

## ACTION DOCUMENT

### THE EUROPEAN UNION EMERGENCY TRUST FUND FOR STABILITY AND ADDRESSING THE ROOT CAUSES OF IRREGULAR MIGRATION AND DISPLACED PERSONS IN AFRICA

#### 1. IDENTIFICATION

|   |  |                                     |                                     |                                     |
|---|--|-------------------------------------|-------------------------------------|-------------------------------------|
| <b>Title</b>  | Reference: T05-EUTF-HOA-SD-95<br><b>Sudan - Support to the Economic transition</b>   |                                     |                                     |                                     |
| <b>Zone benefitting from the action</b>                   | Sudan  |                                     |                                     |                                     |
| <b>Total cost</b>   | Total estimated cost: 31,970,000 EUR<br>Total amount drawn from the Trust Fund: 31,970,000 EUR   |                                     |                                     |                                     |
| <b>Aid modality(ies) and implementation modality(ies)</b> | Project Modality<br><b>Direct management</b> through:<br>- Grant with Overseas Development Institute (ODI)<br><b>Indirect management</b> with Expertise France (EF)<br><b>Indirect management</b> with International Monetary Fund   |                                     |                                     |                                     |
| <b>DAC - codes</b>  | <b>15170 - Support for institutions and organisations (governmental and non-governmental)</b><br><b>15111-Public finance management (PFM)</b><br>15155 - Tax policy and administration support<br>15125 - Public Procurement<br>15142 - Macroeconomic policy<br>15196 - Collection, production, management and dissemination of statistics and data related to Government Includes macroeconomic statistics, government finance, fiscal and public sector statistics, support to development of administrative data infrastructure, civil society surveys.<br><b>60030 – Relief of multilateral debt</b> |                                     |                                     |                                     |
| <b>Main delivery channels</b>                             | World Bank – 41307<br>International Monetary Fund - 43002  |                                     |                                     |                                     |
| <b>Markers</b>  | <b>Policy objectives</b>   | <b>Not targeted</b>                 | <b>Significant objective</b>        | <b>Principal objective</b>          |
|   | Participatory development / good governance  | <input type="checkbox"/>            | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |
|   | Aid to environment   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/>            |
|   | Gender equality and empowerment of women and girls   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
|   | Trade development  | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
|   | Reproductive, maternal, newborn and child health   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/>            |
|   | Disaster Risk Reduction  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/>            |
|   | Nutrition  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/>            |
|   | Disability   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/>            |

|  | <b>Rio Markers</b>   | <b>Not targeted</b>      | <b>Significant objective</b> | <b>Principal objective</b> |
|--|--|--------------------------|------------------------------|----------------------------|
|  | Biological diversity   | ✓                        | <input type="checkbox"/>     | <input type="checkbox"/>   |
|  | Combat desertification   | ✓                        | <input type="checkbox"/>     | <input type="checkbox"/>   |
|  | Climate change mitigation  | <input type="checkbox"/> | ✓                            | <input type="checkbox"/>   |
|  | Climate change adaptation  | <input type="checkbox"/> | ✓                            | <input type="checkbox"/>   |
|  | <b>Migration marker</b>  | <input type="checkbox"/> | ✓                            | <input type="checkbox"/>   |
|  | Digitalisation   | ✓                        | <input type="checkbox"/>     | <input type="checkbox"/>   |
|  | COVID-19   | ✓                        | <input type="checkbox"/>     | <input type="checkbox"/>   |
| <b>SDG</b>   | <b>Goal 8:</b> Decent Work and Economic Growth<br><b>Goal 5:</b> Gender Equality<br><b>Goal 12:</b> Responsible Consumption and Production<br><b>Goal 16:</b> Peace, Justice and Strong Institutions<br><b>Goal 17:</b> Partnerships to Achieve the Goal |                          |                              |                            |
| <b>Valetta Action Plan Domains</b>                         | 1. Development benefits of migration and root causes of irregular migration  |                          |                              |                            |
| <b>Strategic objectives of the Trust Fund</b>              | 1. Greater economic and employment opportunities<br>4. Improved governance   |                          |                              |                            |
| <b>Beneficiaries of the action</b>                         | Civil servants in Ministry of Finance and Economic Planning, Sudanese Taxation Chamber, Central Bank of Sudan, Bureau of Statistic of Sudan, National Audit Chamber, Private sector, Citizens of Sudan.  |                          |                              |                            |
| <b>Derogations, authorised exceptions, prior approvals</b> | PA. 20.f<br>EVR. 25a2  |                          |                              |                            |

## 2. RATIONALE AND CONTEXT

### 2.1. Summary of the action and objectives

The overall objective of this multi-component programme is to support the Government of Sudan (GoS) in its efforts to achieve sound and inclusive economic reforms during the democratic transition. Its specific objectives are i) To strengthen institutional capacities at the Ministry of Finance and Economic Planning (MOFEP), ii) To enhance capacities in Public Finance Management and material resources, iii) To improve financial sector asset quality and iv) to support Sudan's efforts towards debt relief. This action will target MOFEP and possibly similar ministries at state-level, as well as other key institutions involved in Public Finance Management (in particular the Central Bank, the Office of the Auditor General, the taxation Chamber and the Bureau of Statistics). The proposed action will support the transition from economic stabilization to recovery, including through support to the IMF's arrears clearance in the framework of the Heavily Indebted Poor Countries (HIPC) initiative, and contribute to Sudan's progress towards SDGs 8, 5, 12, 16 and 17. It is aligned with the transitional government of Sudan's general framework and the recommendations and commitments made at the Sudan International Partners Forum (SIPF). It will contribute to strengthen the conditions for the implementation of existing social protection and health actions as it will support aggregate control, prioritization, accountability and efficiency in the management of public resources and delivery of services to achieve public policy objectives. It will also enhance policy coherence concerning national macroeconomic, fiscal, SDG strategies and human rights frameworks. The action is designed and will be implemented in accordance with the principles of gender and climate change responsive budgeting.

The Action will be implemented over a period of 46 months.

## 2.2. Context

### 2.2.1. National context

Sudan is currently undergoing a fragile and volatile democratic and economic transition. Following a period of thirty years of dictatorship, a peaceful revolution resulting in a power sharing agreement between military/security services and civilian opposition groups led to a civilian led, technocratic government assuming power in September 2019. The Sovereign Council, which remains the highest authority in the country, is under military chairmanship until 2021 when a civilian will be appointed to chair this body also. The priorities established for the transition are; i) peace; ii) stabilisation of the economy and ii) preparation for democratic elections in 2022. Sudan has a once-in-a-generation window of opportunity to put itself on a path of economic and social renewal. Sudan's transition process is one of the most important recent developments providing an opportunity for sustainable peace and transformation in the Horn of Africa.

The 2019 revolution led to the establishment of a technocratic transitional government with a mandate to carry out sweeping reforms to reverse decades of economic, social, and political decline. The transitional government is due to govern for 39 months following the October 3, 2020, peace agreement, by which time Sudan is to conduct elections that will yield a new democratically elected government. In February 2021, a new government cabinet was formed marking a major political shift in Sudan.

