



FROM FUNDING TO FINANCING

Financing Strategy Mission Report – Sudan

May 2017

KEY MESSAGES FROM THE MISSION TO KHARTOUM

We had a very **positive, constructive and productive week** in Sudan on the financing strategy mission to support the humanitarian-development-peace nexus there. The mission took place from 1-5 May 2017, following on from a separate planning and coordination mission. It was comprised of OECD, UN MPTFO and UNOCHA financing specialists.

We were impressed with the widespread support among national and international partners confirmed in consultations and at the mission debriefing for taking concrete steps forwards a new way of working in Sudan, including:

- designing collective outcomes together to address the ongoing protracted crisis and contributing to the Sustainable Development Goals,
- Planning, and reporting financial progress together through a multi-stakeholder platform under United Nations Resident and Humanitarian Co-ordinator and Government of Sudan leadership, as appropriate,
- developing and implementing a financing strategy to support collective outcomes, and
- analysing progress against this financial strategy.

The timing was right for seizing the opportunity of the changing humanitarian, economic and political context.

Substantively, the mission **recommended a 2 phase financing approach (which is context specific for Sudan)**, with phase one focused on the period until political sanctions are lifted and arrangements with creditors can be made, and phase 2 for financing in a more open development finance environment. Phase one includes more strategic and scaled up collective financing approaches for priority outcomes, along with a series for readiness measures to help prepare for change.

It was a very useful exercise for Sudan and to inform other countries in similar contexts. It was particularly useful in mission composition to have specialized, neutral specialized expertise on financing from the UN and OECD to guide and facilitate.

Strong leadership performance was clearly evident and this is absolutely key, but the team in Khartoum will need more support to take this forward.

Next steps will be to flesh out the collective outcomes substantively (as part of the work of the multi-stakeholder platform) and a follow up mission support to develop further the financing strategy tailored specifically to these outcomes.

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On behalf of the From Funding to Financing Mission team

TOWARDS A FINANCING STRATEGY FOR SUDAN

Towards financing for collective outcomes

1. Advancing the New Way of Working will involve **moving beyond business as usual**. Overall, the mission found humanitarian and development partners in Sudan ready to move in this direction, working through tangible, concrete steps to deliver better results together.
2. The current context in Sudan – an ongoing protracted crisis, potential lifting of economic sanctions in July, and future possibilities for arrangements with creditors – provides a useful opportunity to **re-position Sudan both as a humanitarian and development situation** that requires increasing humanitarian and development programming and financing.
3. There is **broad agreement on the need to develop and finance collective outcomes** for Sudan, bringing together humanitarian and development programming and finance to deliver shared results, under the leadership of the UN Resident and Humanitarian Co-ordinator and the Government of Sudan, as appropriate. The multi-year humanitarian strategy, including links to resilience and development planning, is a useful first step towards these collective outcomes.
4. Development **coordination could be strengthened**, both strategically and operationally. There is appetite for a multi-stakeholder platform to oversee the design, implementation (including partnerships), financing and monitoring of collective outcomes, which are still being developed. Many actors mentioned the need for an initial focus on building trust between stakeholders, potentially starting with sharing information on programmes, and assessment data.

A phased and sequenced approach

5. Given the current context, collective outcomes in the Sudanese context will be most useful as a **phased (or sequenced) approach** bringing together programming at household, community, federal and national levels:
 - a. **Phase one:** collective outcomes that should start immediately:
 - Addressing, using humanitarian and development programmes and finance, the needs and root causes where and when possible related to the current protracted humanitarian crisis in Sudan; alongside
 - “readiness” actions to prepare Sudan for a potential future increase in development investments, including taking into account opportunities for scaling up presented by the potential lifting of sanctions
 - b. **Phase two:** if and when Sudan exits designation as a State Sponsor of Terrorism, paving the way for an arrangement with creditors and new opportunities for how development is delivered and financed:
 - collective outcomes that, alongside addressing root causes, include a stronger focus on social sectors, economic growth and good governance, alongside management of disaster and crisis risks, working with and through the Government of Sudan, where possible and appropriate
6. A broad range of actors have indicated their willingness to work together to design the **collective outcomes for phase one**, including the UN country team, international NGOs and local civil society actors, bilateral donors and multilateral development banks, the Government of Sudan

(potentially at technical line ministry level), UNMID, and the private sector. Consultations with these actors indicated that phase one collective outcomes should:

