



SUDAN

INTERIM POVERTY REDUCTION STRATEGY PAPER— JOINT STAFF ADVISORY NOTE

October 2013

The attached Joint Staff Advisory Note (JSAN) on the Poverty Reduction Strategy Paper for Sudan, prepared jointly by the staffs of the World Bank and the IMF, was distributed with the member country's Poverty Reduction Strategy Paper (PRSP) to the Executive Board of the two institutions. The objective of the JSAN is to provide focused, frank, and constructive feedback to the country on progress in implementing its Poverty Reduction Strategy (PRS).

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org Internet: <http://www.imf.org>

Price: \$18.00 a copy

**International Monetary Fund
Washington, D.C.**



SUDAN

POVERTY REDUCTION STRATEGY PAPER—JOINT STAFF ADVISORY NOTE

September 5, 2013

Approved By
**Adnan Mazarei and
Ranil Salgado (IMF)
and Bella Bird (IDA)**

Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA)

OVERVIEW

1. This interim Poverty Reduction Strategy Paper (I-PRSP) was prepared following the secession of South Sudan in July 2011. It was approved by the Council of Ministers as well as by Parliament on 20 July 2012, respectively. The preparation of this I-PRSP was initiated before the secession of South Sudan. Since then, the governance structures for the new Sudan have remained the same, based on the 2005 Interim National Constitution (INC) that underpinned the Comprehensive Peace Agreement (CPA). Until the signature of the CPA, Sudan had experienced an alternation of civilian and military governments and two protracted North-South wars that took a heavy toll on human life and economic resources. The leadership in Sudan has initially been preoccupied with the difficult negotiations of the economic and political relations with South Sudan, but began in June 2012 to deal with the implications of the massive revenue shocks caused by the loss of the share of the revenues from oil production in South Sudan. The Sudanese government's attention was also captured by internal conflicts and threats of new ones in several areas of the new country; the situation is being aggravated by the urgent resettlement and reintegration of millions of internally displaced persons (IDPs) from past conflicts in the territory and international refugees from conflict-affected neighboring countries. In this complex environment, the authorities are seeking to normalize Sudan's relations with the international development community, while opening up access to post-conflict recovery and development assistance, including relief from its onerous external burden.

2. The I-PRSP provides a useful stock-taking of the socioeconomic situation in Sudan and offers a good basis for the design and monitoring of growth and poverty reduction policies.

It is the first comprehensive policy document that assesses the challenges of and opportunities for poverty reduction as the centerpiece for setting priorities in strategies and policies to come. Unlike previous economic plans, the I-PRSP was developed in consultations with nationals and the international community, and provided a welcome entry to a more transparent and participatory approach to policy planning, discussion and making. With this, the I-PRSP paves the way for a full PRSP to emerge and to evolve into a core national strategic instrument for planning and budgeting, sector strategies and expenditure plans, and long-term visioning processes. The Government is committed to the I-PRSP and regards it as an important bridge to development partnership with the international development community. An indication of the authorities' commitment to poverty reduction comes from the high level of counterpart funding in the multi-donor trust fund (MDTF) that was established in the wake of the CPA in 2005.¹

3. This strategy lays out a clear policy approach for the Government of Sudan to accelerate poverty reduction and provides a foundation for a roadmap to a full PRSP, but timelines and concrete next steps need to be urgently defined.

The transition period after the secession of South Sudan in 2011 called for an Interim PRSP to support the transition and to allow for the rapid identification of reforms that would be conducive to faster poverty reduction. It is important now to utilize the reform momentum created by the I-PRSP to take concrete steps towards implementation of the approach presented therein and to initiate the preparation of the full PRSP. Staffs will periodically assess implementation of the I-PRSP and, in particular, the extent to which the policy priorities adopted in the Interim Strategy are reflected in the budget preparation and execution processes. Special attention will be given by staffs to the share of poverty reducing expenditures in the executed budget, as well as to the definition of concrete next steps and milestones for developing a full PRSP using broad-based participatory processes.

THE PARTICIPATION PROCESS

4. The I-PRSP is the result of an encouraging participatory process, which, however, requires further strengthening and inclusiveness to meet the standards needed to produce the full PRSP. The PRSP team held consultations with diverse groups throughout the country and with international stakeholders. Sudan has a strong centralized planning practice, and as a result lacks mechanisms that allow participation in the formulation of government policies and plans. The country also does not have large numbers of independent and strong civil society organizations

¹ The Government contributed the lion's share of MDTF allocations with 59 percent of overall allocated financing, and a similar disbursement percentage (as of end March 2013). It is noteworthy that among the projects the government put due emphasis on are those benefiting underdeveloped rural areas and social services, for instance through its contributions to the Community Development Fund (CDF).