For the first time in the country's history, and in line with the October Peace Agreement, representatives of Sudan's vast peripheries (including Darfur, South Kordofan, Blue Nile states) as well as various other areas are now part of the central governance structure. The transitional government has had success in several areas, most prominently in reaching a peace agreement in October 2020 with almost all internal armed opposition groups to end 17 years of conflict. It has also committed to reversing economic distortions, including by agreeing to an IMF SMP that meets UCT conditionality standard and reforms supported by the IDA Reengagement and Reform DPF, which included phasing out costly fuel subsidies essential for macroeconomic stabilization and adjustment of the exchange rate. Notwithstanding a difficult first year in office, the transitional government retains the support of the country's major political forces, including security elements.

However, the challenges facing the civilian led government cannot be under-stated. The previous regime left behind a government system of opacity, clientelism, corruption, absence of accountability and an economy in deep crisis. An estimated 65 percent of the population live under the poverty line (a significant increase from 45 percent estimated in 2015), with a significant number living in extreme poverty. In the global Human Development Index rankings for, Sudan was placed 170 out of 189. Sudan ranks 138th over 189 countries in the Gender Inequality index (2020). It is estimated that 20% of the active population is unemployed, with women's unemployment nearly twice that of men and the labour force participation rate for women is one-third that of men at 23.6%<sup>1 2</sup>. Women and girls suffer from discriminatory laws and practices, which include early and child marriage. Agriculture remains the main source of employment, although the urban informal sector is reported to account for more than 60 per cent of GDP.

Environmental factors exacerbate the humanitarian and development crises, contributing to displacement, food insecurity and environmental degradation. The social and economy inequalities, in particular between urban and rural populations are wide, and result from poor allocation of development and budgetary resources, among other things. Accountability and public scrutiny over the government is limited due to restriction imposed on civil society actors, including the media and freedom of expression.

In addition, policies of the former regime led to imposition of severe US sanctions in 1990s. These were partly lifted in September 2017 and the US government delisted Sudan from the State Sponsors of Terrorism (SSTL) in December 2020. However, Sudan is still considered a reputational risk to most countries and investors even if it should soon benefit from substantial and much needed support from the

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<sup>1</sup> UNDP Gender Inequality Index, Human Development Report, 2019.

<sup>2</sup> Sudan population dashboard, UNHCR, 29 February, 2020.

Bretton Woods institutions.

This acute situation is now further compounded by the coronavirus pandemic. Scarce government resources now must be mobilised also to deal with this crisis. In addition, as of February 20, 2021, there have been 28,038 recorded cases of COVID-19, including 1, 864 fatalities, while limitations to combat the pandemic put further stress on the economy. In order to respond to Sudan's multiple economic emergencies, worsened by the current COVID-19 pandemic, the GoS is preparing a health-care response, as well as an economic response. The economic response seeks to shield the economy and "flatten the recession curve" to the extent possible, by supporting individuals and keeping firms alive and employees employed. At the centre of this plan is the "Sudan Family Support Program", a cash transfer intervention to 80% of families ~~to start as soon as possible~~ and leveraging on National Civil Registry and digital payments. The percentage of the population registered at birth stands at 63.3%.

A largely agrarian country, Sudan is significantly impacted by climate change and recently has been battered by frequent shocks. These include floods and droughts. Moreover, there are approximately 1.9 million internally displaced people in need of urgent assistance and over 1.0 million refugees and asylum-seekers, exacerbated by new conflict in the neighboring Tigray region of Ethiopia

### *2.2.2. Sector context: policies and challenges*

Between 2012 and 2017 the pace of GDP growth in Sudan has slowed to under 2 percent on average and turned negative in 2018-2019. With the COVID 19 emergency and lockdown, the contraction of GDP in 2020 will be up to or even exceed 8 percent. During the revolution in 2019, the parallel exchange depreciated considerably, and this trend has continued during the first months of the transition, increasing in speed in February and March 2020. This is to a large extent caused by the unsustainable policy of commodity subsidies of the former regime; fuel prices are the lowest in Africa/world and wheat prices have negative impacts on domestic production of cereals. The size of these subsidies grew to the equivalent of almost 100 percent of government revenues in 2019. In 2019, total expenditure (including off-budget implicit fuel subsidies estimated at 10 percent of GDP) increased by 3 percentage points to over 18 percent of GDP. While state revenue collection is only approximately 6 percent of GDP.

Economic challenges are compounded by Sudan's external debt and arrears to IFIs. Under the previous Government, the country amassed external debt now totalling USD 70 billion (including USD 3 billion in arrears to the International Financing Institutions). The economy is in recession with budgetary and current account deficits exceeding ten percent of GDP. Large public sector deficits have been monetized, driving inflation to 140 percent as of September 2020. Limited forex for fuel imports has led to rationing, persistent shortages, and disruptions to electricity and food supplies.

The government has requested support to clear arrears in the context of a pathway to broader debt clearance under Highly Indebted Poor Countries (HIPC) initiative. The government recognises that macro and structural reforms are inevitable to stabilise the economy. With this objective, the IMF has launched an upper credit tranche Staff Monitored Programme (SMP). As a result, few obstacles remain to stop Sudan reaching the decision point in the HIPC initiative. Some international partners have offered their assistance to clear the Sudanese arrears towards the World Bank and the African Development Bank, and the arrears to the IMF also need to be cleared to allow Sudan to reach the HIPC Decision Point. Sudan's eligibility for debt relief under the HIPC initiative will have a transformative effect on the state-building process, driving forward further reforms to promote economic growth and stability and allowing Sudan to access concessional financing for its development needs.

With regards to the IMF, a financing package is being prepared that would rely on a combination of IMF internal resources, distributed to 184 member countries, and additional cash grants by donors. At the time of writing, it is estimated that around SDR 266 million would need to be covered through additional grant financing to clear IMF arrears. The US, Italy and Sweden have already offered to bridge part of

this gap with dedicated grants.

The Conference de Paris organised in May 2021 has sent a strong political signal at the highest level, that the country is now back in the international community. The conference aimed to inform creditors, governments, international agencies, and investors about the economic reforms that the Transitional Government of Sudan (GoS) has undertaken, and Sudan's readiness to open for business. The conference has also been an excellent platform to start preliminary discussions with creditors about a debt relief process.

Sudan's first, ~~and only~~, PEFA assessment was undertaken as part of a Country Integrated Fiduciary Assessment (CIFA) and covered 2005-2007. The CIFA/PEFA was finalized in 2010. Since then, in 2011, Sudan's southern states seceded and formed the Republic of South Sudan. A new PEFA assessment was carried out in 2020 and forms the foundation for a comprehensive reform strategy going forward. The findings highlight weaknesses in the quality and timeliness of data, lack of an organized structure of checks and balances, and absent or insufficient publication of information and transparency of procedures.

Based on the 2018 Country Policy and Institutional Assessment (CPIA), Sudan's economic management stood at 1.8 compared to a Sub-Saharan average of 3.1. The quality of public sector institutions was also below the SSA average. Budgetary and Financial management, and revenue mobilization were both 2.5 compared to averages of 3 and 3.4 respectively. The wage bill is estimated to have increased by / percent of GDP in 2019 due to higher wages for some parts of the civil service, and the security forces. In addition, there is a large and opaque Sudanese parastatal SOE system. On paper, Sudan has a relatively well-developed system of legislation and financial regulations. The system is outlined in the constitution as well as in subordinate legislation. The 'Financial and Accounting Act of 1995' was amended in 2007 and outlines the PFM framework. However, it is unclear the extent to which the acts are currently applied as a result of the ad hoc nature of government budgeting in the recent past. The country has 18 states, and a complex system of transfers and own revenues. Prior to the regime change, the Fiscal and Financial Monitoring Allocations Commission (FFAMC) developed the formula for intergovernmental transfers. However the FFAMC appears to have been disbanded.