- a. Use the Sustainable Development Goals – already agreed by all the actors – as an overarching framework
 - b. Draw on planning work already done, especially under the Multi-Year Humanitarian Strategy and the UNDAF
 - c. Focus on commonly agreed **quantifiable and measureable** results that **reduce people's needs, risks and vulnerabilities** and increase their resilience, requiring the combined effort of a variety of actors
 - d. Be area based, including a special focus on urban areas where this is appropriate, reflecting Sudan's highly decentralised federal system
 - e. Be sequenced and prioritised. Criteria for prioritisation of programmes and financing allocations – potentially drawing on good practice in other countries such as the Central African Republic, and on criteria used by the Sudan Humanitarian Fund – will need to be agreed by all actors
 - f. Allow for delivering at scale, on a programmatic basis rather than by activities, with fewer, larger programmes to reduce fragmentation in the response. Consortia may be one useful way to deliver.
 - g. Ensure that both humanitarian development actors are using their strong collective voice on issues related to the collective outcomes.
7. Many actors identified **two potential initial areas for phase one collective outcomes**: (i) nutrition and (ii) durable solutions for displaced people. Social protection/social safety nets could be another useful area. In nutrition in particular, the mission team found useful examples of programming by the humanitarian community, development actors, bilateral donors, multilateral development banks, and the private sector, which could be usefully brought together under one collective result.
8. The parallel track of **“readiness” activities during phase one** involves programming to ensure that Sudan is ready to take advantage of future development investment opportunities. This could be done on a no-regrets basis, i.e. delivering useful development results even if the increase in development investments does not arrive in the short term. Potential areas include:
- a. Well-timed, high level outreach, potentially from the UN Secretary General, to help facilitate initial political will to mobilise government efforts around the SDGs
 - b. Laying the groundwork for delivering against the SDGs, for example through baseline studies and reviews of how to implement the Goals and/or Indicators. Lessons learned can be taken from the current Zero Hunger review that is being led by WFP in Sudan and incorporated into the collective framework.
 - c. Building the absorption capacity of technical line ministries and other state institutions, including through facilitating south-south co-operation
 - d. Encouraging greater transparency around national budget allocations for development results and the SDGs, in return for greater reporting into the Sudan aid management system
 - e. Completing the technical work, including for the staff monitored programme (SMP), as a move towards arrears clearance, normalization of debt servicing, and restoring access to external concessional financing

- f. Designing significant “ready to launch” programmes, that can be kept in reserve until Sudan becomes eligible for IDA and other concessional loan programmes.
- g. Supporting collaborations with the private sector and an enabling environment for private sector and economic growth, including public private partnerships
- h. Shoring up Sudan’s eligibility for all forms of development finance, including through the multilateral development banks, by using Sudan as a case study in the global debate on graduation
- i. Building the capacity of local civil society actors
- j. Promoting links between humanitarian and development programmes where appropriate to anticipate potential evolution of the context

Matching financing tools and instruments to the strategy

9. **Humanitarian financing should be maintained if not increased** to meet HRP requirements. Where possible, development programming should progressively take over issues such as addressing root causes. This will ensure humanitarian principles and space are preserved, and increase the available resources for ‘core’ humanitarian activities.
10. **Predictability of financial flows is poor** in Sudan, with many allocations arriving late in the calendar year; complicating planning, flexibility and slowing implementation rates. For donors and the Sudan Humanitarian Fund, concentrating Grand Bargain implementation in Sudan on the multi-annual financing commitments could significantly reduce these negative impacts. In the absence of predictability, other options to smooth liquidity constraints could be explored.
11. Global finance and related political action for **conflict prevention and violence prevention** are likely to increase over the next year. Darfur could be presented as a situation to deliver on some of these messages, possibly also to compensate for the downsizing of the UNMID scope there.
12. During Phase one, development donors may find it useful to implement a **“whole of society”** approach to programming and using country systems, to allay the current political issues around working with and through government systems.
13. There could be a **clearer division of labour between traditional donors, non-DAC donors and UN and multi-lateral multi-donor funds**. Non-DAC donors are mostly focused on productive sectors.

Sample division of labor based on Partner Comparative Advantages

Collective Outcomes	Govt	Sudan Humanitarian Fund	UN Development Pooled Funds	WB Trust Fund	ADB Trust Fund	Bilateral Donors	Private Sector
Collective Outcome 1: Basic Services	Insert 1) types of activities 2) geographical coverage	Insert 1) types of activities 2) geographical coverage	Insert 1) types of activities 2) geographical coverage	Insert 1) types of activities 2) geographical coverage	Insert 1) types of activities 2) geographical coverage	Insert 1) types of activities 2) geographical coverage	Insert 1) types of activities 2) geographical coverage
Collective Outcome 2: Nutrition	Insert 1) types of activities 2) geographical coverage	Insert 1) types of activities 2) geographical coverage	Insert 1) types of activities 2) geographical coverage	Insert 1) types of activities 2) geographical coverage	Insert 1) types of activities 2) geographical coverage	Insert 1) types of activities 2) geographical coverage	Insert 1) types of activities 2) geographical coverage
Collective Outcome 3: Social Cohesion	Insert 1) types of activities 2) geographical coverage	Insert 1) types of activities 2) geographical coverage	Insert 1) types of activities 2) geographical coverage	Insert 1) types of activities 2) geographical coverage	Insert 1) types of activities 2) geographical coverage	Insert 1) types of activities 2) geographical coverage	Insert 1) types of activities 2) geographical coverage
Collective Outcome 4: Displacement	Insert 1) types of activities 2) geographical coverage	Insert 1) types of activities 2) geographical coverage	Insert 1) types of activities 2) geographical coverage	Insert 1) types of activities 2) geographical coverage	Insert 1) types of activities 2) geographical coverage	Insert 1) types of activities 2) geographical coverage	Insert 1) types of activities 2) geographical coverage
Other cross-cutting areas							

