Report, Sudan African Economic Outlook Country Diagnostic Note, Sudan Country Financing Parameters, CPIA and country diagnostic notes. These reports, diagnostic works and consultations informed the rationale behind the design of the operation, its components and risk assessments and management.

V – THE PROPOSED PROGRAM

5.1 Program Goals and Purpose

5.1.1 The goal of the proposed program is to support the government’s home-grown program of reforms aimed at stabilizing the economy, improving competitiveness, and strengthening governance. The overall operational objectives of the proposed operation are to: (i) support the building of a strong foundation for inclusive, resilient and self-reliant economic growth: and, (ii) build state capacity for transparent and accountable management of public resources, fight corruption, enhance financial sector stability, and strengthen compliance with the framework for anti-money laundering and combatting the financing of terrorism. The proposed operation will lay the foundation for longer-term engagement in policy dialogue with the Republic of Sudan. The interventions are in accordance with ADF 15 priorities.

5.2 Program Components

5.2.1 The program consists of three broad components namely: (i) Advancing fiscal consolidation and financial governance; (ii) Advancing monetary and financial sector development, and (iii) Improving business enabling environment.

Component 1: Advancing fiscal consolidation and financial governance

5.2.2 ***Challenges and Constraints.*** **The government’s fiscal position has deteriorated significantly because of ballooning fuel subsidies, increased spending to mitigate COVID-19 impact and weak revenue mobilization.** For instance, public revenues decreased by 40% in 2020, compared to the previous year, while expenditure rose by 2% of GDP in 2020 from the previous year’s level, thereby worsening the fiscal deficit to 12.4% of GDP in 2020. This is further compounded by large arrears which has blocked financing from the major IFIs, including the IMF, World Bank, and the Bank. There is therefore an urgent need to rein expenditure while taking steps to improve revenue mobilization. Moreover, the challenges of fiscal governance weaknesses, including paucity of fiscal information; weak spending control, and corruption, amongst others, need to be addressed also.

5.2.3 ***Recent Government Actions.*** **The Sudanese authorities are implementing fiscal reforms under the IMF-SMP to advance fiscal stability.** These measures include: i) unifying exchange rate and adjusting the custom valuation exchange rate gradually; ii) upgrading the capacity of the Taxation Chamber; iii) rationalizing expenditure; iv) increasing social spending to mitigate the effects of reforms through the introduction of the SFSP; and v) strengthening transparency by publishing budget execution data by MoFEP. Treasury Single Account (TSA) reforms show good progress in improving cash

management, forecasting and consolidating all bank accounts of ministries and public enterprises held at the Central Bank into a single account. Overall, these fiscal measures along with support from development partners are expected to reduce the fiscal deficit by 3.3% of GDP in 2021.

5.2.4 Program Activities: The program will support measures that (i) enhance revenue performance (including development of a framework for management of exemptions); (ii) eliminating fuel subsidies and gradually reducing other subsidies; (iii) rationalize and streamline expenditures (such as containment of spending on goods and services while increasing targeted social protection expenditures), and; (iv) contain the growth in public debt (approval of debt policy and development of framework for monitoring debt and contingent liabilities).

Component 2: Advancing monetary and financial sector development

5.2.5 Challenges and Constraints. Limited access to finance is a binding constraint to investment and growth in Sudan, which is further compounded by weak financial infrastructure. Advancement in banking services has been constrained by the breakdown of correspondent bank relations since mid-2014 due to sanctions and Sudan's SSTL categorization. The absence of an interbank market has led to persistent excess reserves. Challenges also remain in the legal framework for financial services and AML/CFT. Financial intermediation is not yet contributing enough to economic growth and there is a need to further strengthen supervisory capacity. The ongoing enhancement of the governance structure of the CBS is expected to address some of these challenges, and the government plans to review and update key laws governing the financial sector.

5.2.6 Recent Government Actions. The Central Bank has continued to modernize banking regulation and strengthen supervisory capacity while enhancing the compliance of banks with prudential regulations, including on limits on foreign exchange exposure and lending in foreign currency. With assistance from the Bank, the Government is undertaking financial sector reforms to ensure that banks comply with prudential regulations and increase credit to private sector. CBS will also conduct semi-annual stress tests to identify and address bank vulnerabilities, while laying the ground for adoption of a risk-based supervisory regime. At the same time, asset quality reviews of systemically important banks will be finalized by June 2021 and the bank recovery and resolution framework will be strengthened in line with international best practice. To strengthen corporate governance in the banking sector, independent directors will replace Central Bank officials serving on commercial bank boards by June 2021. In addition, the Central Bank will phase out its stake in state-owned banks and commercial banks by December 2021. Furthermore, efforts are ongoing to address remaining anti-money laundering/combating of financial terrorism(AML/CFT) deficiencies, including through conducting thematic AML/CFT on-site inspections of the high-risk banks, strengthening the capacity of the FIU, and fully implementing risk-based AML/CFT supervision.

5.2.7 Program Activities. Activities under this component include the adoption by CBS of new governance framework and implementation plan and the commencement of transition towards updated organizational structure. This measure would strengthen the capacity and governance of the CBS and would entail: (i) Preparation of an updated CBS Strategic Plan; the preparation and securing of approval of a transition plan to guide the interim period before full implementation of updated CBS organizational structure, and securing Board approval of updated organizational structure and Strategic Plan; (ii) Issuance, by the CBS, of new AML/CFT regulations that apply to all financial institutions. This is expected to enhance progress in normalization of correspondence banking relationships with banks operating in Sudan by broadening enforcement of AML/CFT provisions; (iii) Upgrade the CBS law to strengthen its independence and governance, allowing it to limit monetization of deficits, and establish a mandate based on price stability. This measure is expected to strengthen the mandate of CBS on price

and financial stability, limit monetary financing of the government, and strengthen central bank governance; and (iv) Unify all except the customs exchange rate and allow commercial banks and foreign exchange bureau to set exchange rates in line with market conditions, but subject to an adjustable band around the daily official exchange rate. This measure is expected to enable the CBS to set daily official exchange rate based on market average exchange rate.

Component 3: Improving business enabling environment

5.2.8 Challenges and Constraints. Sudan is ranked 170 among 190 economies in the World Bank's Ease of Doing Business Report (2019). The major challenges include weak access to credit, and high costs of electricity, business registrations and construction permits and lengthy processes of paying taxes and insecurity in large swathes of the country. Several administrative barriers need to be addressed, including: i) Complex licensing system; ii) Multiplicity of taxes and their overlapping nature; and iii) Land tenure issues and problems faced by investors due to the flaws in federal, state and local legislations. It is hoped that the recently established Public Private Dialogue Forum will address some of these issues. The lifting of sanctions will also go a long way in facilitating trade and investment notably through flexible repatriation of profits and international transfer of funds.

5.2.9 Recent Government Actions. Government is already undertaking reforms to improve the environment for doing business in the country. Key activities include fostering public-private dialogue, improving access to finance, simplifying business registration as well as taxation while prioritizing efforts to improve data quality, frequency, and availability.

5.2.10 Program Activities. Activities under this component include reviewing and updating legal and institutional arrangements such as: (i) PPP legal and regulatory framework; (ii) Framework for MSME access to credit; (iii) Develop new anti-corruption law in line with international best practices.

5.3 Policy Dialogue

5.3.1 The proposed program log-frame and the Government policy matrix will form the basis for policy dialogue around the achievement of the expected outcomes of the three components of the program. In addition, policy dialogue will focus on new reforms as outlined in the ongoing IMF- SMP and its successor ECF to enable Sudan to achieve HIPC completion point. To reach HIPC completion point and qualify for irrevocable debt relief, Sudan will need to fulfill floating completion point triggers and make progress towards achieving the SDGs. The monitoring of public spending during implementation of ERP (2019-2030), as well as under the PRSP (2021-2023), will be undertaken by AfDB, WB, IMF and other partners through continuous engagement with the authorities well after HIPC Decision Point has been attained. The HIPC floating completion point triggers that the IMF, the WB, and the Bank will use as the basis for dialogue and for monitoring the implementation of reforms is currently under preparation and the Bank will take part in the development of those triggers, which is expected to be finalized by June.

5.4 Grant Conditions

5.4.1 Prior Actions. Before the proposed operation is presented to the Board for approval, the prior actions presented in table 4 below would have been met by the authorities, and the required documentary evidence submitted to the Bank. All prior actions were agreed with the authorities during in-country and virtual program appraisal consultations, and in accordance with good practice principles of conditionality. All the prior actions, which are consistent with the program policy matrix, are essential for achieving the objectives of the program.

Table 4: Prior actions

Agreed Actions	Required Evidence	Evidence submission date
Component 1: Advancing fiscal consolidation and financial governance		
1. Removal of Fuel Subsidies in Budget 2020 2. Rollout of the Sudanese Family Support Program (SFSP) 3. Publication of monthly budget execution reports on the MoFEP website consistent with the Government Finance Statistics Manual (2001)	1. Copy of the Decree No. 94 on elimination of fuel subsidies. 2. A letter from the Government and evidence of WB support 3. Minister of Finance and Economic Planning Decree number 92 on publication of budget execution reports	31 March 2021 for all prior actions.
Component 2: Advancing monetary and financial sector development		
4. Unification of all but the customs exchange rate and allow commercial banks and FX bureaux to set exchange rates in line with market conditions.	4. Copy of the Central Bank Circular to commercial Banks unifying the exchange rate.	31 March 2021 for all prior actions.

5.5 Application of Good Practice Principles on Conditionality

5.5.1 **The design of the proposed arrears support program applies good practice principles on conditionality** (Appendix VIII). Policy actions and conditionality are based on the IMF-SMP which had been agreed with the government based on domestic priorities, focusing on critical actions relevant and achievable within the program's timeframe. The IMF-SMP has two prior actions, four quantitative benchmarks, three indicative targets and eleven structural benchmarks. Proposed prior action for this program are harmonized with those agreed with the IMF. The proposed program will reinforce country ownership and use a coordinated accountability framework customized to country circumstances. The operation has also been closely coordinated with the IMF and the WB to ensure harmonization and synergy.

5.6 Financing Needs and Arrangements

5.6.1 The financing gap is estimated at USD 727 million for fiscal year 2021. The government will finance this gap mainly through development partner assistance, both bilateral and multilateral. The IFIs are expected to contribute about USD 390 million. As indicated in table 5 below, the budget for 2021 is fully funded, as the estimated financing gap is to be filled by resources from development partners including the World Bank and AfDB.