Better governance and reduced corruption require increased transparency and accountability by public institutions and in particular state-owned enterprises. In recent years, despite Sudan's challenges, progress has been made in establishing a treasury single account (TSA), but there is limited cash forecasting: cash ceilings for ministries, departments, and agencies are currently one month, and payments particularly for capital (non-financial assets) are often delayed or postponed. Public investment is managed separately to the recurrent budget. The central government has limited information on extra budgetary funds. The government does not publish comprehensive fiscal data, nor external audit reports. Internal Auditing by MOFEP Internal Audit Unit is an ex ante control, with internal audit staff in all spending units. Moreover, public procurement rules despite the good practices by the procurement directorate are often overlooked by line ministries. The current debt strategy involves non concessional borrowing and selective debt servicing of bilateral and multilateral lenders; (i.e. those who stop lending if payments are not made, such as IFAD).

Hence, GoS needs to strengthen public financial management and the financial system, and overhaul the public procurement system to address governance weaknesses. Further, they intend to improve budget planning through the adoption of a medium-term fiscal framework and strengthen the capacity of the macro-fiscal unit in the Ministry of Finance and Economic Planning (MOFEP). Concomitantly, the authorities have recently taken measures to incorporate all public enterprises (SOEs), including the security sector's commercial companies, under MOFEP's oversight.

The banking sector is fragile, with several banks undercapitalised. Reported nonperforming loan (NPL) ratios significantly underestimate the true state of impairment of bank loans, and even with the low

reported NPL estimates, twelve banks have capital adequacy ratios below the regulatory 12 percent minimum. Large US penalties on international banks in 2014 contributed to a sharp decline in correspondent banking lines with Sudanese banks. While economic sanctions were revoked in September 2017, most correspondent banks have been reluctant to re-establish relationships with Sudanese banks, reflecting concerns with antimoney laundering and combating the financing of terrorism (AML/CFT) deficiencies, and the SSTL. Equity injections into several banks resulted in the GoS owning stakes in 15 of the 37 banks, and restructuring has been lagging. Phase 1 of the AQRs planned under this AD has been finalised and as a conclusion, the Governor of the Central Bank has expressed the wish that after AQR phase 2, during which 9 banks will be audited, a phase 3 be organized to review the situation of the 20 banks that have not been audited.

The EU considers that Sudan's debt relief process under the HIPC initiative will have a transformative effect on the country's state-building, driving forward reforms to promote economic growth and stability and allowing Sudan to access concessional financing for its development needs. Importantly, the fiscal space created in the short term, through access to scaled-up IFI resources post Decision Point, and in the medium-term following effective debt relief achieved at Completion Point will enable Sudan Authorities to allocate much needed additional budget resources towards social sectors that are critical for poverty alleviation and economic resilience such as health, and education. Restoring the inclusive delivery of basic services to citizens will be critical to establish a viable social contract in Sudan

### *2.2.3. Justification for use of EUTF funds for this action*

Due to the non-ratification of the revised Cotonou Agreement by the Government of Sudan, the country is not eligible for programmable, bilateral 11<sup>th</sup> EDF funding. However, the country remains fragile while playing a crucial role for the stability of the Greater Horn and along the migratory routes heading to the Mediterranean shores. The EU has therefore adopted ad hoc measures addressing the root causes of instability and displacement in the country, and these funds are channelled through the EUTF. Hence, this action also aligns with one of the key priority criteria (Essential stabilisation efforts in Somalia, Sudan and South Sudan) set for the EUTF Horn of Africa window by the EUTF Strategic Board in April 2018.

Moreover, this Action is part of a Strategy proposed by the European Commission to allocate the EUR 100 million transferred from the 11<sup>th</sup>EDF reserve to the EUTF in support of the transition process in Sudan. These financial resources will serve as a bridge until the entry into force of the next Multi Annual Financial Framework (MFF) in 2021. This will help to ensure the provision of critical support to address the most pressing needs in the country, and it will allow the EU to continue playing a relevant role during the Sudanese transition.

Following close and regular consultations with EU Member States, Sudanese authorities and international partners, four sectors have been identified as macro-areas of intervention:

- (1) Social protection;
- (2) Promoting economic reforms;
- (3) Economic opportunities for youth and women;
- (4) Support to the peace process and democratic governance.

The choice of sectors is based on the need to ensure peace and stability in the country. Economic reforms, social protection of vulnerable people and support to democracy are vital for the future of the country and the welfare of the Sudanese population.

The proposed Action has been designed in complementarity with other Actions such as the social protection (health financing through PFM lenses) and women economic empowerment action documents (looking at policies and action plans to promote gender equality and women economic empowerment). The Action will contribute to the EU's Gender Action Plan 2016-2020 (GAP II), namely, promoting the economic and social rights / empowerment of girls and women and strengthening girls' and women's voice and participation.

More recently, the EU has obtained the agreement from EU Trust Fund contributors to redirect part of the unspent amounts initially assigned to Eritrea to finalising the financing package required for arrears clearance to the IMF, supplying material resources for the beneficiaries under this AD and extending asset quality reviews to all Sudanese banks. Sudan's eligibility for debt relief under the HIPC initiative should have a transformative effect on its transition process towards economic growth and stability.

### **2.3. Other areas of assessment**

Not applicable

### **2.4. Lessons learnt**

- While revenue reforms have yet to evolve in Sudan, one can draw conclusion from PFM experiences in several other countries in Africa, which have conducted comprehensive and similar reforms. Looking at their experiences provide some important insights in the re-design of the Sudanese system. The main elements of these reforms have been (i) abolition of unsatisfactory local revenue instruments that were costly to collect from administrative and political perspectives, (ii) improvements to remaining revenue bases by simplifying rate structures and collection procedures, (iii) building administrative capacity, and (iv) establishing better links between tax payment and service delivery.
- Surveys in various countries indicate that citizens have a general appreciation of the necessity of taxation to support local service provision, but chose non-compliance due to lack of confidence in local government. Citizens need to observe improvements in service delivery, particularly education, health, and law and order to have positive views on tax systems.
- Feasibility studies should be available or done at early stage of the action, especially in the context of PFM as the tasks are varied and complex, with controversy regarding the Bretton Woods's proposed economic reforms.
- More and effective participatory approach in the project design is essential for Government units and institutions. Public participation increases the likelihood that actions taken or services provided by public agencies more adequately reflect the needs of people and that the benefits of development are more equitably shared. Equitable sharing of resources and benefits is also an issue of sustainable development. As such, public participation has been recognized as one of the core principles of sustainable development.
- Involvement of relevant government institutions and units, supported by top management is essential. For reforms to be successful, it is crucial to ensure commitment and demonstrate the political will to endorse (and pursue) a policy or strategy at the highest political level. Leadership from the civil service is fundamental for the success of reforms as senior civil servants usually play the key role of linking strategy to policy execution and are crucial for the effective design and implementation of policies. The GoS should therefore invest in a values-driven, result-oriented and citizens-centered culture of leadership at the senior level management.