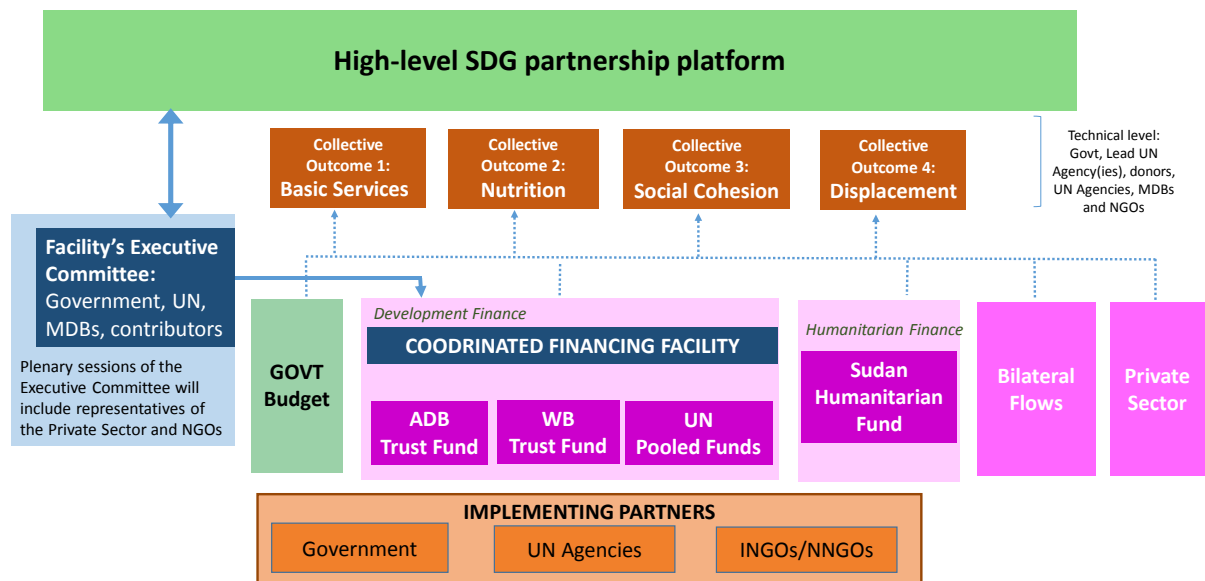
14. Potential and actual **migration flows** (including of Syrian and Yemeni refugees) through and from Sudan could help attract useful financing for stimulating economic opportunities and basic service delivery in Sudan, while taking care not to reinforce negative narratives in the current global migration debate Coupled with this are potential opportunities of linking Sudan with other regional issues, including refugee flows but also for economic opportunities and climate change (etc).
15. International finance designed to **stimulate the private sector and economic growth** – such as guarantees, and efforts to increase the ease of doing business– could be made available by some donors once economic sanctions are eased, including through technical assistance, technology transfer, and the facilitation of south-south co-operation.
16. Given Sudan’s wealth of natural resources, it could be useful to explore options for a **Sovereign Wealth Fund**.

Re-positioning the financing architecture

17. The financing architecture to support the vision of collective outcomes needs to **better connect, leverage and synergize the existing pooled and joint financing instruments**: in particular the Sudan Humanitarian Fund (SHF), Darfur Community Peace and Stability Trust Fund (DCPSF), and UN Fund for Darfur (UNDF). Pooled funds might benefit from strategic collective review in light of collective outcomes delivery and SDG contribution. It is worth considering consolidating development-based pooled funds under the direct leadership of the RC. Close coordination among development and humanitarian funds needs to be ensured at the planning and programming stage through fund managers, including easy cross-reference of projects among the instruments and easy information exchange.
18. It would be important to explore how these existing pooled funding instruments could play a larger critical mass or “centre of gravity” role in collective outcomes financing already during Phase I and lay out a strong foundation for the comprehensive Phase II approach. They could be positioned to complement bilateral and multi-bi funding and serve as important **building blocks**

for overall HDP (Humanitarian-Development-Peace) financing approach. These pools if well positioned and supported to scale can **incentivize action in support of collective outcomes** and strategic collaboration.