	2021	2022	2023	2024
A. Domestic Revenue	1,950.40	2,145.44	2,355.69	2,581.84
<i>of Which</i>				
<i>Tax Revenue</i>	1,716.35	1,884.55	2,065.47	1,716.35
<i>Non-tax Revenue</i>	429.09	471.14	516.37	429.09
B. Total Expenditure	2,940.48	3,175.72	3,304.23	2,940.48
<i>of Which</i>				
<i>Operating Expenditure</i>	2,421.33	2,617.03	2,826.39	2,940.76
<i>Special Projects</i>	301.33	323.45	349.33	363.47
C. Overall Balance (A-B)	(772.27)	(795.04)	(820.03)	(722.39)
<i>Foreign Financing</i>	650.35	632.00	675.56	680.84
<i>of Which</i>				
<i>Bilateral</i>	260.14	252.80	236.45	203.44
<i>Multilateral (including AfDB)</i>	390.21	379.20	439.11	477.40

Sources: Sudan Authorities + IMF estimates and projections. Numbers for 2023 are supplemental and for 2024 are projections

5.7 Application of Bank Group Non-Concessional Borrowing Policy

5.7.1 The proposed program fully complies with the Bank Group policy on non-concessional borrowing and debt accumulation, whose purpose is to encourage countries that have benefitted from debt relief under HIPC and MDRI, or have potential to benefit from these initiatives, to not accumulate further non-concessional debt. This operation is to support the Republic of Sudan in implementing key economic and financial governance reforms that would promote macroeconomic stability and growth, and eventually facilitate debt relief under HIPC Initiative. The government has indicated that it is fully committed to borrow only from highly concessional sources.

VI – PROGRAM IMPLEMENTATION

6.1 Beneficiaries of the Program

6.1.1. The direct beneficiaries from the program are Sudan’s key economic governance and financial sector oversight institutions, while the indirect beneficiaries are the people of Sudan who will benefit from enhanced fiscal space for basic service delivery resulting from the unlocking of access to concessional funding. In line with the Bank’s gender objectives, special efforts will be made, and attention paid to ensure that Bank financed projects and programs provide opportunities for women to fully participate in economic activities. The lifting of sanctions on Sudan will also create opportunities for increased development funding, providing opportunities for projects that support women capacity building and entrepreneurship opportunities.

6.2 Impact on Gender, Poor and Vulnerable Groups

6.2.1 **Poverty and inequality are widespread and exacerbated by inadequate delivery of basic social services.** The most recent poverty survey conducted in 2015 revealed that poverty decreased to 36.1% in 2015 from 47% in 2009 but increased from 48.3% in 2019 to 56% in 2020. Poverty is substantially lower in urban areas at 26.5% compared to 57.6% for the rural population. Inequality, as measured by the Gini coefficient, decreased from 0.354 in 2009 to 0.292 in 2015. It is anticipated that poverty may be reduced considerably from 2021 onwards as the Government rolls out training programs to enhance opportunities for youth in the labor market and embark on plans to create about 40,000 jobs in the medium-term. In addition, significant population pressures on fragile ecosystems exist in some of the poorest rural communities due to water scarcity. To complement its ongoing support to the preparation of Sudan’s PRSP, the Bank is in dialogue with the Government on possible support to conduct the 2021 agriculture census. This census will generate information for evidence-based policy making to boost agricultural productivity and accelerate reductions in poverty and income inequality, especially as these affect mostly women. It is expected that fiscal stability, enhanced domestic revenue mobilization and improvement in economic and financial governance by promoting inclusive and sustainable development, would positively impact women, children and the youth. In 2020 the Bank approved the Accelerating Women Entrepreneurship and Access to Finance project and will continue to ensure that capacities are improved for women entrepreneurs to benefit from the positive impact of the arrears clearance and HIPC initiative for Sudan. The Bank’s on-going Enable Youth project also aims to achieve equal opportunities at 50:50 for male and female beneficiaries and phase II of the project is planned for approval in 2021. The proposed operation falls under Category IV of the Bank’s Gender Marker System, because analysis conducted showed no gender-related risks in the program objectives and ensured that there are no adverse gender impacts resulting from all other project activities and outputs. Working with other development partners, the Bank will ensure that women are given prominence and opportunities to benefit from the greater economic opportunities that will be created upon completion of the arrears clearance by IFIs and successful negotiations with both Paris and non-Paris club debtors. The Bank will specifically provide funding for direct capacity building for Sudanese women to strengthen their participation in nation building as political and economic actors. This will

address gaps in technical and financial management capacities, as well as ecosystem knowledge gaps, and also creating opportunities to contribute in policy frameworks that affect women.

6.3 Impact on fragility

6.3.1. By seeking to (i) strengthen fiscal and financial governance, (ii) advance monetary and financial sector development and (iii) improve business enabling environment, the proposed program addresses main drivers of fragility in Sudan as indicated in table 6 below:

Table 6: Project responsiveness to fragility drivers

Program activities	Program output or expected outcome	Driver of fragility to be addressed
Support progressive removal of automatic fuel subsidies.	Retail diesel and gasoline prices reflect all costs, thus eliminating subsidization	Challenging fiscal and macro-economic environment.
Enact a new Central Bank Law to strengthen its mandate focusing on banking regulation and price stability	Soundness of financial sector enhanced	Monetary financing of the budget deficit undermining fiscal stability
Conduct thematic AML/CFT on-site inspections of the ten highest-risk banks as determined by the CBS off-site tool	Progress made towards compliance with FATF standards	Vulnerabilities to corruption and related money laundering
Improve doing business environment	Remove obstacles hampering private sector investments	Lack of economic opportunity, unemployment in key/potential sectors

6.4 Impact on Environment and Climate Change

6.4.1 The program is classified Category 3 on the Bank’s Climate Safeguards System, implying that it will not have any adverse impact for which an environmental assessment is required, neither is it vulnerable to climate risks. Conversely, it will have positive impact on the environment by enhancing Government’s financial capacity to implement environmental and climate change plans. Unlocking concessional funding will enable Sudan to access international climate and environmental funds while removal of fuel subsidies will encourage a shift to renewable sources of energy and thereby cut emissions (Annex VII). Currently, the Bank is implementing four (4) projects that enhance environmental and climate change results in Sudan, namely; Rural Livelihood and Adaptation to Climate Change in the Horn of Africa; Drought Resilience and Sustainable livelihoods Projects; Solar Powered Pumping System for Irrigation project; and Technologies for African Agricultural Transformation (TAAT) support for drought resistant wheat varieties. The African Disaster Risks Financing Program is also planned for approval this year with the aim of providing insurance support in the event of droughts and flood. This is particularly important given that Sudan has a predominant agricultural economy that is adversely affected by drought and floods which is rampant in the region. Sudan will also benefit from the multinational project for Building a Sustainable Food Systems in The Horn of Africa which covers seven countries and is also planned for approval this year. With increased access to financing both from the Bank and other donors, greater support will be provided to the government of Sudan in managing the ravaging effects of environmental degradation and climate change in the country. In addition to ensuring that all Bank financed projects are climate-proofed, efforts will be made to utilize opportunities created by the increased fiscal space and expected additional financing to support the government of Sudan’s gradual transition to green growth in line with one of the twin objectives of the Bank’s ten-year strategy.

6.5 Implementation, Monitoring and Evaluation

6.5.1 **Implementation Institutional Framework:** The MoFEP will be responsible for the overall coordination and execution of the program. The appraisal team coordinated closely with Government officials to agree on program orientation and define the policy measures. The MoFEP will work in close collaboration with Ministry of Trade and Industries, the CBRS and other relevant ministries. Existing coordinating mechanisms in the MoFEP will be used for program implementation.

6.5.2 Monitoring and Evaluation Arrangements: The MoFEP will be responsible for collecting data and coordinating monitoring and evaluation and will make information available to the Bank.

The operations policy matrix (see Appendix VI), agreed between the Sudanese authorities and the Bank, as well as the IMF-SMP review reports and quantitative and qualitative indicators in the results-based logical framework, will constitute the framework for monitoring and evaluation of the arrears support program. The Bank will monitor the implementation of the program through regular supervision in coordination with the IMF and WB, and close follow-up to assess progress achieved based on the indicators. RDGE and ECGF will play a critical role in following up the implementation and monitoring of program results and impact while ensuring, in particular, a constant policy dialogue with the Government and regular consultations with the WB, the IMF and other DPs. A Program Completion Report will be prepared to evaluate progress against the Results Framework and to draw lessons for follow-up operations.

**6.6 Financial Management, Disbursement and Procurement
Country Fiduciary Risk Assessment (CFRA)**

6.6.1 As part of the preparation of this operation, the assessment of Sudan’s fiduciary risk was conducted by the Bank in March 2021 and covered the main PFM systems of the government. The PFM systems include budget planning and execution, treasury management, accounting recording and reporting, internal control, external audit, procurement and governance (See Technical Annex II for details). The CFRA shows that Sudan has made important strides in improving its PFM systems in recent years. The PFM reforms are anchored on five platforms: (i) Updating PFM legislations (including revenue and procurement laws); (ii) Improving policy formulation, planning and budget preparation; (iii) Instituting PFM fundamentals for enhanced budget credibility; (iv) effective budget execution and financial accountability; and, (iv) enhancing institutional and human resource capabilities. Significant improvements have been made in debt and cash management. Good progress has also been made in establishing the TSA. Government plans to continue improving cash forecasting, extending the setting of cash ceilings for MDAs from one to three months, improving management of payments, and gradually extending to extra-budgetary funds. All bank accounts of ministries and public corporations held at the CBS have recently been consolidated into a single treasury account. The Financial and Accounting Act 2007 largely prescribes the PFM framework and its application to all government entities. Sudan enacted Procurement, Contracting and Disposal of Surplus Act in February 2010 as part of the country’s procurement reforms agenda. The Act was followed by the 2011 Procurement Regulation that specifies the processes and procedures in public procurement. Efforts to modernize the procurement legislation to make it consistent with good international practices have been initiated.