(CSOs) that could actively participate in such planning processes. The I-PRSP consultations were held largely with officials in federal, state and local governments in different parts of the country and the few civil society organizations based in Khartoum. Nevertheless, the staffs consider that, in the context of the difficult transition experienced by Sudan, the I-PRSP consultation process was a step forward that needs to be followed by a stronger and more inclusive process that the authorities would build to ensure the strong participatory process needed for a full PRSP.

5. As the views of the populations are key inputs to the formulation of a relevant and broadly-owned poverty reduction strategy, it is important that the establishment of the full PRSP is underpinned by broad participation of stakeholders. The staffs note that it will be critical that the Government of Sudan ensures that the future PRSP steering committee has strong representation from CSOs and private sector organizations, and relies on extensive use of surveys and focus group discussions to obtain the views of the population and diverse groups of stakeholders; furthermore, special efforts to consult the populations in the poor, remote and conflict-affected regions that face special challenges will be needed. The authorities should consider a nationwide campaign early in the PRSP process to inform the population on the PRSP, emphasizing the importance of popular participation to design a strategy that would gain their support and facilitate its implementation. Process steps should be formalized and pre-planned; the roadmap at the end of the I-PRSP provides a good basis for this, but the roadmap will have to be further detailed and complemented by a specific and accelerated timetable.

POVERTY DIAGNOSTICS

6. The I-PRSP is underpinned by an adequate analysis of the poverty situation in Sudan based on the results of the first ever comprehensive household expenditure survey carried out in 2009. The principal source of information for the poverty diagnostics of the I-PRSP is the 2009 National Baseline Household Survey (NBHS), the only household consumption survey in Sudan in recent years. While this presented a breakthrough in the extent of possible analysis, it nevertheless was not possible to make inter-temporal comparisons on the evolution of poverty in Sudan. A new household survey is therefore urgently needed to allow for more analysis in that regard and provide an even stronger foundation for the full PRSP.

7. The NBHS revealed that poverty is wide spread in Sudan with 46.5 percent of the population below the poverty line. The NBHS also exposed substantial regional disparities in poverty. Poverty rates are much lower in urban areas, where 26.5 percent are below the poverty line, compared to 57.6 percent of the rural population. Education levels are very low (45 percent of household heads have no formal education), and poverty rates correlate highly with education. Poverty rates are highest for those living in households whose head has no education and are also high for those whose heads have only some primary education. Looking forward, a follow-up national household expenditure survey is essential for the full PRSP, perhaps supplemented by a range of surveys of opinions and attitudes on living conditions, public services, and development priorities and policies using the core welfare indicators questionnaire (CWIQ) methodology.

THE INTERIM POVERTY REDUCTION STRATEGY

8. Sudan faces many related development challenges, including issues of war and peace, national unity, reintegration and reconciliation, several dimensions of poverty, unemployment, and severe regional disparities in income and access to economic and social services and opportunities. The I-PRSP reflects and builds on the various sectoral and national plans prepared by the government to address these challenges and the interim strategy is anchored around four pillars: (i) strengthening governance and the institutional capacity of the public sector; (ii) reintegrating IDPs and other displaced populations; (iii) developing human resources; and (iv) promoting economic growth and employment creation.

A. Strengthening Governance and Institutional Capacity in the Public Sector

9. The staffs welcome the emphasis on inclusive governance in the I-PRSP and the appreciation of its over-arching role in dealing with the social challenges facing Sudan. The I-PRSP presents key insights that show the link between peace, security and national unity on one hand, and economic growth and poverty reduction on the other. It also emphasizes the negative impact of instability and conflict on increasing poverty. In this regard, the I-PRSP mentions notable recent policy and institutional actions in several areas of governance, including conflict resolution and national reconciliation, protection of human, women's and children's rights and fundamental freedoms, the right to vote in free and fair elections, rights of expression and free press, property rights, and decentralization. Yet, there is still limited evidence of tangible results from these reforms, most likely due to the unstable macroeconomic environment, as inflation remained high and has hurt not only real growth but also low-income households. The full PRSP is expected to lay out further policy actions to consolidate some of the recent advances, as well as specific indicators and targets to monitor progress in the implementation of the Government's strategy to consolidate inclusive governance. Staffs note that the constitution and related laws of Sudan provide for federal and decentralized governance but the power remains largely at the center and sub-national governments remain weak. Strong and functioning decentralized governance would contribute to reducing the feelings of marginalization in some of conflict-affected states, thereby mitigating the propensity for conflict, and helping improve the distribution of growth dividends. A strong commitment of the government, policy and institutional reforms, and strengthening of the public sector capacity for implementation would mean marked improvements in governance and service delivery, including those that would help lift the vulnerable groups out of poverty.