19. Sudan Humanitarian Fund needs to introduce **multi-year funding cycles** to align with the Multi-Year Humanitarian Plan and improve quality in the delivery cycle in line with WHS and Grand Bargain ambitions.
20. UN Fund for Darfur and DCPSF:
 - a. should be brought under the RC/HC structure as part of the portfolio of instruments supporting the collective outcomes vision.
 - b. should be strategically positioned to **address the financing gaps in the development and peace dimensions** of the HDP nexus
 - c. need to develop a portfolio of pipeline projects or 12-month plans which could serve as the strategic **capitalization tools for these funds and as local pre-investment plans** for private-public partnerships and private investment in the medium term.
21. DCPSF, as a well performing vehicle, could expand to support a more comprehensive peace and development approach tailored also to **other geographical areas of Sudan**, where peace and stability activities are needed, complementing or dovetailing humanitarian programmes in that area. As the DCPSF is undergoing the evaluation and the process of extension until 2020, it would be important to use this opportunity to discuss with the stakeholders the revised scope of the Fund. The implementation of the Comprehensive Peace Stabilization Plans, mentioned in the UN Secretary General's report on UNAMID, could be included in the scope of the DCPSF. The UN Peacebuilding Fund could be approached for support to the immediate priority activities of the UNAMID and UN Country Team.
22. The UN Fund for Darfur should **develop a pipeline and investment portfolio for the next phase** projects which could be presented to new donors as the opportunities to invest in the Fund even with small to medium size contributions. For example, a donor could consider a US\$ 2m-\$5m contribution if it could be demonstrated with a clear investment case that this small investment vs large needs of the Darfur Development Strategy could address top priorities and leverage additional financing over time. The implementation of the Comprehensive Peace Stabilization Plans, mentioned in the UN Secretary General's report on UNAMID, need to be considered as the next phase of the Darfur Fund. The SG's Peacebuilding Fund could be approached for support and feeder fund or blending resources in this regard.
23. The Government and the development partners community (UN, MDBs, bilateral donors, private sector, NGOs) should consider establishing **a high-level SDG partnership platform**, which will (i) provide direction on strategic issues of advocacy, gap analysis, monitoring and financing of the SDGs and, in particular, the defined collective outcomes, (ii) overview SDG progress according to agreed targets, priorities, and timelines, and (iii) be used as a mechanism to discuss opportunities for investment and addressing financing gaps. Initially, the platform could focus on two or three SDGs, for example SDG 2 "Zero Hunger", where the review and baseline for the future planning is currently on-going.



Note: Additional Collective Outcomes could be added

24. The main pooled and **collective financing instruments** (Sudan Humanitarian Fund, Darfur Community Peace and Stability Fund (DCPSF), UN Fund for Darfur (UNDF), and MDB, multilateral funds) could then be brought under the overall strategic guidance of the **High-Level Platform**, maintaining respective governance arrangements for each funds allocation but ensuring both high level and technical level alignment with the long-term vision of SDG's and collective outcomes. This platform would ensure coherence and coordination of the strategic direction, implementation and results of common financing instruments. Experience from other countries such as Kenya, Central African Republic, Somalia and Colombia could be relevant for exchange in this regard.

Contingent financing capacity for risks

25. Provision needs to be made for the **financing of contingent risks**, including drought, flare ups of conflict and violence, population movements and other crises. Using risk financing and risk transfer instruments, such as hydro-meteorological insurance (once sanctions have been lifted) could be explored. **Climate financing**, including its use for emergency preparedness, could be explored.
26. Some donors are already using **crisis modifiers**: development programmes focused on addressing root causes with special provisions inserted into grant agreements, allowing for the injection of additional finance should a crisis occur in the area of operation. This is good practice that other donors could consider adopting.