6.6.2 Based on the CFRA (2021), Sudan’s PFM Systems present an overall residual fiduciary risk of a “substantial” nature. Specifically, the systems for procurement present a high fiduciary risk while the financial management systems for budgeting, treasury management, accounting and financial reporting, internal control, and external audit present a substantial risk. It is however, noted that, though substantial, the fiduciary risks are being mitigated by Government commitment to reforms and that the country’s PFM system is on a positive trajectory with important PFM reforms having been achieved and many more planned under the IMF-SMP arrangement. While noting that most of the reforms are at the infant stages of operationalization, the initiated and focused reforms in PFM will, when fully implemented along with other planned reforms, bear fruit that will lay the roadmap for a transformative change in the PFM environment and facilitate the use of country systems. Preparation of a comprehensive PFM Reform Strategy and Action Plan to underpin government’s vision for future reforms is required. For sustainability purposes, capacity building programs should be integrated in all

new projects financed by the Bank to transfer knowledge and build a critical mass of civil servants equipped with economic and financial governance skills.

6.6.3 Financial Management, Audit and Reporting Requirements. The Bank will monitor progress in reforms implementation through review of the policy matrix. The log-frame will be used to monitor the indicators. Financial management staff will be part of the Bank review team to follow up on the PFM indicators as well as the audit arrangements.

6.6.4 Disbursement Arrangements. The operation will follow the Bank’s disbursement procedures for PBOs. The TSF Pillar I Grant amounting to UA 144 million will be disbursed by the Bank, in a single tranche, into a foreign currency account to be confirmed in writing by the government. The recommendation for a single tranche disbursement is in support of the reforms under implementation following the successful arrears clearance of Sudan and the lifting of sanctions.

6.6.5 Procurement Arrangements. In accordance with the “Procurement Policy and Methodology for Bank Group Funded Operations” dated October 2015 and in line with the Bank’s policy on PBOs, any procurement under the arrears clearance support program will have to rely on Borrower’s Procurement System using country’s own oversight institutions. Though currently the risk of using the country procurement system for Bank financed projects is rated as high, the procurement reform initiatives of the authorities, as highlighted in the CFRA (2021) once brought to fruition, have the potential to launch the reforms into a positive trajectory of sustainability purposes, and thus resulting in significant reduction in the level of risk. However, it may be noted that no procurement is envisaged under this program.

VII – LEGAL DOCUMENTATION AND AUTHORITY

7.1 Legal Documentation

7.1.1 The financing instrument that will be used for this operation is a TSF Pillar I Grant of UA 144 million in the form of budget support to the Republic of the Sudan. The grant will be governed by a Grant Protocol of Agreement to be signed between the Bank and the Fund (together the “Bank”), as administrators of the TSF and the Republic of the Sudan (the “Recipient”).

7.2 Conditions Associated with the Bank’s Intervention

7.2.1 Conditions Precedent to Entry into force of the Protocol of Agreement. The Protocol of Agreement for the Grant shall enter into force on the date of signature by the parties.

7.2.2 Prior Actions: Before the Grant proposal is presented to the Board for approval, the Government of Sudan shall provide evidence satisfactory in form and substance to the Bank that the prior actions for the program outlined in Table 4 have been fully fulfilled.

7.2.3 Conditions precedent to the disbursement of the Grant: In addition to the provisions of Section 7.2.1 above (Conditions Precedent to Entry into force of the Protocol of Agreement) of this Agreement, the obligation of the Bank to make the disbursement of the Grant amount of UA 144 million shall be subject to the satisfaction of the following conditions by the Recipient:

- (a) Submission of evidence of the opening of the designated foreign currency denominated Special Account, in a bank acceptable to the Bank, for purposes of receiving the proceeds of the Grant;

- (b) Payment in full of arrears owed to the African Development Fund in the amount of One Hundred and Forty- Four Million Units of Account (UA 144 million) in immediately available funds into a designated AfDB bank account; and
- (c) Payment in full of arrears owed to the African Development Bank in the amount of One Hundred and Fifty-One Million Three Hundred and Fifty Thousand Units of Account (UA151.35 million) in immediately available funds into a designated AfDB bank account.

7.2.4 Other Condition: The Recipient shall provide a minimal one percent (1%) token contribution of the country’s arrears to the Bank Group, in an amount of not less than Three Million Units of Account (UA 3 million) as part of the country’s contribution of up to a maximum of 1/3 (or 33%) of its arrears clearance obligations to the Bank Group.

7.3 Compliance with Bank Group Policies

7.3.1 The program is in line with the provisions of the TSF Guidelines and the Bank Group Policy on PBOs, noting that the grant resources relating to the proposed program, will only be disbursed after the full clearance of Sudan’s arrears.

VIII – RISK MANAGEMENT

8.1 The risks and mitigation measures of the program are presented in table 7 below and are also summarized in the logical framework:

Table 7: Program risks and mitigation measures

Risk	Probability level	Mitigation measures
Political and Security: potential state failure, economic hardships, potential social turmoil, increased insecurity, and the reversal of the current political and security gains.	High	Continued presence of peacekeeping forces and the UN to monitor the main drivers of fragility to prevent and respond to significant events. In addition, intensive monitoring of implementation and problem solving will be conducted by Bank staff located in RDGE and/or Sudan. Use of local consultants will allow for a better access to Government ministries for capacity building purposes.
Social impact & low tolerance for policy reforms: public acceptance has been eroded by economic hardship, and delays in implementing fundamental reforms are gradually undermining the goodwill the government enjoys, limiting the window of opportunity for implementing reforms.	High	Implement subsidy reforms to create space for social spending needed to alleviate adjustment pains and the negative impact of the COVID-19 pandemic. In addition, increased public wages and raise social spending focusing on bigger coverage of the Sudan SFSP piloted in June 2020 to include more vulnerable families
Macroeconomic risk including economic headwinds due to reduction in external finance, non-adherence to SMP requirements, policy reversals and lack of commitment to priority reforms	High	Continued IMF-SMP, revenue administration and PFM reforms to mitigate fiscal risks and DP increased donor funding and policy dialogue around new funding and development of new funding instruments.
Capacity constraints: Human resource capacity building and staff retention remains an impediment in implementing reforms in a sustainable manner.	Moderate	A number of technical assistance and capacity building initiatives by the Bank and DPs are expected to mitigate this risk.
Governance and Fiduciary risks: with poor track record of compliance with laws, complicated by the challenges associated with full operationalization of a new legal regime. May be of a risk to place full reliance on the Country’s PFM systems.	Moderate	The Bank will, in close collaboration with other partners like the WB and IMF, continue supporting and scaling up programs like the Bank’s institutional support projects. Fiduciary services will be delivered country systems. Capacity building in PFM of core institutions, strengthening of accountability structures such as internal audit as well as external audit and the relevant legislative committees.
Bank capacity	Moderate	Capacity for managing Sudan’s projects and reducing project implementations risks are being strengthened by Sudan Country Office, and regional office (RDGE) staff to monitor the quality of country portfolio.

IX – RECOMMENDATION

9.1 Management recommends that the Boards of Directors approve the Grant of UA 144 million from the resources of TSF Pillar 1 to provide a general budget support to the Republic of the Sudan in respect of the program in accordance with the terms and conditions presented in this report.

ANNEX II: COUNTRY FIDUCIARY RISK ASSESSMENT

Executive Summary

Sudan has recently emerged from a violent public revolution, that have ended decades of armed conflicts and social disorder, which has rendered many of the existing government institutions, systems and structures as ineffective in many respects and would require an urgent PFMS reform plan, to guarantee proper steps towards the intended economic recovery.

During the last two years, the government's agenda has been focused on achieving the demands of the revolution, first achieving peace and restoring Sudan to its normal position within the international community and it has achieved great success in these two stated issues, which encouraged it recently to adopt some strategic economic changes. The newly adopted changes have covered both the financial and monetary policies, the fiscal policy tend to lift up subsidies whereas the monetary policy allowed free flotation of the SDG. These new policies would certainly need to be properly managed through a robust PFMS, which is the new challenge for the current government.

The preliminary Country Fiduciary Risk Assessment (CFRA) for Sudan has showed that the overall fiduciary risk, associated with PFMS is high, consequently the identified risks needs to be mitigated by the Government through a number of proposed reform arrangements in order to avoid the huge financial losses, caused by such risks. Hereunder is a summary of the FRA on the components of Sudan's PFMS:

PFM element	Fiduciary risk
Budget	Substantial
Treasury management	High
Accounting, recording and reporting	High
Internal control	High
External scrutiny	Medium
Overall Fiduciary Risk	High

1- **The budget system**, which is the backbone of the national economy, lacks some important elements that support and justify its presence as a reliable regulatory planning system, which provides sufficient transparency and accountability of responsibility.

The fiduciary risks associated with this sub-system has been assessed in terms of the following factors:

- The budget is prepared manually; theoretically, the budget proposals are prepared on incremental basis but in practice it becomes a bargaining exercise and the final estimates cannot be easily reconciled with the set guidelines and indicators.
- The credibility of the budget has been significantly undermined due to the following:
 - The deviations in terms of development expenditure due to the improper way of estimation, putting such project at high risk on implementation
 - Having large volume of revenue and spending on some fiscal activities, which fall outside the budget mandate.
 - Notably the situation of publicly own enterprises, which are included as one figure on the government budget, some are not included at all.
- The budget classification is based on the GFS system as recommended by IMF and the final approved budget document is transparently published to all stakeholders; however,

progress report on budget implementation still not published on the official website of the MoFEP.

- The predictability and control in budget execution have significantly improved by close follow up and control of payments according to priorities.

Therefore the fiduciary risk of the budget system is substantial and the budget department should work to automate the budget process and integrate it with other PFMS modules, streamline the preparation process, and ensure full coverage of all government revenues and expenditure.

- 2- **The treasury management system** has not been found within the organizational structure of the MoFEP and instead there are a number of units that should have fallen within this department. Noting that the existence of such a department as a wide umbrella for public treasury could have achieved the strategic orientation of these scattered individual units and guide to better treasury management, which would be operated by specialized professional cadres. Nevertheless, these units have been studied and the fiduciary risk assessed, which proved to be high in most cases and the practical evidence supporting this conclusion is the continuous cash flow bottlenecks experienced by the ministry, consequently such funds used to be allocated on quota bases. Therefore, the fiduciary risks associated with the treasury function is high and such risks need to be mitigated by creating a typical treasury department to exercise effective management of cash balances.
- 3- **The accounting, recording, and financial reporting**, is under the responsibility of the National Chamber of Accounts (NCA). It follows the GFS for classification of its accounts structure and adopts local GAAP for preparation of the year-end financial statements of the general government. However, the incomplete computerization of all PFMS modules has weakened the timeliness and quality of the accounts as well as raising significant concerns about its reliability, quality, and safety.