### **2.5. Complementary actions and synergies**

- Sudan benefits from significant programmes through the IMF's Fiscal Affair Department (FAD) and Middle East Technical Assistance Center (METAC)'s Technical Assistance. The International Monetary Fund (IMF) has been mostly supporting the government of Sudan in its efforts to improve PFM through technical assistance in key areas such as budget preparation, fiscal reporting, fiscal risk management, Single Treasury Account (TSA), and public procurement.
- In March 2016, the WB approved a USD 4.99 Million "Strengthening Sub-national Fiscal Policy Management" project. The higher level objective is to provide critical support to the piloted states Government (Red Sea, River Nile, Sinnar, and North Kordofan) to ensure efficient, effective and accountable use of public resource as a basis for poverty reduction and improved service delivery.

Progress made included increased state owned revenues in piloted states and public access to key fiscal information. The WB has launched a PEFA in March 2020 and at the time of writing of the present AD, has sent its concept note to the PEFA secretariat. A delegation agreement is foreseen within this action document.

- In 2014, the African Development Bank (AfDB) focused on the critical and emerging capacity-building needs of the country, particularly in the areas of PFM, planning, monitoring and evaluation of policies and programmes. AfDB intended to develop an Integrated Financial Management Information System (IFMIS), ensuring that newly developed systems comply with international best practices (implementing a new budget classification system (GFS), improving the electronic transfer of data; adapting a new Treasury Single Account System and transforming from Cash accounting system to Accrual accounting system). However, the available information regarding IFMIS's state of play do not mention AfDB's results.
- The 2020 project of DFID (EUR 670,000) focuses on improving public reporting on budget and training journalist on economic matters. Through the implementing partner, a senior advisor together with 2 ODI Fellows are embedded in and will provide support to the newly created Analysis and Monitoring Unit within the MOFEP. A grant with Overseas Development Institute (ODI) is foreseen within this action document.
- On top of an on-going support to the Public Budget Management Forum by the Federal Foreign office of Germany, the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) has provided support since 2015 to the public management Forum and the National Audit Chamber of Sudan, which is currently committing to a Phase II, focusing on taxes, budget, and financial control.
- The Netherlands Ministry of Foreign Affairs has funded a bilateral cooperation project with the NAC through the Sharaka program, implemented in Sudan by the Netherlands Court of Audit (NCA). The goal of this five-year programme (2016-2021) is to improve the operation of public administration, the effectiveness of public services and to strengthen public financial management, focussing on increasing the audit institution's impact, tackling integrity issues, reviewing the national implementation of the SDGs and conducting an audit in the health sector. The Netherlands' Court of Auditors started a PFM review in January 2020 in conjunction with the Sudan Auditor General's office.
- Norway has supported the Central Bureau of Statistics (CBS) since 2017, thanks to an agreement with Statistics Norway (EUR 1,110,000), which runs until 2020. The project aims to further develop and modernise the CBS through technical support, including capacity building of CBS. The project also aims to be supplementary to the different agencies that have projects with the CBS on preparation and implementation of large surveys/censuses e.g. the population and housing census and the agriculture census.
- Agence Française de Development (AFD) has also proposed assistance to GoS on tax administration especially in revenue administration and is proposing assistance pertaining to State Owned Enterprises (SOE) and an Aid Coordination Unit (ACU). Simultaneously, AFD is funding activities with the Central Bank of Sudan that pertain to AML-CFT) and banking regulation and supervision. Expertise France is seeking to support the Bureau of Statistics with TA, but the action has been delayed due to the COVID 19 pandemic. A delegation agreement is foreseen within this action document.

This action is also complementary with the EU program "Support to the Centre of Government" (T05-EUTF-HOA-SD-90-01). In the Sudanese context, the MOFEP should be centerpiece in aid management with the Prime Minister and the Ministry of Cabinet Affairs (MOCA) rallying behind. Anchored within the MOFEP, an aid coordination unit will be given the technical capacity to align with core PFM systems in order to ensure on-budget and maximum fiscal discipline and transparency.



## 2.6 Donor coordination

Coordination of development cooperation is one of the many priorities of the transitional government. It is understood that a structure, whereby both the Prime Minister's office and the Ministry of Finance are the key interlocutors and coordinators on the part of the Government of Sudan, is being considered. The Sudan International Partners Forum (SIPF) convenes all international actors in Sudan, whether bilateral donors, multilateral development banks, financing institutions, UN entities or NGOs. A Steering Committee is intended to lead the work of the SIPF and three co-chairs (one from UN, one from NGO and one bilateral donor) seeks to ensure dialogue with GoS. Both GoS and SIPF systems remain embryonic and will need to adapt to situation as it develops in Sudan. As a complement to these initiatives, several sector dialogue groups are emerging and it is the intention of the EU to enhance presence and actions in these groups.

A working group has been established to coordinate donors and agencies within the realm of PFM. Currently, the EU unofficially chairs this group (WB, EU, GIZ, US, IMF, UNDP and UK). Participants have agreed on need to coordinate closely and seek to engage with MOFEP on a process (similar to the one adopted for the Prime Minister office) to understand their vision, intended structure, gaps and where the international community could support in a structured and coordinated manner.

## 3. DETAILED DESCRIPTION

### 3.1. Objectives and expected outputs

The **overall objective** (expected impact) of this action is to support the Government of Sudan in its efforts to achieve sound economic management during the economic transition.

The **specific objectives** (expected outcomes) are the following:

- Institutional capacities at the Ministry of Finance and Economic Planning (MOFEP) are strengthened
- Capacities in Public Finance Management are enhanced
- Financial sector asset quality is improved
- Material resources such as IT equipment and infrastructure is provided
- Sudan's efforts towards debt relief are supported by the EU

The expected outputs, deliverables or benefits of activities to be delivered by this Action:

*OUTPUT 1: MOFEP's institutional capacity to undertake PFM reforms and coordinate aid delivery has increased*

Once the - now delayed - National Economic Conference result in an agreement on the necessary economic reforms, policy coordination will be imperative to ensure PFM work is conducted in an integrated and sequenced manner. A Government-Partner Coordination unit will facilitate the flow of information, provide stronger mutual accountability and ensure that aid is aligned with GoS development priorities, and budgeting. The demand for contemporary economic analysis will be used to shape, influence and monitor ongoing reforms. Concomitantly to the PEFA, an assessment of the institutional capacities, functional review of the MoFEP and the development of a short term action plan with immediate priorities to tackle will be conducted.

*OUTPUT 2: A reform roadmap has improved capacities in Public finance management*

Adjusting the shortcomings - timeliness and quality - in macroeconomic and administrative data of the Bureau of statistic, is imperative to ameliorate decision making and measure policy impact related to PFM reforms. Upgrading the coverage of FDI, remittances and gold exports will improve Balance of Payment (BOP) compilation. For price statistics, the concepts and methods used to compile both the CPI and the PPI will be reviewed and training will be provided accordingly.

The outcomes of the PEFA and other planned assessments (TPAF, TADAT, etc.) will allow the GoS to

gradually transition to a more developed PFM reform process. In the absence of external funding, ensuring fair, transparent, efficient and effective taxation in Sudan will be paramount to effectively deliver public service. Larger tax revenue also plays a key role in building up institutions, markets and democracy through making the state accountable to its taxpayers.