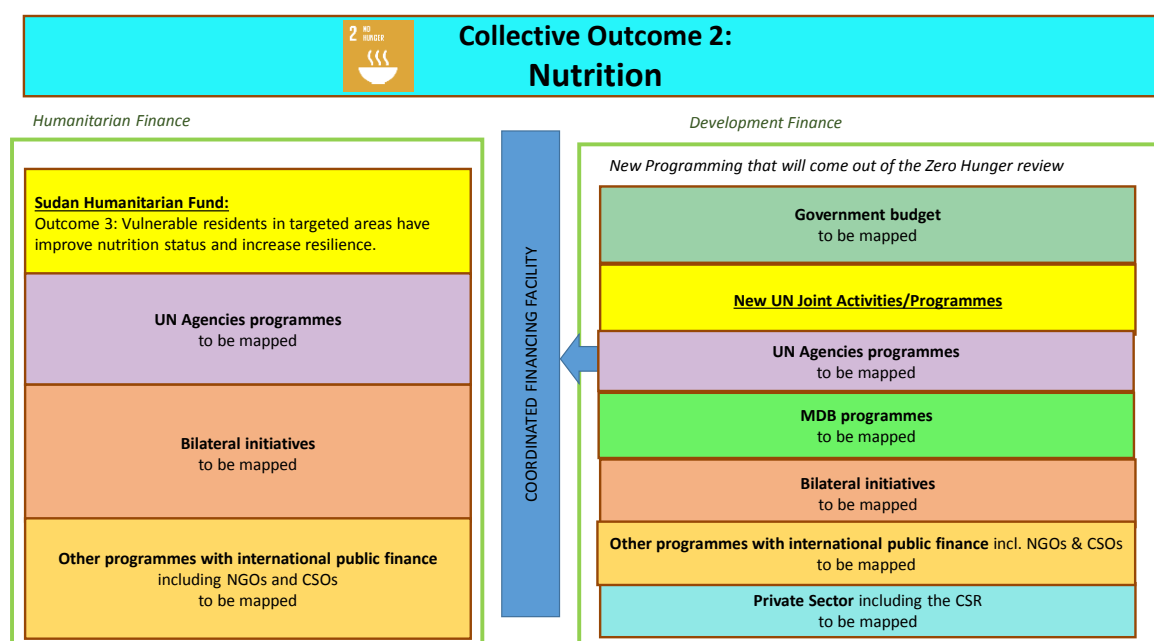
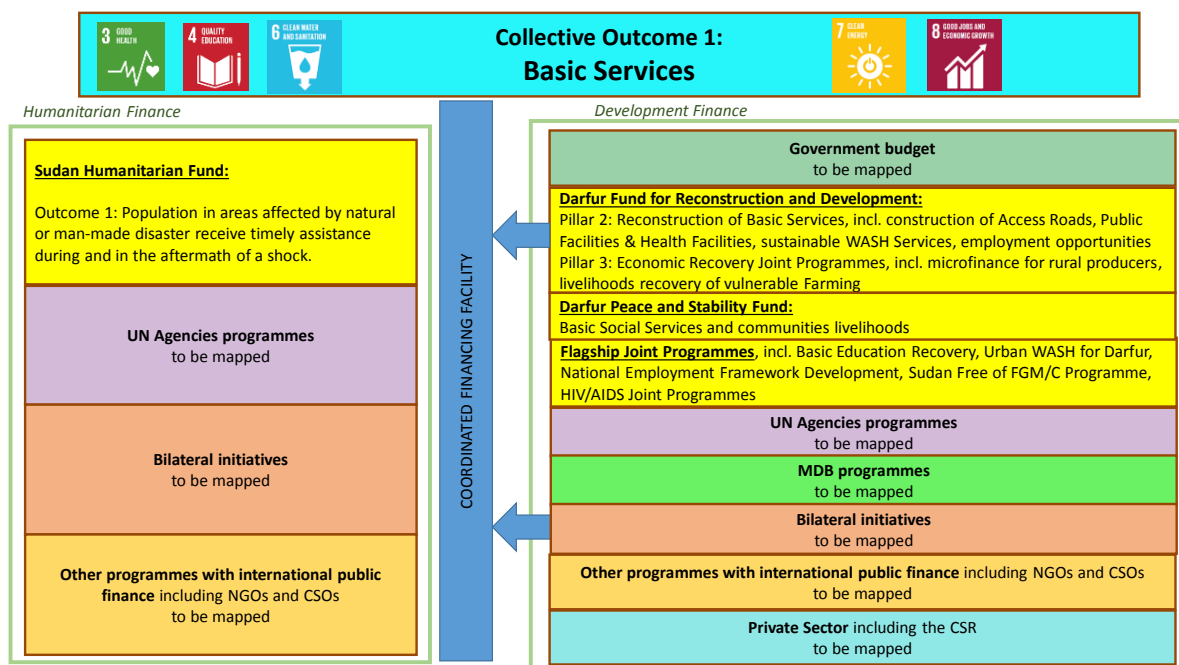
Monitoring progress and accountability


27. **Monitoring and accountability** for collective outcomes and financing could be improved within the current structure and tools, including by developing higher level indicators and involving a broader group of stakeholders. The INGO Steering Committee and local civil society could be useful players in monitoring and reporting impact on the ground, and feeding this information

back to the multi-stakeholder platform: capacity building investments will be needed before this can take place.

ANNEX 1: DRAFT TEMPLATES FOR THE INITIAL MAPPING OF FINANCING SUPPORTING THE DEFINED COLLECTIVE OUTCOMES


This initial sample of templates could serve as a basis for mapping the financing instruments supporting the collective outcomes under the SDG partnership platform.