The revenue collection module, known as E15 which is a standalone application for cash and electronic collection introduced since 2015 has been experiencing serious defects. This has resulted in substantial financial losses due to the cancellation and offline operations, thus E 15 represents very high level of risk. On the hand the GRP accounting module have been under implementation for years, but so far it does cover only limited classes of expenditure besides, not being implemented by most of the government units. Some security arrangements for the application in use are there, but they are limited to certain data file and software, which would enable restarting the central function of the system.

Moreover, the accounts units do not maintain fixed asset register or inventory control system, consequently, such very valuable assets are not properly reported and controlled within PFMS, due to the deliberate use of cash basis accounting, which ignores such assets.

The recording of the liabilities sub-system has suffered from many shortcomings, and its records are not fully controlled by MoFEP, there is uncertainty regarding its documentation, completeness and accuracy of its records and it is usually reconciled with records of Bank of Sudan (BoS).

Based on the above analysis, the applicable accounting and financial reporting as well as its systems and structures of NCA are all very vulnerable. The fiduciary risk associated with this function is high risk, which need to be mitigated by adopting an immediate reform plan that would put all accounting regulations, systems, structures, and procedure on the right track.

NCA has already devised such plan and it needs to be revised and elaborated further and put into action as earlier as possible.

- 4- **The internal control system:** In respect of the internal control system, it has been established in accordance with the provision of FAPA2007 and its associated articles for year 2011, however, these two documents have been based on the manual system, which has become incompatible, with the current situation.

The NCA and the internal auditor chamber (IAC) representative, who are located in every government unit play very influential role in the execution, monitoring and controlling of the approved budget according to the provisions of the prevailing laws and regulations. The effect of such recognized efforts has no serious deviations reported on the execution of general government budget for current year 2019, they should be encouraged and empowered to continue their respective roles.

Although the internal audit chamber (IAC), is very well organized unit, and professionally independent body reporting directly to the Minister of Finance, having all the necessary tools for verifying all financial transactions of government entities, however, its suffers serious limitation of scope, its personnel are in most cases facing great difficulties in carrying out their duty. However, all kinds of resistance by government units should not be tolerated by MoFEP so that every official being under scrutiny by the internal auditors. Therefore, the major problem with the internal audit function is the limitation of its audit activities to a very narrow band of accounts, this would present medium level of risks.

Based on the above diagnostics on the internal control system, the fiduciary risk high

- 5- **External Scrutiny:** The Annual financial statements, which are prepared by the NCA are audited by the Auditor General chamber (AGC). Government financial statements are audited according to the international auditing standards known as (ISSAI). Annual audit reports are submitted to the legislative body and all essential concerns are brought to the attention of the parliament on time, however, according to the transitional arrangement , the legislative powers are entrusted with the joint meeting of sovereign and ministerial councils. The financial external auditing covers all government units focusing on professional judgment by auditors on the truth and fairness of the financial statements and its explanatory notes, with emphasis on “irregularities”.

The AGC is professionally, financially and administratively independent body, it conducts various types of audits recommended by the AFROSAI, including compliance, IT, forensic, performance and system-based audit and it keeps audit manuals for each types audit. Furthermore, the AGC has established a special vehicle for Follow up of its recommendations. The AGC has been subject to two-peer review and its performance has been approved as class 3, just one degree below the ideal standard. Based on the above diagnostic to the External audit function (SAI), the fiduciary risk is medium and its performance is satisfactory enough, however it needs to be supported by enabling it to recruit more professional to train and implement the national audit plan in the best way.

Concluding remarks

As a concluding remark on the FRA for Sudan, it should be realized that the risks associated with PFMS are great ranging between high and moderate level and the overall FRA is high. Consequently, such risks would undermine all attempts to implement the declared economic reforms, unless steps are taken to mitigate such risks, therefore we recommend the following measures:

- 1- Designing a country-led PFM reform strategy and action plan, to be executed with the participation of all concerned parties and external competent consultants.
- 2- Adoption of a multi-year program of work with the international financial institutions that supports and is aligned with the proposed Government’s PFM reform strategy, and action plan.
- 3- Seeking sufficient finance to implement such reform within specific period.

- 4- Taking immediate action to improve regulations and enforce the mandate of the MoFEP over all public funds. (The revision should involve all financial procedural Acts; including FAPA 2007 and its articles, the private law of IAC and NCA, etc.)
- 5- Taking immediate measures to stick to corporate governance.
- 6- Taking appropriate measures to investigate the defective system.

1- Objective:

The objective of this assignment is to undertake a review of the financial management performance of the Sudan national PFM systems with a view to establishing the associated fiduciary risks and to suggest suitable mitigating measures. Based on the individual fiduciary risks identified on each of the sub system of PFMS and review of other referred diagnostic materials and consultations, the assessment should culminate into an overall fiduciary risk rating of the Financial Management aspect of the country's PFM system.

2- Scope:

This assignment evolves around the assessment of the fiduciary risk associated with the following components of PFM of Sudan as follows:

- 1- The budgeting sub system
- 2- The Treasury sub system
- 3- Accounting and Financial Reporting
- 4- Internal Control including Internal Audit
- 5- External Scrutiny and external audit
- 6- A clear assessment on the overall level of fiduciary risk including the risk of corruption and the credibility of existing reform programs.

3- Methodology:

The methodology has been designed to facilitate arriving at objective in a systematic way by showing how the assignment is conducted at different phases, how strengths and defects are identified, how scoring is attached to each module and how the risks are identified and mitigated.

How the financial risk assessment (FRA) assignment was conducted:

The FRA assignment is intended to assess the level of fiduciary risk associated with the various components of the national PFMA system in a standardized way. It follows the guidelines stated on the African Development bank user guide

4- Overview of the Diagnostic Studies

It should be noted that there has been no available CEAA or PEFA reports on Sudan during the last decade, thus the study has been started from scratch and we depend on our professional judgments to attach scores to the various modules and sub-modules before the closing of the assignment..

According to the modular CFRA assessment matrix shown on Appendix 1, the assessment of Sudan's performance in PFM suggests that; it is well below the average standard, achieving average score of 1.4 out of 3, the assessment has covered both the design and implementation and in most the failures are jointly and not separately.

5- The modular assessment of Sudan's CFRA:

1. Budgeting practices

The MoFEP is responsible for preparing and executing the national budget of the federal government, the budgetary system, is unautomated and the budget is still manually prepared and maintained, it uses excel model for that purpose. The budget preparation process depends on certain formats and guidelines that will be distributed to respective government units two month before yearend to be completed and resubmitted to the budget department. Later on, all budget proposals are discussed on the table and agreed on bargaining basis. The Budget department has tried to apply the program based budgeting during early years but has failed to implement it and returned to the incremental budgeting The budget adopts GFS 2001- cash basis classification; however, there are no budget manuals to guide the process of budget preparation.

The development projects budgets are approved according to their action plan and the project profile prepared by the sponsoring budgeted government unit, other project, subject to special agreement with donors are not part of the budget. The follow up of implementation does not fall within the mandate of the budget department, as there is another department for this purpose.

The publication of the budget and the implementation report on the official website of MoFEP has been one the requirements of the IMF and there are arrangements underway to comply with this requirement

The FRA on the budget has been assessed based on the following factors:

- 1- The budget is prepared manually; theoretically, the budget proposals are prepared on incremental basis but in practice it becomes a bargaining exercise and the final estimates cannot be easily reconciled with the set guidelines and indicators.
- 2- The credibility of the budget has been significantly undermined due to the following:
 - The deviations in terms of development expenditure due to the improper way of estimation, putting such project at high risk on implementation
 - Having large volume of revenue and spending on some fiscal activities, which fall outside the budget mandate.
 - Notably the situation of the publicly own enterprises, which are included as one figure on the government budget indicating distributions, however, some are not included at all.
- 3- The budget classification is based on the GFS system as recommended by IMF and the final approved budget document is transparently published to all stakeholders; however progress report on budget implementation still need to be published in the official website of the MoFEP.
- 4- Predictability and control in budget execution have been significantly improved by close follow up and control of payments according to priorities.

Although there are some effort exerted to improve on some aspects of the budget system, there are very significant weaknesses, which has lasted for very long time and reflect, in part the weak demand from both government and external stakeholders for better budget information and for better budgetary management.

Based on the above diagnostics to the budget module of Sudan; the average FRA scoring is 1.31, which is classified as substantial.

The identified risks are shown below

- 1- The budget is prepared manually, there is no budget module or manuals.
- 2- For the recent years no strategic and action plan to support public budget

- 3- No sufficient publicity of the budget and its analysis on MoFEP website.
- 4- The feedback on the executed budget would not be reported to the budget department.
- 5- The current budgetary system showed insufficient budgetary controls over national wealth due to:
 - The inconsistent approach to budgeting
 - The many exceptions.
- 6- It could not deal properly with budget estimates for development projects and fall short of aid-financed projects as being part of government budget

Proposed mitigating measures are as follows:

- 1- Implementation of a budgeting package to be integrated with other PFMS modules.
- 2- Establishing appropriate budget manuals to streamline the process of budget preparation.
- 3- Effecting more transparency measures through; publication of budget analysis and indicators, as well as publishing regular national accounts on the website of MoFEP.
- 4- Adopting modern techniques for budgeting based on well-planned programs.
- 5- Requesting all budgeted units to submit regular report on the achievement of budgeted objective on the bases of value for money.
- 7- Establishing Capacity-building program, ensuring injecting of budget professionals to the department. Ensuring full budget coverage of all public revenues and expenditure without exception. Inclusion of the aid- financed project within national government budget.
- 8- Taking appropriate measures to ensure that the budget figures for projects represent the best estimates of actual expenditure.
- 9- Restricting requests for budget modifications.
- 10- Preparation of the state-owned public enterprises.