10. For that purpose, there is a need for strengthening public financial management and public sector capacity. On public sector financial management (PFM), the I-PRSP notes the effective work of the Audit Chamber and proposes key directions for reform for effective delivery of public services. As next logical step, priority should now be given to the reforms of PFM, civil service and capacity building at federal, state and local government levels to energize service delivery and lower overhead costs. The states and local governments have the mandates for key development programs but lack adequate financial resources and human technical skills. The fiscal revenue allocation mechanism should be reviewed and revised to provide more predictable streams of

revenue for state and local governments—consistent with their high priority mandates. Furthermore, the autonomy of the local governments should be strengthened to improve public spending and investment decision-making at those levels through enhanced grassroots participation. To allow for these changes, a transparent public procurement system needs to be established, building on the Procurement Act of 2010.

B. Reintegration of IDPs and Other Displaced Populations

11. Conflicts in Sudan and neighboring countries created large numbers of internally displaced persons (IDPs) and international refugees. Estimates of IDPs range from 2 to 5 million people, with concentration in the Darfur states but with substantial numbers in the states of Khartoum and East Sudan. A systematic reintegration of the IDPs and the international refugees, many of whom have spent a lifetime in Sudan, into vibrant communities and sustainable livelihoods is essential. This would enhance the prospects of sustained peace and security, promote efficient use of human resources for development and slow the degradation of the environment. As ongoing conflicts or threats of conflict hinder progress in reintegration, vigorous efforts for durable peace, backed by agreements that provide for the participation of the local population in governance and credible programs of development, are essential for advancing the process of reintegration. The process in Darfur and other conflict states could learn from the experience in East Sudan, where a peace agreement was signed and a development program was prepared; yet, the limited implementation of the program hampered progress in reintegration and achieving durable peace.

12. International assistance is critical for a successful reintegration of displaced persons. Sudan has been working with aid agencies on relief, resettlement and reintegration programs. In view of the large numbers of victims, complex reintegration challenges and substantial costs of implementation, Sudan needs the financial and technical assistance from development partners. The engagement of the international community will help Sudan benefit substantially from the accumulated international experience on reintegration; thus, the authorities will be well advised to work toward forging an international partnership that would include aid agencies, development partners and relevant local and international NGOs.

C. Developing Human Resources

13. Since the adoption of the Comprehensive Peace Agreement (CPA) between North and South Sudan in 2005, Sudan has made noticeable progress in women's rights, improving access to education at all levels, and providing health care and water to its citizens. Sudan needs to consolidate and build on these gains. Main challenges include the quality of services and regional disparities in education, poor health and nutrition outcomes, with significant variations (between states) in access and quality of services. Government expenditures for social services have been historically low; the recent decline in government revenues threatens to further reduce those low expenditures, jeopardizing the progress made and scuttling plans to increase expenditures to do more in the deprived regions. Going forward, however, in order to maintain consistency with the policy priorities laid out in the I-PRSP, it will be critical for the Government to protect the spending for social services in the context of the inevitable retrenchment of expenditures.

14. The staffs welcome the progress made in promoting the education of women. This will pave the way for better access to economic opportunities by women and improvements in family health, nutrition and education. Gender disparities in enrolment in education still exist but the gap is narrowing; there are, in fact, more females enrolled in tertiary education than males. While enrolments in education have improved at all levels in recent years, with fast growth in pre-primary and tertiary education and in the conflict affected states of Darfur, Kordofan, Blue Nile, Kassala and Red Sea, regional disparities remain significant, with these conflict states lagging in both enrolment and attainments. In addition to regional disparities, the challenges to education relate to the relevance, low and declining quality of secondary and tertiary education and the financing constraints to the implementation of the plans to strengthen the sector and its results. Going forward, the accelerated implementation of the education sector priority actions identified in the policy matrix of the I-PRSP will be vital, including the building of schools and classrooms and matching this expansion with increased supply of good quality teachers.