The public sector, important and diverse in Sudan, is a key driver of the development of the country as well as an important stakeholder within fiscal policy. It is therefore necessary to monitor State Owned enterprise (SoEs) properly as it stands today but also, prepare its future evolution, be it in terms of size, composition and governance.

The compliance of the budget cycle to international standards is of particular necessity as it fits government policies and priorities and applies gender and climate change responsive measures.

The PER (public expenditure review) will analyse the efficiency, equity and sustainability of public spending in health (and possibly other social sectors), and deep-dive into the government's budget planning and execution, and its linkage to the exiting fiscal rigidities.

### *OUTPUT 3: Supply of Information technology equipment has improved the efficiency of Public Finance Management*

This supply of IT equipment will improve considerably the impact of the Technical Assistants working under this PFM program. Indeed, the partner institutions' IT equipment is limited and therefore restrict the possibility of conducting operations such as surveys processes, digital taxation procedures, or AML/CFT investigations. The IT support of the key entities such as the Sudanese Taxation Chamber, the National Audit Chamber, the Central Bureau of Statistics, the Central Bank of Sudan and the MoFEP will improve tax collection, banking and audit systems, which is crucial for Sudan to increase the tax basis (currently at 3.9%) and bring the financial sector closer to AML/CFT regulation.

### *OUTPUT 4: The financing sector is stabilized through asset reviews and a reform strategy.*

Recognition of standards and accounting will provide an accurate reflection of asset quality of 37 banks in Sudan through asset quality reviews (AQR) for the 37 banks existing in Sudan and will reflect the ability of the banking sector to withstand shocks. AQR will also pave the way for a sound resolution strategy and implementation to safeguard monetary and financial stability. Improved coordination between monetary and fiscal policy, through a committee, will modernize and clarify financial relations between the MOFEP and the CBoS.

### *OUTPUT 5: EU's support to IMF's arrears clearance comes in due time to help achieve HIPC Decision Point.*

An indicative logical framework reflecting objectives and results is included in the Annex of this Action Document.

## **3.2. Main activities**

Activities will be further defined by the implementing partners at the latest in inception stage, when an assessment of the MOFEP and Central Bank of Sudan is foreseen.

### *3.2.1. Activities associated with each result*

OUTPUT 1: MOFEP's institutional capacity to undertake PFM reforms and coordinate aid *delivery has increased*

#### 1.1 Diagnostic work and project management framework informs problem identification and design during the inception phase.

- Assess the institutional capacities, analyse stakeholder gaps and conduct functional reviews of the MoFEP,
- Concurrent with the PEFA, develop a short term action plan with immediate PFM priorities to tackle (budget formulation, budget process, budget management and control)

- 1.2 An Economic Analysis and Monitoring Unit (AMU) is established within the MOFEP
- Conduct analyses, monitoring and assessing of economic policies to provide recommendation and support for reforms
  - Co-organise workshop, trainings and international conferences (fiscal risks, medium term fiscal framework, statistics (including disaggregation, measuring poverty and inequality, promoting data generation for national SDG indicators), and banking supervision with METAC.
  - Align Integrated National Financing Framework for national development plan with the Sustainable Development Goals
- 1.3 The capability of the Aid Coordination Unit (ACU) at MOFEP is enhanced.
- Establish a new Government-Partner Coordination Forum to contribute to democratize decision-making, promoting a wide constituency of stakeholders, including women representatives, facilitate access to information and technical & political dialogue
  - Technical assistance will assist with conducting development cooperation portfolio reviews, the examination of the agreements (Development Framework agreements, financing agreements, MoUs)

*OUTPUT 2: A reform roadmap has improved capacities in Public finance management*

- 2.1 Encourage informed decision making by strengthening the role of the central Bureau of Statistics
- Assessing sources and methods for national accounts compilation for rebasing GDP and potential compilation of supply and use tables for the CBoS
  - Providing TA to revise and provide further training on the production system, price collection for the Consumer Price Index (CPI), methodology for compilation/dissemination of documents for the CBoS, data collection/measurement of SDG indicators and gender sensitive data.
- 2.2 Support the budget cycle, process and management
- Provide advisory & capacity building to support MOFEP in designing a credible budget ensuring GFS methodology in its presentation, classification and reporting Chart of Account, and basic accounting, debt / cash management, Treasury / a TSA
  - Apply gender and climate change responsive budgeting promoting transparency and participation in the budgetary process
- 2.3 Assistance on tax policy and tax administration
- Conduct a Tax Policy Assessment Framework (TPAF) to improve the fairness and efficiency of tax systems, broaden the tax base and integrate the informal sector into the economy, reducing inequalities
  - Carry out a Tax Administration Diagnostic Assessment (TADAT) to assess critical tax administration functions, processes and institutions.
- 2.4 Support the realisation of a roadmap related to State-Owned Enterprises
- An assessment of the governance arrangements and accountability, be it legal frameworks or actual practices regarding the corporate institutions (general assembly, board, committees) is carried and arrangements are updated.
  - A documented repository of all public enterprises, categorized by domain of activities, size, legal status and mandate and an analysis of the financial relationships between the Treasury and each of these SoEs are conducted.
- 2.5 Improve health sector PFM
- Conduct Public Expenditure Review (PER) of the health system (also assessing gender and urban/rural inequality)
  - Undertaking a public Expenditure Tracking Surveys (PETS) and Quantitative of Service Delivery Surveys (QSDS) covering the health sector

- 2.6 Strengthen the quality and impact of NAC's audit work in the field of PFM
- Support the Office of the Auditor General in its professionalization and capacity development (through training on International Public Sector Accounting Standards [IPSAS] performance audits, English language, and ICT)

*OUTPUT 3: Supply of Information technology equipment has improved the efficiency of Public Finance Management*

A specific scoping mission will be undertaken in each of the agencies and department concerned, to certify that all precautionary and monitoring measures have been taken before the deployment of the equipment. to ensure compatibility with existing servers and Networking solutions; provisions for maintenance and security; questions related to Software Licences (Microsoft and others specific solutions) and regular upgrades and sustainability.

Also a specialised TA envelope will be reserved to monitor the deployment of the equipment, train users, provide technical back-up and conduct an independent evaluation after an initial period (2 years) of deployment.

- 3.1 Supply and training for IT equipment to the Sudanese Taxation Chamber to coordinate between federal and states teams and register properly individuals and companies
- Provide core tax and tax control systems integrating fiscal devices for taxpayers
  - Supply IT equipment to the Directory of state tax offices with call centers, training facilities, computer sets
- 3.2 Supply and training for IT equipment to the National Audit Chamber for risk-based auditing
- Provide network license-auditing tool to manage network risks through accurate and timely reporting
  - Provide audit software for 250 to 300 devices to be audited annually
- 3.3 Supply and training for IT equipment to the Central Bureau of Statistics,
- Provide hardware such as desktop computers, laptops, printers
  - Provide solution for statistics and office software
- 3.4 Supply and training for IT equipment to the Central Bank of Sudan to help achieve anti money laundering and combating financing of terrorism
- Provide Microsoft software which screens financial transactions, customer files, and individual lookups against a global collection of sanctions
  - Provide World check software which is a risk intelligence database that reveals risks associated with customers, leads or accounts (mostly politically sanctioned/exposed individuals)
- 3.5 Supply and training for IT equipment to the MoFEP
- Provide material for bilateral cooperation and the M&E, Directorates, the Project Formulation Unit, the Poverty Reduction and Sustainable Development Unit and the Aid Management Unit
  - Provide the IT Directorate with network & data centre infrastructure requirements, information security Requirements, software development requirement

*OUTPUT 4: The financing sector is stabilized through asset reviews and a reform strategy*

- 4.1 Conduct Asset Quality Reviews (AQR)
- AQR of 37 banks in Sudan to determine the scale and underlying causes of distressed loans
  - Provide comprehensive set of tools and broad expertise to prepare and manage the informational basis for a sound resolution strategy
- 4.2 Define a Bank resolution strategy for restoring soundness of financial sector
- Support of a technical resolution strategy specialist to the Central Bank of Sudan and Ministry of Finance

- Assist the creation of a monetary policy committee, to improve coordination between the central bank and the ministry of finance on liquidity management.