2. Treasury management

The treasury management system has not been found within the organizational structure of the MoFEP and instead there are a number of units that should have fallen within this department. Noting that the existence of such a department as a wide umbrella for public treasury could have achieved the strategic orientation of these scattered individual units and guide to better treasury management, which would be operated by specialized professional cadres. Nevertheless, these units have been studied and the collective fiduciary risk of such unit has been assessed, which proved to be very high and the evidence supporting this conclusion is the continuous cash flow bottlenecks experienced by MoFEP . It appears that such issues have been dealt with on firefighting basis and thus always funds fall short and distributed on quota bases. Therefore, the lack of proper treasury management and the current tendency to run the work by all the scattered units has contributed negatively on the treasury issues of The MoFEP.

Based on the above diagnostics to the treasury management of Sudan; the FRA average scoring is 1 which is classified as substantial.

The identified risks are shown below:

- 1- There is No Treasury department for MoFEP.
- 2- There are no treasury manuals supported by Finance Law.
- 3- There is only a very limited TSA to run the ceiling system, which is Integrated with GRP accounting module, thus management of cash flow is partial.

- 4- There are no automated reconciliations due to some technical problems attributed to incomplete computerization.
- 5- The current system does not manage foreign cash balances or funds run by state governments.
- 6- The current staff operate the system and they have no real treasury management and reporting to that effect.
- 7- The current mandate of TSA treasury is very restricted to some basic revenue resources and payments which are very regular ones.
- 8- Currently there are many budget lines that fall outside TSA mandate including Aid- financed projects, which are dealt with separately and are not managed by TSA

The proposed mitigating measures are as follows:

- 1- A treasury management department should be established within MoFEP to deal with all matters relating to management of cash balances according to a specialized national fiscal strategy
- 2- There should be available treasury module and manual to streamline all the treasury functions under one unified and consistent system.
- 3- The TSA module should be completed and extended to all government units and accounts, then integrated with the other components of the PFMS.
- 4- The concept of treasury management must be applied to all revenues (foreign and local) and to all government spending, no matter with made under central or state levels.
- 5- Bank Reconciliations should be fully automated and prepared on real time basis.
- 6- All foreign aid-financed project should be included in TSA.
- 7- The TSA should be managed professionally by treasury people.

3. Accounting, recording, and financial reporting

The National chamber of accounts (NCA), is the organ of MoFEP responsible for undertaking the execution of budget by various budgeted government units, through the attached accounting units that ensure the budget is executed as approved. In respect of the budget execution the NCA, in conjunction with the internal auditors, they are doing very good job in controlling the spending and restricting it to the budget. On the other hand, the chamber is also responsible for accounting, recording, and reporting. NCA follows GFS 2001 for classification of its accounts structure, accounting wise it adopts local GAAP- cash basis for preparation of government financial statements. However, the incomplete computerization of all the accounting modules has weakened the timeliness and quality of accounting as well as raising significant concerns about its reliability, quality and safety. In this context, the revenue collection module, known as E15 was introduced since 2015, it has been experiencing serious defects and therefore it presents very high level of risk, whereas the GRP accounting module have been under implementation for years, but so far it does cover only very limited classes of expenditure. Moreover, the accounts units do not maintain fixed asset register or inventory control system, consequently, such very valuable assets are not properly reported and controlled within PFMS, due to the deliberate use of cash basis accounting, which ignores such assets.

The recording of the liabilities sub-system has suffered from many shortcomings, and its records are not fully controlled by MoFEP, there is uncertainty regarding its documentation, completeness and the accuracy of its records, noting that it is usually reconciled with records of B of S.

As conclusion the accounting and recording system is entirely incomplete and disintegrated, therefore, it could not produce the regular financial statements and other financial analysis and reconciliations due to the many problems associated with it, instead such financial reports are prepared manually through excel models. The management of the NCA has prepared strategic reform plan to deal with all the inherent problems of applicable accounting systems, but the plan has never been put into action.

Based on the above analysis, the applicable accounting and financial reporting as well as its systems and structures of NCA are all very vulnerable. The average FRA associated with this function is estimated at 0.73.

This low rating is mainly attributed to the incomplete computerization of its system, inadequate accounting principle and the improper recording of government assets and liabilities.

The identified risks are shown below:

1. Inadequate accounting principles based on local GAAP.
2. Incomplete and disintegrated components of GRP accounting system.
3. Legislative and regulatory framework are based on manual system, need to be upgraded.
4. The system incapable of generating directly financial statements and notes.
5. The shortage in professional cadre, and;
6. Insufficient support from MoFEP to enable it carrying its role effectively.

The proposed mitigating measures are as follows:

- 1- There should be at least gradual shift from local GAAP to IPSAS (accrual basis) within 3 years so as the accounting system could generate relevant and reliable financial information supporting transparency and accountability.
- 2- There should be immediate upgrading of legislative frameworks to keep pace with current professional and technological developments.
- 3- There should be suitable manuals for each accounting sub- system.
- 4- The latest revenue collection system (E 15 version) should be implemented and associated with sufficient legal provisions to prevent fraudulent misuse of the system.
- 5- The NCA needs to be funded to recruit more professional in order to implement the proposed reforms ASAP.

4. The internal control system:

In respect of the internal control system, it has been established in accordance with the provision of FAPA2007 and its associated articles for year 2011, however, these two documents have been based on the manual system, which has become incompatible, with the current situation.

The NCA and the internal auditor chamber (IAC) representative, who are located in every government unit play very influential role in the execution, monitoring and controlling of the approved budget according to the provisions of the prevailing laws and regulations. The effect of such recognized efforts that there have been no serious deviations reported on the execution of general government budget for current year 2019, they should be encouraged and empowered to continue their respective roles.

The procurement system in terms of legislative and regulatory frameworks seems acceptable except for the need to upgrade it, in order to keep pace with technical and professional developments. Nevertheless, in practice the relevant Act has encountered many challenges that render it as a loose framework to achieve purposes, which are not in line with the interest of the government entities that supposed to use it. This difficulty in putting it into action has led to improper implementation of its terms, thus the need for a manual providing step-by-step guidance for each case. As a result of the current practices most contracts are reviewed and, edited several times taking into consideration the major failures in

implementation of such contracts. However, weaknesses in execution, compliance, monitoring/oversight and enforcement seems to be commonplace. Therefore, in terms of the implementation the procurement system presents a high fiduciary risk

Although the internal audit chamber (IAC), is very well-organized unit, it is professionally independent body reporting directly to the minister of Finance. It has all the necessary tools and capacities for verifying all financial transactions of government entities, however, its scope is very limited and its personnel are in some cases facing great difficulties in carrying out their duty due to their sensitive as watch dog for the MoFEP . However, all kinds of resistance by government units should not be tolerated by MoFEP so as every official being under scrutiny by the internal auditors. Based on the above diagnostics of the components of Internal Control System; the FRA, average scoring is 0.73 which is classified as high.

This low rating is mainly attributed to the insufficient controls on the automated processes, inadequate procurement procedures and the limitation on the scope of the internal audit.

The identified risks are shown below:

- 1- The current controls are based on manual processing; it does not help in case of computerized transactions.
- 2- There are regulations in place, but the application is limited to certain units of government.
- 3- The purchasing dept. has not sufficient capacities to deal with the required level of involvement and supervision.
- 4- 3- The current Financial and procurement regulations needs to be upgraded to cope with current changes.
- 5- All the systems are operated manually, which reduces the efficiency.
- 6- No feedback obtained on the implementation of placed contract
- 7- The internal audit set up is appropriate, but more professional training needed to ensure fulfilling their duties properly.
- 8- The limitation in the scope of IAC and the Insufficient support by MoFEP to empower them carryout their role as watchdog.

The proposed mitigating measures are as follows:

- 1- The need for upgrading current procurement legislative frameworks to cope with technological and other developments
- 2- The need to implement the procurement to all government units without exception
- 3- The need for injecting new procurement professional into the department.
- 4- The system needs to be fully automated and staff being properly trained.
- 5- The need for the procurement department to receive feedback on implementation of placed contract.
- 6- The mandate of the internal audit should be extended to all budgeted government units without exception.
- 7- The IAC should be empowered to carry out their role as watch dog.

5. External scrutiny and audit.

The Annual financial statements are prepared by the national chamber of accounts, which are audited by Auditor General chamber (AGC), in a timely manner and they are audited according to the international auditing standards known as (INTOSSAI). Annual audit reports are submitted to the legislative body

and all essential concerns are brought to the attention of such legislative body; the parliament, however, according to transitional arrangement of DEC_ April revolution, the legislative powers are entrusted with the joint meeting of sovereign and ministerial councils.

The financial external auditing covers all government units focusing on general truth and fairness of the financial statements and its explanatory notes, with emphasis on “irregularities”.

The AGC is professionally, financially and administratively independent body, it conducts various types of audits recommended by the AFROSSAI, including compliance, IT, forensic, performance and system-based audit and it keeps audit manuals for each types audit. Furthermore, the AGC has established a special vehicle for Follow up of its recommendations

The AGC has been subject to two-peer review and its performance has been approved as class 3, just one degree below the ideal standard.

Based on the above diagnostics to the External audit function (SAI) of Sudan, the average FRA scoring is 2.37, which reflect medium level of risk and its performance is satisfactory enough, however it needs to be supported by enabling it to recruit more professional to train and implement the national audit plan in the best way

The identified risks are shown below

1. The SAI has achieved the highest score of Sudan PFM system due to the great efforts exerted over the past few years.
2. The SAI should have strategy to concentrate its efforts on the basics first.
3. The SAI should recruit more qualified accountants to carryout its ambitious plans.

The proposed mitigating measures are as follows:

1. SAI should exert efforts in explaining the risks associated with incomplete and disintegrated PFMS of Sudan government.
2. SAI should emphasize its criticism on the need for basic system reform as a priority.
3. The SAI should therefore be supported to continue its success by enabling it to recruit more qualified professional.

6. Anti-corruption and anti-money laundering

Background

Despite the success of the people’s revolution in uprooting the previous regime in 2019, there are still many pockets of corruption that have continued to undermine Sudan's economic management efforts. As a result, Sudan was ranked 6th on Transparency International list of the most corrupt countries.

Corruption practices were mostly pronounced in the country’s procurement system where weaknesses were noted in execution, compliance, monitoring/oversight and enforcement of tenders and contracts. Corruption has also continued to fuel money laundering and has potential to finance terrorism activities. However, the transitional government has expressed its commitment to improve governance and strives towards complying with international requirements for improving transparency and accountability. The government has emphasized the role of the internal auditors, and this should be translated improvements in improving transparency in the medium-term supported by technical and financial assistance from the international community.