15. Sudan is lagging behind in the achievement of health MDGs and malnutrition remains an important cause of child morbidity and mortality, with 30 percent of the children under five found to be underweight. While communicable diseases are rampant, non-communicable diseases are on the rise, though the marked reduction in the incidence of malaria shows that persistent and focused actions produce good results. Expenditures on health are largely made by the states, and these show significant disparities between states in per capita health expenditure and the allocations to service delivery. The staffs concur with the I-PRSP on the need to harmonize the systems of allocation of health resources between states and further suggest that health status and the ability to finance health care should be taken into consideration in the sharing of revenue among the states and the federal government. In this regard, it will be important to quickly implement the health sector priority actions identified in the policy matrix of the I-PRSP, including investments in human resources and building partnerships with the private sector.

16. In the water and sanitation sector, the gap to meeting the MDGs is significant. Recognizing this, the I-PRSP highlights the key challenges facing the sector. These include: inadequate implementation of key activities, poor management and sector coordination capacities; the lack of resources for investment in conservation, water quality and monitoring, and lack of community awareness of water supply and sanitation issues. The authorities are working at federal and state levels—with the water supply, sanitation and hygiene sector partners—to progressively overcome the challenges and narrow the gap to meeting MDGs. The staffs agree with the I-PRSP that building and strengthening this partnership is crucial for improving water and sanitation services.

17. Sudan has established a social protection system that appears to be relevant and broadly functioning to providing relief and supporting the drive for poverty reduction. The system features the Zakat, Islamic system for wealth distribution and capacity strengthening; government programs to support vulnerable groups such as orphans, the homeless, and the extreme poor; assistance from relief agencies; the Community Development Fund (CDF); and health insurance. The CDF, funded from the government and a multi-donor trust fund (MDTF), is an innovative community driven mechanism aimed at meeting urgent community-driven recovery and

development in conflict affected states in Sudan. It works closely with the communities and local governments to design and implement infrastructure projects consistent with the identified need of the community. The CDF projects in Sudan were very successful and the cooperation between the empowered communities and the local government carries lessons for making local governments work effectively and collaboratively with local communities to produce desirable development results. Staffs encourage the authorities to pursue their action in this context.

D. Promotion of Economic Growth and Employment Creation

18. Sudan needs rapid economic growth to create employment and reduce poverty; this growth needs to come from non-natural resource sectors to allow for a significant reduction in the current high rates of unemployment. The focus of the I-PRSP on growth in agriculture and livestock, manufacturing and services, and the emphasis on the role of the private sector, is appropriate. Building on the earlier discussions on the key pillars of governance, reintegration and human resources, the I-PRSP discusses its strategy for employment creation growth under four sub-pillars: enabling macroeconomic environment for growth; enabling environment for private sector growth; enhancing productivity and growth in agriculture; strengthening economic services for recovery and growth; and protection of natural resources and the environment.

19. Recent surveys and assessments of the climate for private sector, including the Doing Business Reports, indicate that Sudan is not perceived to have a strong business climate. The Doing Business Report 2011 ranked Sudan as 154 out of 183 countries on the ease of doing business—behind its neighbors Ethiopia, Kenya and Egypt. The scores improved to 140 in 2012. Surveys of the private sector in Sudan indicate concerns about political instability, economic uncertainty, lack of transparency, lack of infrastructure, poor access to finance and taxation. Sudan attracted substantial external investment following the signing of the CPA, mainly in the oil and service sectors. Non-oil investments were concentrated in the core of the country around Khartoum, with limited economic investments in the states to the West, East and South. As part of its efforts, the Government reviewed the Investment Encouragement Act (IEA), which regulates private business in Sudan. This is a welcome step, but it could have been done more effectively and in closer collaboration with the private sector, while building upon experiences in other successful countries. As a result, the new IEA could not really help to improve the business climate.

20. With the loss of oil fields and production to South Sudan, the agriculture sector has regained its role as a major source of growth for the economy of Sudan. Sudan has substantial under-utilized assets in agriculture – rural labor, fertile land, water resources and irrigation infrastructure. Over the last decade, crop yields have declined; livestock production has been depressed by high costs of marketing and transport; and Gum Arabic, a major export crop, has fallen due to poor incentives and extension services that hampered both volume and quality of production. Overall, the sector has been suffering from low and declining productivity. The current Government strategy to revive agriculture is not sufficiently focused and implementation has been limited. The staffs suggest that the authorities conduct new analytical work to take stock of the challenges in the sector, identify opportunities and help to prepare a focused sector strategy with clear priorities to be included in the full PRSP.