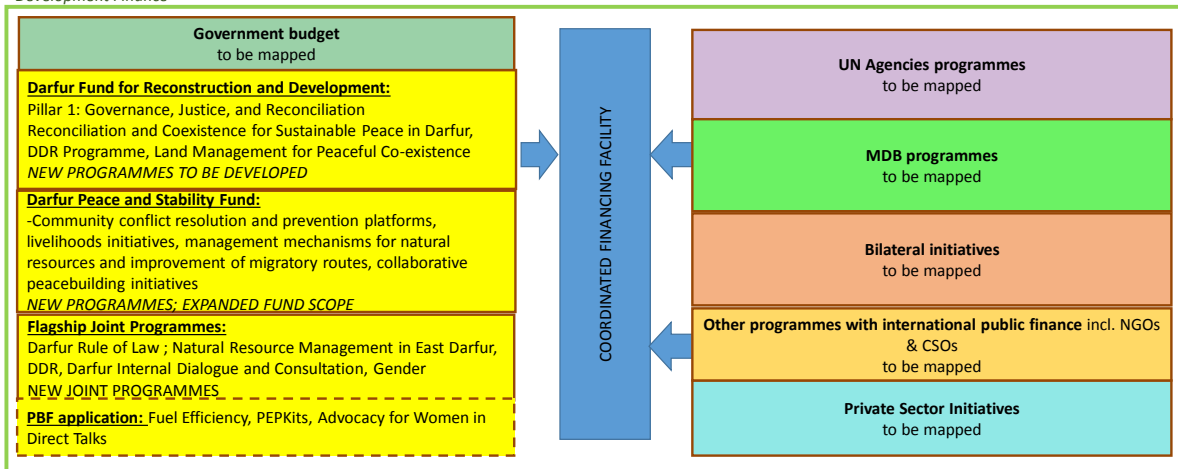
16 PEACE AND JUSTICE


Collective Outcome 3 Social Cohesion



5 GENDER EQUALITY

Development Finance





3 GOOD HEALTH



4 QUALITY EDUCATION



6 CLEAN WATER AND SANITATION

Collective Outcome 4: Displacement



8 GOOD JOBS AND ECONOMIC GROWTH

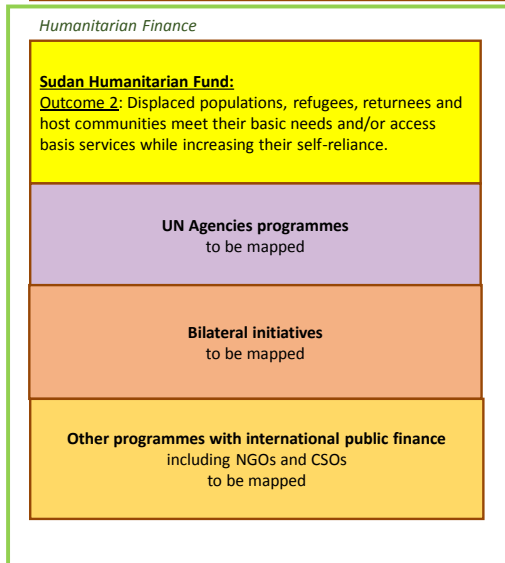


9 INNOVATION AND INFRASTRUCTURE

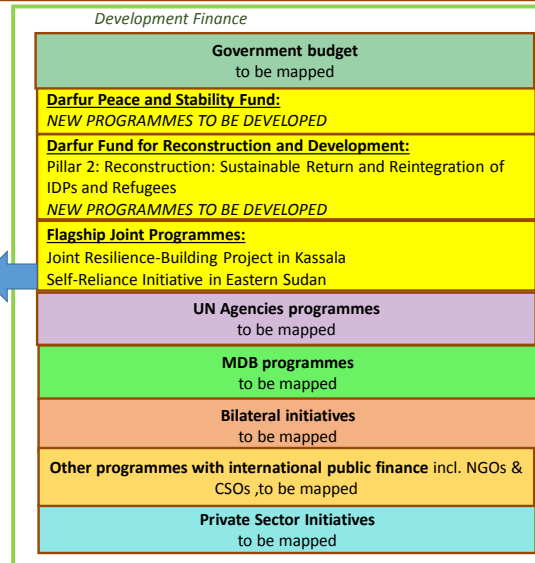


16 PEACE AND JUSTICE

Humanitarian Finance



Development Finance

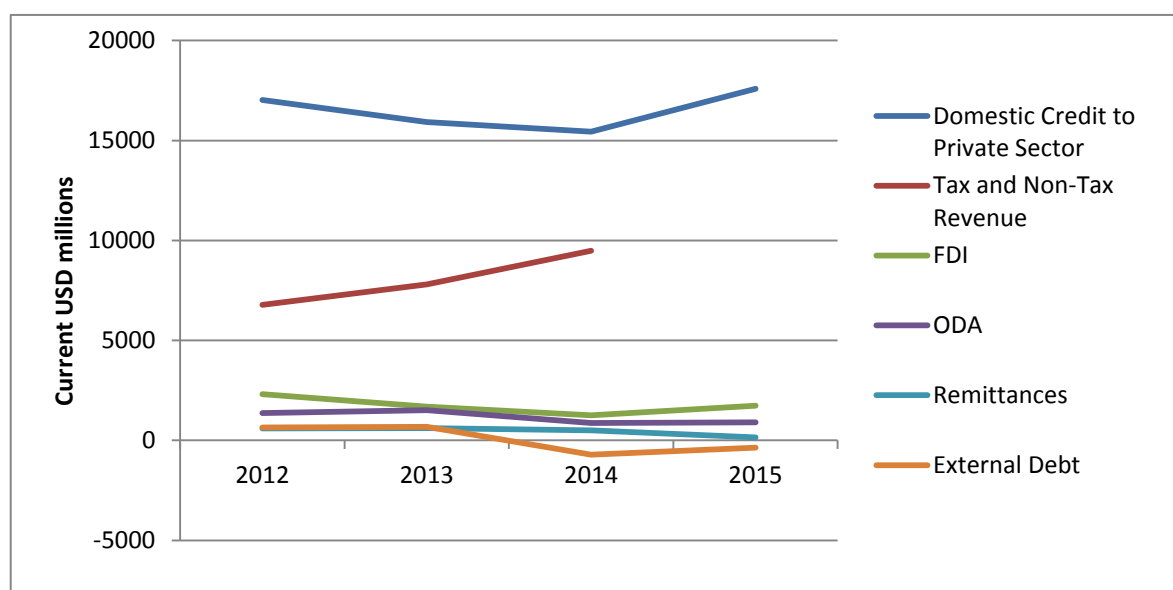


ANNEX 2. DEVELOPMENT FINANCE FOR SUDAN

This information has been developed from desk research, combined with interviews with a broad range of development and humanitarian stakeholders in Sudan, including the United Nations Country team under the leadership of the Resident and Humanitarian Co-ordinator, the Government of Sudan, UNMID, private sector, international NGOs and Sudanese civil society stakeholders, the World Bank and African Development Bank, as well as OECD members (Turkey, Japan, EU, US, UK, Netherlands, Canada, Germany, Italy) and non-member donors Qatar and Egypt.