Corruption and money laundering risk assessment

Based on the above stated proceedings the corruption risk in Sudan is still high.

The proposed mitigating measures

1. Amending all relevant laws and regulations to extend the mandate of the MoFEP to all public funds
2. Empowerment of the internal audit functions in order to check all financial transactions of publicly owned entities.
3. Compliance with the new money laundry and combatting regulations.

7. Concluding remarks

As a concluding remark on the CFRA for Sudan, it should be realized that the risks associated with PFM system are ranging between high and moderate level and the overall scoring is high. Consequently, such risks would undermine all attempts to implement the declared economic reforms, unless steps are taken to mitigate such risks. Therefore, we recommend the following measures:

- 1- Designing a country-led PFM reform strategy and action plan, to be executed with the participation of all concerned parties and external competent consultants.
- 2- Adoption of a multi-year program of work with the international financial institutions that supports and is aligned with the proposed Government's PFM reform strategy, and action plan.
- 3- Seeking sufficient finance to implement such reform within specific period.
- 4- Taking immediate action to improve regulations and enforce the mandate of the MoFEP to exercise oversight over all all public funds.
- 5- Amending updating all financial procedural legislations; including FAPA 2007 and its articles FAPAS2011, the private laws of IAC and NCA, etc.)
- 6- Taking immediate measures to stick to corporate governance.
- 7- Taking appropriate measures to regularly investigate the defective systems.

ANNEX III: FRAGILITY ASSESSMENT REPORT

1. INTRODUCTION

1.1 Independent since January 1, 1956, the Sudanese state faces significant challenges inherited from the colonial period. The vastness of the territory and the scarcity of infrastructure make national integration difficult, even if the Islamic faith and the use of Arabic augur a relative cultural homogeneity in the most developed part of the country, in the north. However, the colonial administration - different in the north and south of Sudan - makes it even more problematic for populations divided by language, religion (the south is essentially animist with a Christian minority), diverse political histories and cultural cleavages marked by the slave trade to coexist within the same state. A bloody civil war from 1956 to 1972 undermined the country's development. Peace was only a brief interlude, as hostilities resumed in 1983 and did not end until 2005 with the signing of agreements that made possible the secession of the South following a referendum on self-determination held in January 2011. This divorce, however, does not mean the end of tensions.

1.2 Indeed, South Sudan's independence, which was acted in July 2011, was a watershed event in Sudan's history, not only because it jeopardized the common future envisioned by the country's colonizers for regions with very different historical trajectories but intimately intertwined for several centuries, but also because it destabilized the immediate future of the Khartoum regime. As a result of this event, the central government lost control of nearly two-thirds of the country's exploited oil fields and thus of the associated oil revenues.

2. COUNTRY CONTEXT

2.1 The republic of Sudan is located in the northeast Africa and was, until its partition into two independent states on July 9, 2011, the largest state on the continent. It is now the third largest African country with 1,861,480 square kilometers. A desert with a tropical continental climate, the country with a population estimated at more than 42.8 million has forged many ties with its seven neighbors, especially through labor migration and wars that have caused significant movement of populations across borders. As a result, the country often serves as a land of asylum, a vocation for which it is destined by the important African route of the Muslim pilgrimage to Mecca and by trans-Saharan trade. These migrants also play an essential role in the agricultural development of the country and in the construction of trade networks between Africa and the Arabian Peninsula.

2.2 Sudan is in a transitional phase towards peace and development. The country is experiencing a period of stability unprecedented in at least 15 years and the partial lifting of economic sanctions, including Sudan's removal from the U.S. list of state sponsors of terrorism, has created new opportunities for social and economic development. However, Sudan is still characterized by macroeconomic instability, gender inequality, high rates of malnutrition and food insecurity. As a result of these internal challenges, the country ranked 140th out of 159 countries on the Gender Inequality Index, 165th out of 189 countries on the Human Development Index (2019) with a score 0.51, which places it in the low human development category, and has serious shortcomings on most socio-economic indicators. Two thirds of the population live in rural areas and the Sudanese economy is heavily dependent on agriculture. Agriculture, especially for smallholder farmers, is predominantly rain-fed so that increasing climate variability poses a major problem for the economy, livelihoods and food security. Low agricultural productivity is due to poor farming practices, high post-harvest losses, persistent gender gaps, and

conflicts. Moreover, the country is still struggling with weak state institutions and capacities, and public financial management systems.

3. OVERVIEW OF THE COUNTRY RESILIENCE AND FRAGILITY ASSESSMENT(CRFA)

3.1 An assessment of the CRFA indicates that the country displays general fragility in all 7 dimensions, while at the same time lacking the capacity sufficient to deal with it. The country faced accrued fragility in the areas of corruption and bribery, insecurity, poverty, regional spillover, youth and gender marginalization, food insecurity and nutrition, as well as vulnerability to natural disasters. A deep dive into the seven dimension shows the following:

3.2 In terms of the **Inclusive Politics**, the country still faces enormous challenges including the promotion of gender equality, protection of human rights and upholding the rule of law. Moreover, the country still lacks the capacity needed to fully lay the groundwork for peace and democratic change. However, the country has made important improvements since the revolution. A transitional government now manages a power-sharing coalition that expects to establish a civilian-led government after 30 years of autocratic rule. Although obstacles to inclusion still loom, civilians are cautiously hopeful. Highest-ever voter turnout, active public dialogue, and women's presence in parliament and the protest movement are promising entry points for democratic governance.

3.3 On the **Security** front, Sudan's military expenditure – among Africa's highest – helps explain the role of military leaders in the April 2019 regime change. Yet the capacity of Sudan's security institutions is low, as illustrated by the decade-long UN/AU peacekeeping mission tasked to maintain peace and stability in Darfur. Ongoing concerns include organized crime, violence, and general insecurity in Darfur and in the Blue Nile and South Kordofan states. The transitional government represents new opportunities for peacebuilding, contingent on the success of its efforts to provide human security and good governance.

3.4 Regarding the **Justice** sector, Sudan's pluralistic legal system operates with moderate efficacy and multiple options for dispute resolution based on Islamic law, civil codes, and customary law. The transitional government has repealed a series of laws used by the former regime to regulate women's behavior. Access to justice is moderate and the number of cases pending in the courts is low. Judicial independence is restricted, however, and despite the efforts of international humanitarian law to end impunity, senior officials rarely face legal consequences for malpractice. A noteworthy women's rights movement has spearheaded calls for legal reform, hoping to make access to justice more gender sensitive.

3.5 The **Economic and Social Inclusiveness** dimension shows that weak economic performance in 2020 pushed the inflation rate to about 81.3% and devalued the Sudanese pound. Although income inequality in some states is very low, poverty is a significant pressure linked to slow policy reforms and a poor business environment that restricts economic opportunities, especially for youth. Recent promises of reform with support expected from the African Development Bank, the IMF, and the World Bank could improve economic performance. The recent lifting of US trade sanctions is also expected to boost exports and increase the resilience of the economy.

3.6 Concerning the **Social Cohesion** dimension, years of government crackdown and censorship restricted the activities of civil society, including the media. Rapid transformations are now underway

as citizen action grew in 2019 with prominent contributions from women's rights activists, students, and religious leaders. Transport infrastructure provides some domestic mobility and digital connectivity has grown increasingly influential in generating social change. Group-based polarisation is low but challenges to the inclusion of minorities persist.

3.7 On the **Externalities and Regional Spillover Effects** front, economic diversification is needed to safeguard Sudan from external shocks. The country has cooperative economic relations with neighboring African countries and growing ties to the Middle East, China, and India. Significant spillover effects arise from conflicts in neighboring countries, and unresolved border disputes have occasionally escalated tensions with South Sudan and Egypt, but diplomatic talks have been initiated. Resolving diplomatic relations and securitizing borders against human trafficking could help to ease growing pressures on the transboundary management of the Nile.

3.8 The dimension related to **Climate and Environmental Impacts** indicates that Sudan is vulnerable to the environmental impacts of deforestation, over-cultivation, overgrazing, desertification, and periodic drought. With 80% of the population dependent on agriculture for their livelihood, these adverse events greatly aggravate food insecurity. Water scarcity is a major area of concern because of the ongoing decrease of the annual discharges of the River Nile. Sudan has an uneven record in environmental conservation; it could increase its adaptive capacity by developing sustainably, going forward.

4. OTHER KEY DEVELOPMENT CHALLENGES IN THE COUNTRY'S RECOVERY PATH

4.1 Sudan is an arid country with typical Sahelian characteristics that affect food availability and access. This situation particularly affects small-scale farmers, who suffer from low rainfall, water scarcity, and a single agricultural season. The country is also regularly subject to recurrent droughts that last two to three years and annual flooding in some areas. In recent years, the severity and frequency of climatic shocks have intensified, particularly affecting the poor and food insecure population, to varying degrees across segments of society, including rural and urban households as well as women and men. The government's ability to address these issues is limited. In addition, there is a need at both the national and state levels to better formulate and implement coherent policies and legislation that address the causes of food insecurity and malnutrition, including systemic inequalities.

4.2 Economically, Sudan has been experiencing significant economic instability since late 2017. The monetization of budget deficits, loosening of monetary policy, devaluation of the Sudanese pound, reduction of fuel subsidies, and removal of wheat subsidies have been factors in accelerating inflation. In addition, government institutions have limited capacity to address the emerging challenges of economic instability, climate variability, and conflict. Moreover, just like the rest of the world, Sudan has been confronted with the social and economic impact of the COVID-19 pandemic. The economic impact of COVID-19 includes food inflation, rising unemployment, and falling exports. Limitations on movement exacerbate the economic situation as price of many commodities goes up in many regions of the country. According to the IMF, GDP growth contracted to -2.5% in 2019 (from -2.3% in 2018). The contraction of the services sector, decline in investment in real estate and business services, decline in agriculture due to input shortages (fuel), and political and social instability explain this situation (AfDB). According to the IMF's updated forecast of April 14, 2020, due to the onset of COVID-19, GDP growth

is expected to fall to -7.2 percent in 2020 and improve slightly to -3 percent in 2021, subject to the post-pandemic global economic recovery.