21. Sudan has made progress in rehabilitating infrastructure damaged by lack of maintenance during the years of intense conflicts. Notable progress is visible in the hydroelectric power, particularly in the Khartoum region. Sudan has also made significant progress in expanding the telecommunications sector through private–public partnership and government ownership has continued to decline and is currently limited to minority shareholding in one land-line telecommunications company. Nevertheless the lack of infrastructure and high costs continue to constrain socio-economic activities. Large areas of the country are not connected to the national electricity grid. Areas isolated by the lack of infrastructure do not attract investors and social services workers. Plans for expanding road, rail and inland water transport, and power generation and transmission, are welcome and they have provisions for private–public partnership (PPP). However, turning these intentions into actions will require firm resolve from the government to improve the climate for private sector business. Moreover, there is a need to address governance risks and contingent liabilities associated with PPP contracts. The complexity of the PPP arrangements imposes much higher capacity requirements on the public sector than traditional procurement, and appropriate competencies and institutional structures need to be in place to evaluate and manage the risks of running PPP contracts.

22. Over the years, Sudan has suffered from severe environmental degradation such as desertification, deforestation, soil erosion and the deterioration of the biodiversity that have negatively impacted the livelihoods of the poor. The long civil wars in Sudan and conflicts in neighboring countries have contributed to the damage of the environment. According to the I-PRSP, Sudan has well developed laws, policies and strategies for dealing with environmental protection and conservation, but the lack of human and financial resources has hampered implementation. However, these policy plans and strategies have not been based on a comprehensive analysis of the developments and challenges in the sector. Going forward, a sector status study and report is needed to underpin the preparation of relevant and prioritized action plans for the sector and also address the problems of capacity for implementation of sectoral programs.

THE MACROECONOMIC FRAMEWORK

23. During the period from 1996 to 2010, the Sudanese authorities succeeded in preserving macroeconomic stability in volatile and difficult circumstances. They implemented prudent policies in line with advice provided in the context of several IMF staff-monitored programs. As a result, real GDP grew by about 4.5 percent on average during this period, inflation remained in the single digit range, and fiscal and external accounts strengthened. They also made headway in reforming the economy and improving macroeconomic management, including in the budget area.

24. The South Sudan secession reversed this trend starting in 2011. As a result of this secession, Sudan lost 75 percent of oil output, almost 60 percent of fiscal revenues and about two thirds of its current account payment capacity. With very limited access to external financing assistance, this considerable shock and delayed policy responses created sizable macroeconomic imbalances in 2011 and during the first half of 2012. An ambitious package of corrective measures was introduced by mid-2012, but overall performance for the year as a whole was mixed. Of particular concern is the acceleration of inflation close to 50 percent largely due to an inappropriate

monetary policy, driven by heavy monetization of the budget deficit. High inflation is a significant obstacle to growth and represents a heavy tax burden on the poor. Given the fiscal challenges, which represents the aftermath of a permanent shock, fiscal space will remain limited for new poverty reduction initiatives, and there will be more need for selectivity and prioritization than before. Staffs are of the view that space for priority expenditure could be enhanced through better domestic revenue mobilization, especially tax revenues, which are comparatively very low in Sudan. In this context, it is particularly important to maintain consistency with the poverty reduction priorities adopted through the I-PRSP.

25. Sudan's near-term challenge is to stabilize the macro economy and for the medium-term to recalibrate the economy in line with the country's reduced economic and financial potential. The I-PRSP recognizes these challenges and correctly emphasizes the importance of appropriate policies in favour of fiscal retrenchment and external adjustment, together with structural reforms in support of macroeconomic stability, sustained growth, and poverty reduction.