*OUTPUT 5: EU's support to IMF's arrears clearance comes in due time to help achieve HIPC Decision Point.*

- 5.1 Sign delegation agreement with IMF
- 5.2 Transfer EU contribution in due course

### 3.2.2. Target groups and final beneficiaries

Civil servants at the Ministry of Finance and Economic planning (MOFEP), Ministry of Health, the Central Bank of Sudan (CBoS), the Central Bureau of Statistics (TBC), the National Audit Chamber (TBC) and the Sudanese Taxation Chamber (STC). The Federal and state level governments. The foreseen National Commission for Human Rights (OHCHR). The private sector, citizens of Sudan and the media.

### 3.3. Risks and assumptions

| <b>Risk</b>   | <b>Level of risk</b> | <b>Mitigating measures</b>  |
|---|----------------------|---|
| Weak or uncooperative leadership in the partner institutions                          | Medium/high          | Thorough capacity assessment will be conducted during the 6 months implementation period. Then, embedded technical assistance (TA) will target shortfalls.  |
| Political interference with financial institutions restricts their mandated functions | High                 | This action is expecting the planned (but delayed) economic forum to provide the GoS with a unified roadmap for economic reforms. Continuous political monitoring will identify issues before they become critical.                       |
| Insufficient absorption of programme support  | High                 | This action foresees a steering committee to assess the progress achieved in each partnerships, discuss any difficulties and propose solutions and provide strategic guidance. Embedded technical assistance will help manage absorption. |
| Staff transfer and loss of trained staff undermine progress                           | Medium               | The training programmes will result from the 6 months inception period and be flexible enough to adjust to changing circumstances. Incentive schemes will be negotiated with the GoS, as will be assurances on staff deployment.          |
| Lack of willingness to tackle corruption.   | Medium               | Accountability and transparency will be promoted amongst relevant institutions. The role of CSOs to monitor and participate in the planning process enhanced.   |

|   |        |  |
|---|--------|--|
| The equipment is inadequate with the needs and capacities of the beneficiary. | Medium | A scoping study of the needs and capacities will be conducted prior to the procurement phase. And further clarified in the delegation agreement with the implementing partner.                           |
| Failure to deploy IT equipment system tools                                   | Low    | The implementing partner will fully exercise its control over the development, planning and management of the said equipment, through due diligence process and a specialised TA envelope.               |
| Lack of sustainability of the IT donations                                    | Medium | Asset monitoring tools will be implemented to monitor the use and presence of IT equipment. The project expenditures will be adequately monitored through a dedicated team in Khartoum and Headquarters. |

The **assumptions** for the success of the project and its implementation include:

1. A Careful sequencing of economic reforms, implementation of adjustment measures only after scaling up the social safety nets and extensive information & communication campaign to secure public support. This will mitigate domestic unrest from continued and/or exacerbated economic hardship.
2. Developing genuine and trusted relationships with counterparts will ensure the action will have continued buy-in and participation.
3. Government of Sudan will continue to provide necessary funding and staffing to programme partners.

### 3.4. Mainstreaming

This action will build on existing social protection and health actions the EU is undertaking in Sudan as it will support enhanced policy coherence concerning national macroeconomic, fiscal, SDG strategies and human rights frameworks. This will lead to improve design and financing of social protection systems in support of Sudan efforts towards SDG 1 and 10, and the reduction of inequalities.

The action will ensure gender balanced human resource management, and gender sensitive monitoring and evaluation system including gender-disaggregated data collection and gender performance indicators. A gender based assessment of budgets will be conducted to incorporate a gender perspective at all levels of the budgetary process and restructuring revenues and expenditures in order to promote gender equality. The project will also seek partnership with the Gender Adviser provided by Sweden and UN Women and based at the Ministry of Finance and Economic Planning. The participation of women's representatives will be promoted.

The Action will apply a human rights lens and will consider the impact that any proposed reforms may have on the economic and social rights of Sudanese people. The right to freedom of expression will be promoted through the promotion of access to information and the role of civil society and the media to scrutinise budgetary processes and statistical data.

Events that improve the dialogue between the government, private sector, civil society and the media will be convened along the Action, in order to ensure inclusiveness and participation. The participation of the Sudan National Commission for Human Rights will be promoted.

### 3.5. Stakeholder analysis

The action will closely operate with partner institutions at the federal level and will be codesigned together

with the ministry of Finance and Economic Planning, the Central Bank of Sudan, the Bureau of Statistics and the Office of the Auditor General (OAG).

Non-State Actors include Private sector and advocacy groups, media organisations and private sector umbrella organisations which together play an important role in the demand side of accountability i.e. holding the state to account over public finance management, resource allocation and service delivery. A capacity gap analysis of the stakeholders will be conducted during the inception phase.

#### **4. IMPLEMENTATION ISSUES**

##### **4.1. Financing agreement, if relevant**

Not applicable

##### **4.2. Indicative operational implementation period**

The implementation period will begin from the date of signature by the last party of the first contract implementing this Action, or from the earliest starting date of implementation period at contract level in case of retroactive financing, whichever occurs first, and will last until the 31/12/2024. This operational implementation period will be followed by a liquidation period of 18 months which will end on the 30/06/2026

##### **4.3. Implementation modalities**

This action needs to be apprehended with flexibility as it will be adapted in accordance to the PEFA, other assessment tools and in coordination with the Government-Partner Coordination unit.

One envisaged implementation modality for objectives 1 and 2 is direct management through a negotiated procedure (grant) with Overseas Development Institute (ODI). ODI has also implemented activities that have a direct correlation with the coordination and monitoring unit of this action document. Therefore the Prior Approval 20.f (Use of direct award for grants without call for proposals) is applicable as per section 8.5.2 of the DEVCO Companion.

And/or one envisaged implementation modality for objectives 2, 3 and 4 is indirect management, through a contribution agreement, with Expertise France (EF) and a delegation agreement with IMF. AFD has submitted both a PFM and banking supervision concept notes to the government of Sudan that complement the activities foreseen within this program. Regarding output 3, a clear implementation strategy (detailed needs analysis, procurement, delivery and maintenance/inventory of equipment) for the sequencing of the equipment will be requested (and supported by the TA from Expertise France) before actual procurement process can start. A mid-term implementation assessment will be conducted to determine and adjust the processes.