4.3 Some external factors affect the country's ability to eradicate poverty and strengthen people's resilience, including a relatively unstable regional, political and economic context in which at least five countries bordering Sudan are themselves in conflict or have large numbers of internally displaced people to accommodate. Furthermore, for many years, U.S. sanctions have been one of the main reasons for the country's deteriorating economic performance. Among other things, sanctions have made it almost impossible to use banking networks to send workers' remittances or transfer money related to foreign trade in imports and exports. In addition, sanctions have limited access to spare parts for railroads and aircraft, reduced opportunities for educational exchange, disrupted knowledge transfer, and prevented Sudanese from benefiting from modern technologies.

5. SOURCES OF RESILIENCE AND PROSPECTS FOR BUILDING PEACE AND AN INCLUSIVE DEVELOPMENT

5.1 Given its abundant natural resources, Sudan has the means to stimulate investments, revive its economy and consolidate a level of development that promotes inclusiveness by reducing key factors of fragility and fostering community resilience. The country could take advantage of under-exploited opportunities that can boost economic growth. In that regard, about 63 percent of Sudan's land is agricultural, and only about 20 percent of it is cultivated, offering considerable opportunities for private investment. Large-scale irrigated agriculture could create jobs and increase national income and foreign exchange earnings. Non-food agribusiness can accelerate growth by developing value chains that diversify the economy, thereby offsetting the loss of oil revenues. The government should undertake structural reforms to facilitate the movement of labor from subsistence agriculture to industry and services to accelerate growth that absorbs labor and reduces unemployment. The latest developments in Sudan are pillars on which the country can achieve this and implement other community-based operations to strengthen resilience.

5.2 On the political front, prospect of long-lasting peace has been materialized by the event of 31st August 2020 where Sudan's transitional government signed a historic peace agreement with the Sudan Revolutionary Front (SRF), a coalition of rebel groups from the regions of Darfur, Southern Kordofan, and the Blue Nile. Moreover, Sudan's removal from the US list of states sponsors of terrorism in 2020 has paved the way to access financing from the IFIs. In that regard, Sudan has resumed diplomatic relations with the state of Israel, ending a 1958 law that prohibited the establishment of formal relations and the conduct of business by the Sudanese with Israel citizens and companies. Alongside this act, a financial aid package worth \$ 1 billion of annual support by the World Bank was signed.

5.3 On the social front, protests comprising people of different ethnic and religious backgrounds represented a shift towards a sense of national unity for a country marked by religious and ethnic-based frictions during Omar Bashir's era. More actions marking a shift towards state and nation building sentiment, which lacked for decades in the country, included the revocation in 2019 of the restrictive public order law that defined how women should dress and behave in public, as it marked the harmonization in treatment by the morality police of women in poor and rural areas and those in affluent and urban ones.

5.4 On the economic front, the country can count on the over \$1.8 billion pledged by donors at the High-Level Sudan Partnership Conference to support the country's economic reforms. The conference

was organized in 2020 and co-hosted by the UN, EU, Germany, and Sudan. Furthermore, the lifting of US sanctions paved the way for debt relief dialogue which are currently at an advanced stage, and economic cooperation.

6. CONCLUSION AND RECOMMENDATION

7.1 Despite progress on various fronts since the revolution that brought down the former regime of Omar Al-Bashir, significant challenges remain in Sudan. The road is still full of hazards as the demise of the former regime did not translate into the prosperity that was expected by the already tired and frustrated population; life for ordinary Sudanese has grown only tougher over the past year, with citizens facing rampant inflation, long queues for basic commodities and major power outages. The unstable economic situation, the increased variability of the climate, the degradation of the environment, the mismanagement of natural resources as well as the risk of renewed violence are all major difficulties that the country will have to address in order to regain the path of prosperity following the final clearance of its arrears.

7.2 A sustained stability could allow the country to regain its role as the region's breadbasket. The government's greatest asset, however, is to seize the opportunity of the international momentum around its development and continue to invest in the strengthening of its institutions and build national capacity to maintain recent security gains. It needs to continue its efforts in effective policy, planning, and governance, including social justice and gender equality, which are essential to enable economic stability and development and reduce poverty.

7.3 There is also a need to strengthen partnerships to build national capacity to design and deliver needed services at the intersection of humanitarian action, development assistance, and peacebuilding aimed at promoting peace and consensus building to mitigate conflict and violence while establishing mechanisms that promote equitable access to resources.

ANNEX IV: FUEL SUBSIDY REFORMS AND MEASURES TO MITIGATE NEGATIVE IMPACT ON THE MOST VULNERABLE

Sudan's fiscal position deteriorated during the period 2017-2020 due weak revenue mobilization amidst high public expenditures including on subsidies. Subsidies accounted for about 11.8% of GDP in 2019 (IMF Report, March 2021), with fuel subsidies accounting for 80% of total subsidies. Revenues and grants fell by one percentage point to 7.8% of GDP in 2019 (among the lowest in the world) as continued overvaluation of the official and customs duty exchange rates depressed foreign-currency denominated and import-related revenues. In addition, total expenditure increased by 2 percentage points to 18.7% of GDP in 2019, largely due to a continued increase of fuel subsidies resulting from higher international oil prices, exchange rate depreciation, and increased fuel consumption. Consequently, restoring fiscal sustainability requires a phased elimination of the subsidies.

Therefore, reducing fuel subsidies was at the center of the urgent fiscal consolidation reforms that the Government had committed to implement by the end of 2019. Fuel subsidy reforms are also ongoing under the IMF Staff Monitored Program (SMP). The objective of removing fuel subsidies is to strengthen the fiscal position and create space to expand social safety nets and improve the healthcare system to respond to the negative impact of COVID-19. In February 2020, the Government gradually increased the market share of gasoline and diesel gas stations selling at a new commercial rate of SDG 28/liter and SDG 23/liter, respectively, which is on average five times higher than the subsidized fuel prices. The Government sustained these reforms and lifted restrictions on private sector fuel imports. The removal of all diesel and gasoline subsidies was completed as of 1st September 2020 through a ministerial decree, which will generate savings of 8.3% of GDP in 2020 and an additional 1.5% of GDP in 2021. The Government is also committed to eliminate the electricity subsidy over the period 2021–24 to improve public spending efficiency.

The reforms taken by the Government have considerable negative impacts on the poor and vulnerable people. The planned reforms reduced the purchasing power of citizens, including through rising prices. Data from the World Bank reveal that poverty increased to 48.3% and 55.4% in 2019 and 2020, respectively from 46.5% in 2009 due to rising inflation. Poverty was also aggravated by COVID-19 containment measures like the lockdown and the resulting reduction of economic activity, which led to loss of jobs. Sudan's poverty outlook remains negative considering the contraction in per capita income, high inflation, and shortage of basic commodities. The International Labour Organization (ILO) projected that unemployment will increase from 14.2% in 2020 to 15.1% in 2022, reflecting the large number of new job seekers entering the labour market with limited annual incremental jobs created.

The Government is implementing measures to mitigate the negative effects of the subsidy reforms. The Government has increased social spending and raised public wages to offset the socio-economic effects of the fuel subsidy reforms and respond to negative effects of the COVID-19 pandemic. In this regard, health expenditure was increased by 1.3% and 2% of GDP in 2020 and in 2021 respectively whereas allocations to public sector wages were increased by 2% of GDP in 2020. To account for severe erosion of the purchasing power caused by high inflation, Government launched the SFSP in 2020. The SFSP is a quasi-universal basic income scheme that was piloted in June 2020 and will be expanded to cover 80% of eligible families by the second quarter of 2021. In addition, the Government has introduced reforms to improve public spending efficiency include combating corruption and strengthening expenditure controls to expand the fiscal space for pro-poor spending.

Reforms to improve the business regulatory environment are also underway to increase private investment and job creation.

To ensure sustainability of the reforms, the Government is committed to expand the tax base by streamlining tax exemptions and rationalizing corporate taxation while also improving tax administration. These revenue enhancing measures are expected to generate about 4% of GDP in additional public revenues by the end of 2021. Overall, public spending decreased by an estimated 5% of GDP in 2020, driven by the fuel subsidy reform, but rise by 3.8% of GDP in 2021 due to the increased social and capital spending, and higher transfers to the states. These fiscal adjustments are consistent with the Government program objectives, including a substantial expansion of the social safety net under the Sudan Family Support Program, increased health expenditure to address COVID-19 needs, and revenue mobilization through customs exchange rate reform and expansion of the tax base to create enough fiscal space.

ANNEX V: ENVIRONMENTAL AND SOCIAL CATEGORIZATION

A. Basic Information⁷

Project Title: Economic & Financial Reforms Support Program (EFRSP)		Project "SAP code": P-SD-KF0-006	
Country: SUDAN	Lending Instrument⁸: DI <input checked="" type="checkbox"/> FI <input type="checkbox"/> CL <input type="checkbox"/> BS <input type="checkbox"/> GU <input type="checkbox"/> RPA <input type="checkbox"/> EF <input type="checkbox"/> RBF <input type="checkbox"/>		
Project Sector: Governance (Multisector)		Task Team Leader: Camille KARAMAGA	
Appraisal date: March 2021		Estimated Approval Date: 23 April 2021	
Environmental Safeguards Officer: Emmanuel MULIGIRWA			
Social Safeguards Officer: XXXX			
Environmental and Social Category: 3	Categorization date: 17 th March 2021	Operation type: SO <input checked="" type="checkbox"/> NSO <input type="checkbox"/> PBO <input type="checkbox"/>	
Is this project processed under rapid responses to crises and emergencies?		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
Is this project processed under a waiver to the Integrated Safeguards System?		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	

B. Disclosure and Compliance Monitoring

B.1 Mandatory disclosure

Environmental Assessment/Audit/System/Others (specify:)			
Was/Were the document (s) disclosed <i>prior to appraisal</i> ?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	NA <input checked="" type="checkbox"/>
Date of "in-country" disclosure by the borrower/client	[Date]		
Date of receipt, by the Bank, of the authorization to disclose	[Date]		
Date of disclosure by the Bank	[Date]		
Resettlement Action Plan/Framework/Others (specify:)			
Was/Were the document (s) disclosed <i>prior to appraisal</i> ?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	NA <input checked="" type="checkbox"/>
Date of "in-country" disclosure by the borrower/client	[Date]		
Date of receipt, by the Bank, of the authorization to disclose	[Date]		
Date of disclosure by the Bank	[Date]		
Vulnerable Peoples Plan/Framework/Others (specify:)			
Was the document disclosed <i>prior to appraisal</i> ?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	NA <input checked="" type="checkbox"/>
Date of "in-country" disclosure by the borrower/client	[Date]		
Date of receipt, by the Bank, of the authorization to disclose	[Date]		
Date of disclosure by the Bank	[Date]		
If in-country disclosure of any of the above documents is not expected, as per the country's legislation, please explain why: NA.			