Overall sources of finance in Sudan

Figure 1: Development Finance Flows in Sudan, 2012-2015



Sources: OECD, IMF World Revenue Longitudinal Data, World Bank, author calculations.
No tax and non-tax revenue data available for 2015.

Unpacking the financing landscape

1. Domestic public finance

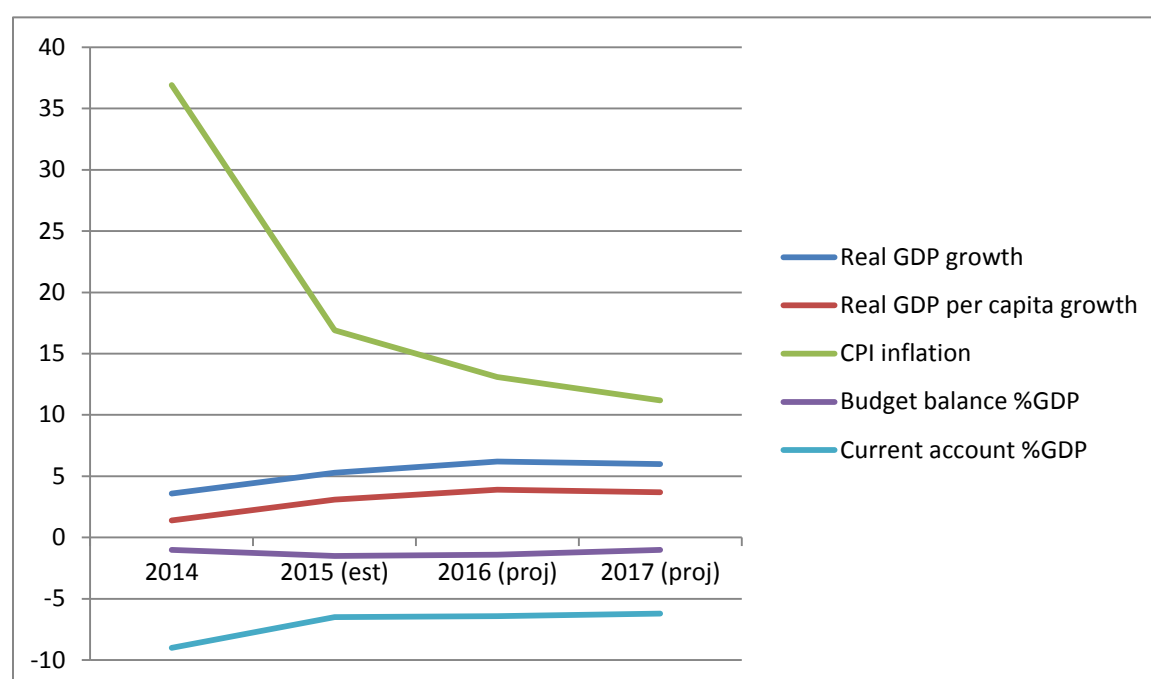
Strong economic growth, high inflation, and complex economic challenges. Sudan's economic growth rose to above 5% in 2015 and is expected to increase further, to above 3% in 2016 and 2017, mainly driven by agriculture and extractive industries and supported by improved macroeconomic policies. Cities contributed an estimated 60% of GDP in 2014, and poverty rates in urban areas are less than half the national average. Inflation declined from 36.9% in 2014 to 16.9% in 2015, with real GDP remaining buoyant at 5.3%, supported by agriculture, minerals, services, oil-transit fees and foreign direct investment. Growth is expected to strengthen to 6.2% in 2016 and 6% in 2017 (Figure 2). The African Economic Review notes the major challenges to the Sudanese economy as sustaining economic policy reforms, economic stability, and civil war, as well as high population growth, internal displacement challenges and weak urban-rural linkages (OECD, 2016a).

The exchange rate remains pegged to the dollar. The Sudanese pound took a major hit against the US dollar in 2012, as South Sudan became a new country, and Sudan adopted the Third Pound. To guard against fluctuating rates, there is now an official peg of 6.4 Sudanese pounds to the dollar. Alongside this, Sudan has, since late 2016, introduced a further incentive rate, that allows the central bank to buy dollars from Sudanese expatriates for about 16 points, aimed at boosting foreign

currency flows into the banking system, and therefore boosting much-needed foreign currency reserves. Two other official exchange rates also exist. However, there is a large gap between the official and black market rates, due mostly to high inflation rates, the unrealistically high pegs, and a lack of domestic confidence in the Pound.