#### 4.4. Indicative budget

| Component  | Amount EUR        |
|--|-------------------|
| <b>Objective 1:</b> Institutional capacities at the Ministry of Finance and Economic Planning (MOFEP) are strengthened<br><b>4.4 Grant (Direct Management)</b>   | 2 700 000         |
| <b>Objective 2:</b> Capacities in Public finance management are enhanced through a Reform Roadmap<br><b>4.4 Contribution agreement (indirect management) with Expertise France</b><br><b>4.4 Grant (Direct Management)</b> | 45 000 000        |
| <b>Objective 3:</b> Supply of Information technology equipment has improved the efficiency of Public Finance Management<br><b>4.4 Contribution agreement (indirect management) with Expertise France (EF)</b>              | 9 000 000         |
| <b>Objective 4:</b> Financial sector asset quality is improved<br><b>4.4 Contribution agreement (indirect management) with Expertise France (EF)</b>   | 3 000 000         |
| <b>Objective 5:</b> Sudan's efforts towards debt relief are supported by the EU<br><b>4.4 Delegation agreement (indirect management) with International Monetary Fund (IMF)</b>  | 12 000 000        |
| <b>Communication and visibility</b>  | 150 000           |
| <b>Monitoring, evaluation and audit</b>  | 120 000           |
| <b>Total</b>   | <b>31,970,000</b> |

#### 4.5. Monitoring and reporting

Through Evaluation and Monitoring Unit (AMU), the implementing partners must establish a permanent internal, technical and financial monitoring system for the action and prepare regular progress reports and final reports.

In the initial phase, the indicative logical framework agreed in contract and/or the agreement signed with the implementing partner must be complemented with baselines, milestones and targets for each indicator. Progress reports provided by the implementing partner should contain the most recent version of the logical framework agreed by the parties and showing the current values for each indicator. The final report should complete the logical framework with initial and final values for each indicator.

The final report, financial and descriptive, will cover the entire period of the implementation of the action. The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

The implementing partner(s) will report on a number of common EUTF indicators of the selected results for this Action. All monitoring and reporting shall assess how the action is taking into account the rights-based approach working principles (i.e participation, non-discrimination, accountability and transparency) as well as how it contributes to gender equality and women's empowerment. Project Implementing Partners will be required to provide regular data, including the evolution of the actual values of the indicators (at least every three months) to the contracting authority, in a format which is to be indicated during the contract negotiation



phase. The evolution of the indicators will be accessible to the public through the EUTF website (<https://ec.europa.eu/trustfundforafrica/>) and the Akvo RSR platform (<https://eutf.akvoapp.org/en/projects/>).

#### **4.6. Evaluation and audit**

If necessary, ad hoc audits or expenditure verification assignments could be contracted by the European Commission for one or several contracts or agreements.

Audits and expenditure verification assignments will be carried out in conformity with the risk analysis in the frame of the yearly Audit Plan exercise conducted by the European Commission. The amount allocated for external evaluation and audit purposes should be shown in EUR. Evaluation and audit assignments will be implemented through service contracts; making use of one of the Commission's dedicated framework contracts or alternatively through the competitive negotiated procedure or the single tender procedure.

Evaluations shall assess to what extent the rights-based approach working principles (i.e participation, non-discrimination, accountability and transparency) as well as gender equality and women's empowerment have been applied. In this regard, expertise on human rights and gender equality will be ensured in the evaluation teams.

#### **4.7. Communication and visibility**

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU. This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, which will be developed early in the implementation. The measures are implemented by the Commission, the partner country, the contractors, the beneficiaries and/or the entities responsible in terms of legal obligations regarding communication and visibility. Appropriate contractual obligations will be included in the financing agreement, purchase and grant agreements and delegation as well as contribution agreements.

Communication and visibility requirements for the European Union are used to establish the communication and visibility plan for the action and the relevant contractual obligations

#### **List of acronyms**

|         |   |
|---------|---|
| AFD     | Agence Francaise de développement   |
| AML/CFT | Anti-money laundering and combating the financing of terrorism Aid  |
| ACU     | Coordination Unit   |
| BIT     | Business income tax (individual)  |
| BMZ     | German Ministry for Economic Cooperation and Development  |
| CBS     | Central Bureau of Statistic   |
| CIFA    | Country Integrated Fiduciary Assessment   |
| CPI     | Consumer Price Index  |
| CPAR    | Country Procurement Assessment Report   |
| DFID    | Department for International Development (UK)   |
| EF      | Expertise France  |
| EU      | European Union  |
| EUTF    | European Union Emergency Trust Fund for stability and addressing root causes of irregular migration and displaced persons in Africa |

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| FoS   | Friends of Sudan   |
| GDP   | Gross domestic product   |
| GIZ   | Deutsche Gesellschaft für Internationale Zusammenarbeit  |
| GoS   | Government of Sudan  |
| HIPC  | Highly Indebted Poor Countries   |
| IcSP  | Instrument contributing to Stability and Peace   |
| IMF   | International Monetary Fund  |
| METAC | Middle East Technical Assistance Center  |
| MFF   | Multi Annual Financial Framework   |
| MoFEP | Ministry of Finance and Economic planning  |
| NAC   | National Audit Chamber   |
| ODI   | Overseas Development Institute   |
| OECD  | Organization for Economic Cooperation and Development - Development Assistance Committee (DAC) |
| PEFA  | Public Expenditure and Financial Accountability  |
| PER   | Public Expenditure Review  |
| PFM   | Public financial management  |
| FFAMC | Fiscal and Financial Monitoring Allocations Commission   |
| PMU   | Project Management Unit  |
| NPL   | Reported nonperforming loan  |
| SDG   | Sudanese Pound (currency)  |
| SDG   | Sustainable Development Goals  |
| SIMP  | Social Impact Mitigation Program   |
| SIPF  | Sudan International Partners Forum   |
| SMP   | Staff Monitored Programme  |
| SOEs  | State Owned Enterprises  |
| SSTL  | State Sponsors of Terrorism List   |
| TSA   | Single Treasury Account  |
| WB    | World Bank   |
| WTO   | World Trade Organization   |

|                                   | <b>Results chain:<br/>Main expected results (maximum 10)</b>  | <b>Indicators<br/>(at least one indicator per expected result)</b>  | <b>Sources and means of verification</b>   | <b>Assumptions</b> |
|-----------------------------------|---|---|--|--------------------|
| <b>Impact (Overall objective)</b> | Support the Government of Sudan in its efforts to achieve sound economic management during the economic transition. | <p>SDG 8: Inclusive and sustainable economic growth indicators:</p> <ul style="list-style-type: none"> <li>- Economic productivity (for example GDP growth, level of inflation, tax to GDP ratio, rate of employment, labour participation, (disaggregated by sex, age, urban/rural, disability))</li> <li>- Indicators for the assessment of systemically importance of domestic banks</li> <li>- Debt Capacity</li> </ul> <p><i>(Baselines to be provided by the implementing partner at the latest in inception stage)</i></p> | <ul style="list-style-type: none"> <li>- PFM performance measurement framework</li> <li>- IMF calculations</li> <li>- Transparency International Corruption Perception Index</li> <li>- A framework for the management of non-performing loans in the banking</li> </ul> |                    |