B.2. Compliance monitoring indicators

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	NA <input checked="" type="checkbox"/>
Have costs related to environmental and social measures, including for the running of the grievance redress mechanism, been included in the project cost?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	NA <input checked="" type="checkbox"/>
Is the total amount for the full implementation for the Resettlement of affected people, as integrated in the project costs, effectively mobilized and secured?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	NA <input checked="" type="checkbox"/>
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	NA <input checked="" type="checkbox"/>
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	NA <input checked="" type="checkbox"/>



C. Clearance

⁷ Note: This ESCON shall be appended to project appraisal reports/documents before Senior Management and/or Board approvals.

⁸ DI=Direct Investment; FI=Financial Intermediary; CL=Corporate Loan; BS=Budget Support; GU=Guarantee; RPA=Risk Purchase Agreement; EF=Equity Financing; RBF=Results Based Financing.

Is the project compliant to the Bank's environmental and social safeguards requirements, and to be submitted to the Board?

Yes No

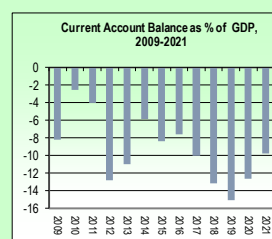
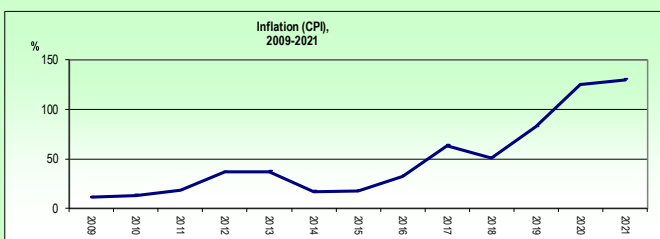
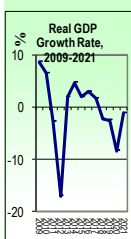
<i>Prepared by:</i>	<i>Name</i>	<i>Signature</i>	<i>Date</i>
Environmental Safeguards Officer:	Emmanuel MULIGIRWA		17 th March 2021
Social Safeguards Officer:			
Task Team Leader:	Camille KARAMAGA		17 th March 2021
<i>Submitted by:</i>			
Sector Director:	Abdoulaye COULIBALY		23 rd March 2021
<i>Cleared by:</i>			
Director SNSC:	Maman-Sani ISSA		March 26, 2021

ANNEX VI: SUDAN MACROECONOMIC INDICATORS

Sudan

Selected Macroeconomic Indicators (last updated Jan 2021)

Indicator	Unit	2010	2001	2002	2005	2016	2017	2018	2019	2020 (e)	2021 (p)
National Accounts											
GNI at Curr	Million US \$	41,109	9,790	10,908	18,570	62,560	53,874	35,113	25,260	...	...
GNI per Ca	US\$	1,190	350	380	600	1,570	1,320	840	590	...	...
GDP at Cu	Million US \$	69,665	15,716	18,137	35,142	55,563	45,944	35,675	32,139	28,353	27,476
GDP at 201	Million US \$	69,665	40,113	42,516	51,770	62,906	63,952	62,481	60,919	55,827	55,191
Real GDP	%	6.5	10.8	6.0	9.0	2.9	1.7	-2.3	-2.5	-8.4	-1.1
Real per Ca	%	4.2	8.0	3.3	6.4	0.5	-0.7	-4.6	-4.8	-10.5	-3.5
Gross Dom	% GDP	21.7	16.7	21.8	24.7	9.3	22.8	20.4	16.1	19.1	21.6
Public In	% GDP	16.5	14.8	19.3	20.0	-1.7	12.1	7.3	5.1	6.3	7.2
Private I	% GDP	5.1	1.9	2.5	4.7	11.0	10.6	13.1	11.0	12.8	14.4
Gross Natic	% GDP	20.1	4.0	7.5	9.9	5.1	8.9	14.7	15.9	15.9	...
Prices and Money											
Inflation (Cf)	%	13.0	7.4	8.3	8.5	32.4	63.3	51.0	82.4	124.9	129.7
Exchange Currency/US\$		2.6	2.6	2.6	2.4	11.5	18.1	38.2	60.5	137.6	321.0
Monetary C	%	26.9	...	30.6	48.7	26.1	69.9	114.8	51.5	70.8	...
Money and	%	27.4	14.6	16.2	22.7	25.7	33.4	43.9	46.6	39.7	...
Government Finance											
Total Reven	% GDP	18.2	9.1	9.9	17.9	7.1	7.2	8.9	8.2	8.1	14.3
Total Exper	% GDP	17.9	9.9	7.3	19.7	11.6	13.6	16.8	19.5	20.5	21.7
Overall Def	% GDP	0.3	-0.8	2.6	-1.9	-4.6	-6.5	-7.9	-11.3	-12.4	-7.3
External Sector											
Exports Vol	%	6.4	-10.4	28.9	-4.0	-1.4	11.8	-17.6	8.0	-1.7	7.8
Imports Vol	%	8.5	4.3	45.2	61.5	-9.2	7.5	-19.4	16.9	-8.2	-0.6
Terms of Tr	%	35.8	-14.5	-1.1	33.8	3.0	15.9	-3.4	3.9	12.1	4.9
Current Acc	Million US \$	-1,768	-709	-801	-2,603	-4,213	-4,611	-4,679	-4,853	-3,568	-2,680
Current Acc	% GDP	-2.5	-4.5	-4.4	-7.4	-7.6	-10.0	-13.1	-15.1	-12.6	-9.8
External Revs of imports		1.7	...	...	4.4	0.3	0.2	...	...	...	...
Debt and Financial Flows											
Debt Servic	% exports	3.3	11.4	8.5	5.9	3.4	3.3	4.3	4.1	3.8	3.4
External De	% GDP	60.1	126.0	122.1	75.6	94.8	117.2	154.4	168.8	176.6	181.0
Net Total F	Million US \$	2,140	180	377	1,850	1,283	881	971	...	...	...
Net Official	Million US \$	2,026	192	305	1,826	809	862	967	1,625	...	...
Net Foreign	Million US \$	2,064	574	713	1,617	1,064	1,065	1,136	825	...	...



Source : AfDB Statistics Department: African; IMF: World Economic Outlook, October 2020 and International Financial Statistics, December 2020; AfDB Statistics Department: Development Data Portal Database, December 2020. United Nations: OECD, Reporting System Division.

ANNEX VII: CLIMATE RISK ANALYSIS OF SUDAN ECONOMIC AND FINANCIAL REFORMS SUPPORT PROGRAM

Sudan – as other countries in the Horn of Africa – has witnessed several changes in its climate over the last decades. It is estimated that between 1960 and 2009, temperatures in Sudan increased by between 0.2°C and 0.4°C per decade, while rainfall has reduced and become more erratic. According to Sudan’s Second National Communication, temperatures in the 2000-2009 period were 0.8-1.6°C warmer than the 1960-1969 period. Future projections indicate that Sudan will experience temperature increase of between 0.5°C and 3°C by 2050, with more extreme temperature rises in the North.⁹ Due to increased warming, droughts have become more frequent, widespread and severe. The observed climate changes have had adverse impacts of various sectors. According to an assessment conducted by the Government of Sudan, the most vulnerable sectors of the country’s economy are agriculture, water resources, coastal zones and public health. Frequent droughts threaten 19 million hectares of rain-fed mechanized and traditional farming and range lands that provide food security and livelihood to over 70 percent of the population. Reduced and erratic rainfall normally result in poor crop yield, declining production from irrigation, drying up of pastoral land, decreased water availability and quality. These result in reduced food and nutrition insecurity and loss of livelihoods. Moreover, reduced availability of water and pastures increases competition for resources leading conflicts and further perpetuating fragility.

Against the above climate vulnerability context, the proposed “Sudan Economic and Financial Reforms Support Program Project” was screened for climate risks and evaluated as Category 3. This implies that the project is not vulnerable to climate risks. On the contrary, the project will have beneficial outcomes for low carbon development and climate resilience. First, elimination of fuel subsidies and gradually reduce other subsidies under Component 1, the project will provide opportunities for the growth of alternative energy solutions from renewable sources such as solar which will help cut greenhouse gas emissions from the energy sector. Second, unlocking concessional funding will enable Sudan to also access concessional funds and grants from international climate and environmental funds such as those of the Green Climate Funds to support climate actions. Third, increased access to financial resources by MSME’s will facilitate investment and engagement by households and businesses in other income generating activities, a major climate change coping strategy, and will also facilitate investment in agribusinesses and agro-processing. Finally, further development and expansion of the Sudan Family Support Program under Component 2, which seeks to deliver cash transfers and improve safety net symptoms to support families in Sudan affected by economic reforms and other short-term shocks such as droughts and floods which affect food security.

The Bank is already implementing four (4) projects that will enhance environmental and climate change results in Sudan: Rural Livelihood and Adaptation to Climate Change in the Horn of Africa; Drought Resilience and Sustainable livelihoods Projects; Solar Powered Pumping System for Irrigation project; and Technologies for African Agricultural Transformation (TAAT) support for drought resistant wheat varieties. The African Disaster Risks Financing Program is also planned for approval this year with the aim of providing insurance support in the event of droughts and flood. Sudan will also benefit from the multinational project for Building a Sustainable Food Systems in The Horn of Africa which covers seven countries and is also planned for approval this year. With increased access to financing both from the

⁹ USAID Climate Change Risk Profile for Sudan 2016

<https://www.climatelinks.org/sites/default/files/asset/document/2016%20CRM%20Fact%20Sheet-%20Sudan.pdf>

Bank and other donors, greater support will be provided to support the government of Sudan in managing the ravaging effects of environmental degradation and climate change in the country.