26. The I-PRSP is built on a medium-term macroeconomic framework (MTF) that encapsulates those policies. The macroeconomic objectives for the 2013–15 period set in the I-PRSP aim at: (i) sustaining an average growth rate of about 4 percent; (ii) bringing down inflation to 10 percent; (iii) reducing the overall budget deficit to 3 percent; and (iv) containing the current account deficit to 3.1 percent of GDP. Staffs view these objectives as reasonably sound provided corrective policies are implemented to address the prevailing economic imbalances. On economic growth, the MTF is built on an optimistic hypothesis regarding not only oil output and royalties from the pipeline that transports oil from South Sudan but also activity in the non oil sector, including agriculture, livestock, and manufacturing activities. Equally, the projected external financing envelope underpinning the I-PRSP needs to be clarified. Also, growth projection faces some challenges, notably the volatile security situation, the political transition, and uncertainty around the debt relief process.

27. Staffs welcome the envisaged policy mix which broadly supports the medium-term macroeconomic objectives. The fiscal direction in favour of creating the fiscal space for poverty reduction expenditures without compromising macroeconomic stability and reducing fiscal vulnerability is a positive feature of the I-PRSP. Staffs support the need for higher revenue collection through an expansion of the tax base and an improvement of revenue administration while eliminating tax exemptions and revenue earmarking. Implementation of these measures could generate in the near-term an annual average increase of 0.5 percentage points of GDP. On the spending side, the focus on a sizable compression through cutting non-priority spending, continuing the gradual process of eliminating energy subsidies and prioritizing capital outlays is adequate. A gradual action plan to reduce the fiscal cost of price subsidies over 4-5 years is necessary to reduce the inflationary impact of energy price increases while giving more time for the authorities to establish social safety net to protect the welfare of lower-income. Monetary policy seeks to significantly reduce inflation through restricting the monetization of the fiscal deficit; and ceasing the long-term rescheduling of overdue temporary advances to the government. Staffs welcome this policy shift and view the gradual reduction in inflation as essential to ensuring a real improvement in living standards. However, staffs believe that some realism in the target would be

welcome as consideration needs to be given to smoothing the path of expenditures in the current difficult social context and the pace of fiscal reforms. On the external sector, the authorities are rightly focusing on eliminating the current system of multiple exchange rates and unifying them while ensuring further flexibility in the official rate. Staffs call for an immediate unification of exchange rates to eliminate the distortion in foreign exchange market and ensure external stability. Structural reforms are intended to promote non-oil exports and trade liberalization, and lay the ground for a comprehensive restructuring of the public sector, including banks.

28. Staffs encourage the authorities to take prompt action in enacting the envisaged corrective policies. The targets for the period 2013–15 imply that Government would start implementing further corrective policies in the context of a successor SMP in 2013. The authorities have indicated that they are taking advantage of the recent March 2013 comprehensive agreement between Sudan and South Sudan to put together a second reform package to adequately address the current economic imbalances and create the conditions for expanding non-oil activities. They are also seeing merit in a successor SMP to implement this second package and further strengthen Sudan's track record with International Financial Institutions. The new package is needed soon and should reflect the policies described above.

29. External support and debt relief are crucial for Sudan to achieve the medium-term poverty reduction goals enunciated in the I-PRSP. The 2012 joint Bank-Fund debt sustainability analysis found that Sudan remains in debt distress. Sudan's external debt is estimated at about US\$43.2 billion—most of which is in arrears (including to the IMF and the World Bank)—and is unsustainable.² Unresolved arrears have limited Sudan's access to concessional financing. Arrears clearance and debt relief will be critical elements of a strategy for an economic rebound and poverty reduction. Staffs welcome the authorities' intention to launch outreach efforts jointly with South Sudan to elicit creditor support for debt relief. More importantly, staffs encourage the authorities to implement fully a reform package including in the context of the SMP, as this will also be important to garner support for debt relief.

IMPLEMENTATION AND MONITORING

30. Monitoring and evaluation are critical for the effectiveness of the PRS process in Sudan. The priorities and action plans of the I-PRSP are part of the ongoing development programs implemented by line ministries. The Technical Committee for the preparation of the I-PRSP, consisting of representatives of the Ministry of Finance, the Central Bank of Sudan, the national bureau of statistics and key line ministries, is charged with its monitoring and evaluation. To do an effective job, this Committee needs further empowerment with capacity building and the addition of members from other key agencies such as the Cabinet Secretariat, the offices of the President and Vice-President as well as other officials involved in national planning exercises. Clear terms of

² See latest DSA (SM/12/239, Supplement 2)

reference for the work of the Committee on monitoring and evaluation should be prepared, discussed and shared with key agencies responsible for program implementation. The staffs support building a solid foundation for the preparation and implementation of the full PRSP; for this purpose, the Technical Committee should initially prepare a monitoring and evaluation plan, collect the data, and prepare an implementation progress report, covering the first year.