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| <b>Outcome(s)<br/>(Specific<br/>Objective(s))</b> | <ul style="list-style-type: none"> <li>– SO 1. Improved Economic and Policy Coordination by the Minister of Finance</li> <li>– SO 2. Improved capacities in public finance management</li> </ul>   | <p>Financial (ie. tax revenues per total revenues, tax revenues per capita) and non-financial indicators (process, performance, capacity and effect indicators)</p> <p>- Input and output indicators</p> | <p>1.1. Annual Budget Statements, Performance Reports &amp; Budget Explanatory Notes</p> <p>1.2. Public Expenditure &amp; Financial Accountability Assessment (PEFA) 2020</p> |          |
|   | <ul style="list-style-type: none"> <li>– SO 3. Material resources such as IT equipment and infrastructure is provided</li> <li>– SO 4. Improved financial sector asset quality.</li> <li>– SO5. Sudan’s efforts towards debt relief are supported by the EU</li> </ul> | <p>- Sudan achieves HIPC Decision Point.</p>   | <p>1.3 Asset quality reviews (AQR)</p> <p>1.4 IMF’s Enhanced Heavily Indebted Poor Countries Initiative—Document</p>  | <p>-</p> |

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| <p><b>Outputs</b></p> | <p><i>OUTPUT 1: MOFEP's institutional capacity to undertake PFM reforms and coordinate aid delivery has increased</i></p> <ul style="list-style-type: none"> <li>- Output 1.1 Diagnostic work, stakeholder analysis and functional reviews of MOFEP informs problem identification and design during the inception phase.</li> <li>- Output 1.2 An Analysis and Monitoring Unit (AMU) is operating within the MoFEP</li> <li>- Output 1.3 A Donor Coordination Unit (DCU) is in place and capable to carry out its role efficiently (MoFEP/PMO)</li> </ul> | <p>1.1.1 No of planning, monitoring, learning, data-collection and analysis tools set up, implemented and / or strengthened</p> <p>1.2.1 Integrated National Financing Framework for national development plan is aligned with the Sustainable Development Goals.</p> <p>1.3.1 Government-Partner Coordination Forum is established and cooperation development portfolio reviewed</p> | <p>1.1.1. Midterm/final assessment of action</p> <p>1.2.1. Mapping of technical advisory support from Donor community</p> <p>1.2.2. GoS Budget incorporates donor funding.</p> <p>1.3.1 Annual Budget Statements, Performance &amp; Explanatory Notes by Minister of Finance</p> |  |
|-----------------------|--|--|--|--|

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|  | <p><i>OUTPUT 2: Improved capacities in public finance management</i></p> <ul style="list-style-type: none"> <li>- Output 2.1 The Central Bureau of Statistics produces and disseminates reliable statistics</li> <li>- Output 2.2 Support the Domestic Revenue Mobilisation through the enhancement of the tax administration and tax policy</li> <li>- Output 2.3 An overhaul of budget cycle improves delivery service</li> <li>- Output 2.4 Public Expenditure Review of the health system is completed</li> <li>- Output 2.5 A roadmap for reforming State Owned enterprises is completed</li> <li>- Output 2.6 The system of National Accounts builds appropriate frameworks for Consumer Price Index (CPI)</li> <li>- Output 2.7 Support the Office of the Auditor General through training in professional education, on IPSAS, project audits and English language, in particular, in information systems</li> </ul> | <p>2.1.1 Tax to GDP Ratio of 12%</p> <p>2.2.1 9 key performance outcome areas, 32 high level indicators (performance of the major national taxes: Corporate Income Tax (CIT), Personal Income Tax (PIT), Value Added Tax (VAT) and social security contribution)</p> <p>2.3.1 Assessment of budget performance by classification, funding sources (government funding and foreign funding), and different levels (central and local)</p> <p>2.4.2 No of local authorities' staff and basic service providers supported to strengthen service delivery</p> <p>2.4.3 No of people having improved access to basic services</p> <p>3.1.1 No of planning, monitoring, learning, data-collection and analysis tools set up, implemented and / or strengthened</p> <p>3.2.1 Consumer Price Indexes are frequent, timely and realistic and supervise the financial performance of the national government in an efficient way. Data collection and measurement of SDG indicators and gender sensitive data. Access to information is promoted.</p> <p>3.3.1 7 Training KPI (Knowledge and skill retention, transfer of training, impact on organisational performance metrics)</p> | <p>2.1.1. Tax Policy Assessment Framework</p> <p>2.2.1 Tax Administration Diagnostic Assessment Tool (TADAT) – IMF;</p> <p>2.3.1 PER of health system</p> <p>2.4.1 Multiple Indicator Cluster Survey (MICS) data for 2014; NHIF administrative and financial data; (iv) National Health Accounts Data 2011, 2015 and 2016 (v) university hospitals; (vi) Demographic data from the FMOH Annual Statistical Report</p> <p>3.2.1 International Auditing standard (intosai)</p> <p>3.3.3 Effective training evaluation strategy and assessment.</p> |  |
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|  | <ul style="list-style-type: none"> <li>- <i>OUTPUT 3</i>: Supply of Information technology equipment has improved the efficiency of Public Finance Management</li> <li>- Output 3.1 Supply of IT equipment to the Sudanese Taxation Chamber to coordinate between federal and states teams and register properly individuals and companies</li> <li>- Output 3.2 Supply of IT equipment to the National Audit Chamber for risk-based auditing</li> <li>- Output 3.3 Supply of IT equipment to the Central Bureau of Statistics,</li> <li>- Output 3.4 Supply of IT equipment to the Central Bank of Sudan to help achieve anti money laundering and combating financing of terrorism</li> <li>- Output 3.5 Supply of IT equipment to the MoFEP</li> </ul> | <ul style="list-style-type: none"> <li>- An assessment of needs and sequencing is conducted</li> <li>- Order and Delivery of IT equipment</li> <li>- Training and maintenance of IT material</li> <li>- Equipment fits with the needs</li> <li>- Equipment are used</li> <li>- Equipment enable the improvement of the labour productivity of the partners</li> </ul> | <p>Indicators need to be tailored to each partner according to the IT equipment provided and the nature of institutions' activities according to SMART methodology and adapted MEAL practices.</p> |  |
|--|---|---|--|--|

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|  | <p><i>OUTPUT 4: Improved financial sector asset quality</i></p> <ul style="list-style-type: none"> <li>– Output 4.1 Conduct Asset quality review (AQR) of all Sudanese banks</li> <li>– Output 4.2 Define and implement a Bank resolution strategy</li> </ul> | <p>4.2.1 38 banks to undergo an asset quality review</p> <p>4.2.2 Quantitative indicators of financial structure, development and soundness are set (consolidated banking data)</p> <p>4.2.3 A monetary policy committee is created and improves coordination with MOFEP</p> | <p>4.2.2.1 Central Bank of Sudan’s policies and data</p> <p>4.2.2.2 CBoS’s Risk Dashboard, Risk Assessment Questionnaire (RAQ)</p> |  |
|  | <p><i>OUTPUT 5: EU’s support to IMF’s arrears clearance comes in due time to help achieve HIPC Decision Point.</i></p> <p>Output 5.1 Delegation Agreement is signed</p> <p>Output 5.2 EU contribution is transferred in due course</p>                        | <p>5.1.1 IMF’s arrears are cleared</p> <p>5.1.2 Sudan reaches HIPC decision point</p>  | <p>5.1.1.1 IMF’s Enhanced Heavily Indebted Poor Countries Initiative—Document</p>  |  |