RISKS

31. The risks are tilted to the downside. The challenges are numerous as the process is taking place against the background of the difficult economic and political transition, unsettled civil conflicts, fragile relations with the international community, weak administrative capacity, and delays in implementing the oil agreement, which President Bashir has threatened recently to put on hold. On the upside there are positive developments, including the visit of the Sudan head of state to South Sudan and the donor conference in Doha and the recent invitation extended by the U.S. administration to the ruling party to visit Washington, D.C., for discussions that could facilitate a security agreement on the conflicts in Darfur as well as in South Kordofan and the Blue Nile. Both bode well for continued policy action and reforms, and could help bolster the authorities' stance in favor of policy consistency through the enactment of a comprehensive package of corrective measures to address the imbalances of the economy. This could send a strong signal to the international community and create the conditions for unlocking much-needed support in the future. Moreover, the Government is in a position to enhance the internal and external credibility of its poverty reduction strategy, thus helping mitigate some of the downside risks, by rapidly initiating some of the key planned reforms laid out in the I-PRSP. In this regard, starting to build a track record of implementation of the medium term reform program spelled out in the I-PRSP will help facilitate the re-engagement process with the international community.

32. The plans for the preparation of the full PRSP are ambitious but the implementation can be completed, provided that the commitment of the government and support from the donor community is strong. The government is taking steps to launch the preparation process without delay, beginning with the appointment of the key committees, the establishment of a dedicated PRSP Resource Team, and provision of adequate resources to enable it to begin to operate. As noted earlier, priority should be given to the design of the participatory process, so as to allow consultations to plan and undertake the campaign of sensitization on the PRSP and popular consultations. An early start on the extensive data collection of the household survey and the analysis of the data, as well other necessary analytical work will be essential. Delays in these tasks would only delay the completion of the full PRSP.

33. Domestic resources are limited and could delay implementation of the PRSP. Support from the donor community would be critical to ensure appropriate implementation of the I-PRSP in many areas, including the reintegration of IDPs and refugees, capacity building in various areas, and conduct of the surveys and analytical work to support the full PRSP.

CONCLUSIONS

34. This I-PRSP for the very first time provides an integrated framework of policies aimed at accelerating poverty reduction in Sudan. It is based on an adequate analysis of the poverty situation and builds on various sectoral and national plans prepared by the government under the four pillars of the strategy. It is encouraging that one of these pillars is focusing on the role of inclusive governance and institutional capacity in the public sector for a more accountable government. On the macroeconomic side, the document includes a set of planned policy actions aimed at addressing the current fiscal challenges. Staffs urge the authorities to promptly implement those short term policies as well as to continue to build the track record of implementation of its medium term poverty reduction strategy. Looking forward, the I-PRSP provides a basis for new sector strategies to be developed to embedding a stronger poverty focus. Finally, the participatory process used for the I-PRSP is encouraging, but requires further strengthening and inclusiveness to meet the standards needed to produce a full PRSP.

35. Implementation of envisaged activities in the I-PRSP is now urgently needed and staffs will periodically assess progress. A crucial element to assess implementation is how the I-PRSP priorities are embedded into the budget planning process measured through an increasing share of poverty reducing expenditures in the budget. While the situation is complicated by the current fiscal pressures, maintaining consistency with the poverty reduction priorities adopted in the I-PRSP will be key for enhancing the government's record of reform implementation. Staffs will also monitor progress in the implementation of the policy framework envisaged by the authorities in the I-PRSP with the objective of enhancing macro-economic stability (e.g. as reflected in inflation rates, budget deficits, current account deficits) and creating conditions for sustained economic growth and poverty reduction.

36. For the full PRSP, participation, social statistics and information from recent surveys, together with additional analytical work in various areas will be critical for building a sound strategy. It will be critical to establish a new National Baseline Household Survey (NBHS) as soon as possible in order to allow for deeper analysis of the multiple dimensions of poverty, enable inter-temporal trend analysis and help inform poverty reduction policies in the full PRSP. Popular participation in the PRSP will require early planning, with sensitization of government officials and the population on the PRSP process. Sector strategies and plans will be reviewed and rationalized based on the results of analytical work. Capacity building will be essential for managing the PRSP process as well as for program implementation. Sustained support from the donors will be essential for progress in the PRSP.