A small budget deficit is projected. The 2017 budget projects a deficit of 6.1 billion SDP or 2.1% of GDP, up from 1.6% in 2016. This is based on projected revenues of 77.7 billion Sudanese pounds (USD 12 billion), of which 57.73 billion is taxes, and total expenditure projected at 83.79 billion pounds. Spending on social development in 2015 was projected as unlikely to be higher than it was in 2014 (0.3% of GDP) and is not expected to rise in 2016 (OECD, 2016a). Driving greater Sudanese political engagement in development, planning for and building on the SDG agenda, and providing appropriate levels of government finance for those efforts, would be useful. Inside the government, there have been moves through the National Population Council to set up a national body for the SDGs, with intentions to include the SDGs in budget planning, but the body has not yet started work, and there are capacity issues.

Figure 2: Sudan – Key Macroeconomic Indicators 2014-2017



Source: *African Economic Outlook (OECD, 2016a)*

Inflation remains high, projected at 17% for 2017. Reductions in fuel and power subsidies began in 2013, with the latest round of cuts in November 2016, leading to rises in petrol prices by about 30 percent, and putting upward pressure on inflation. In a further attempt to reduce dollar demand and protect local industry, Sudan has banned imports of meat and fish and raised import tariffs on other goods - further fuelling inflation in a country that relies heavily on imported goods (GoS, 2016).

Taxation rates are high. The corporate tax rate (as a % of profit in 2015) is at 45.4%, high compared with 29.1% in South Sudan, but close to the Sub-Saharan Africa average of 47% (World Bank, 2017). Total revenue (tax and non-tax) almost halved in 2012, after the secession of South Sudan, falling from 18.07% of GDP to 9.95%. By 2014, this rate had recovered slightly to 11.55%, of which tax revenue was almost half, at 5.83% of GDP.

Sudan was heavily reliant on oil, and has struggled to respond to this loss in revenue. When South Sudan seceded in 2011, it took with it three-quarters of Sudan's oil output, the main source of foreign currency and government income. In addition, following the global oil price slump in 2015, Sudan agreed to lower oil transit fees for South Sudanese oil, as this oil had become uneconomical to export – further reducing a key government revenue source. Aside from oil revenue, Sudan has deposits of other metals and minerals, but these deposits are largely un-, or under-exploited. Its other natural resources are land and forest resources, where there have been major investments aimed at supporting diversification of the economy, notably from Korea and the UAE. Sudan is the also the world's largest exporter of gum Arabic (used in coca cola).

The World Bank recommends diversification of the economy away from the reliance on oil, especially towards investment in the agricultural and livestock, as well as to alternative sources of energy (World Bank, 2016). The African Development Bank embarked on a study on **Private Sector led-Economic Diversification and Development in Sudan** which identified two sectors for diversification, including agriculture and agro-based industries and the non-oil mineral sector (mainly gold). Additionally, it informed the establishment of the PPP Unit at the Ministry of Finance and Economic Planning and the PPP legislation. A High level Committee chaired by the Vice President is facilitating its operationalization.

There are no sovereign wealth funds at present. This type of instrument could be useful in the extractive industries sector, which could also serve a dual purpose of increasing transparency, and thus confidence and trust between state and society, as well as between the state and the international community, which many actors mentioned as a concern.

2. Domestic private finance

Domestic credit as a percentage of GDP is declining, but it remains a significant flow. Domestic credit was down from 25% of GDP in 2012 to 18.1% of GDP in 2015. This is likely due to higher interest rates and high taxes, which together will reduce inflation, but at a cost of falling spending, investment and output.

Public Private Partnerships (PPP) have potential. Sudan now has a PPP-specific policy and law in place. A PPP unit was set up recently, but it will require more staffing and resources in order to become fully operational. In early 2017, the World Bank established a PPP Support Program that aims to strengthen the policy and regulatory environment for PPPs in Sudan. So far, Sudan has seen private participation in the telecom, transport and water sectors and, as of 2016, there have been three PPPs. A notable PPP project is the Omdurman water supply and optimization project, a design-build-operate-transfer contract between a private company (Al Manara Water Company) and the Khartoum State Water Corporation. The contract covers the construction and operation of a water treatment plant, and pumping and storage facilities to serve the Omdurman area in Khartoum. Funding for the project was secured by a combination of loans and grants. The Netherlands also operates public private partnerships in Sudan, including through the use of guarantees¹. The private sector indicated that the government seems not to be ready yet for public private partnerships – this could be an area for capacity building attention. The IFC has been interested in investing in Sudan, but this has not so far been possible due to risk considerations.

Corporate Social Responsibility. Sudan does not have any legislative framework to promote CSR, or policies in this area, or related tax credits. However, there is an active network of companies with CSR activities, and even CSR branches, mostly focused on infrastructure such as hospitals, clinics, schools and wells – and interested in clean water more broadly – plus support for Syrian refugees, especially in the education sector, and environmental projects. The Ministry of Finance says that these infrastructure projects are costed and put on budget, so that ongoing costs – staffing, maintenance etc., can be allowed for. There is not yet a platform that can bring together private

¹ Some examples and further information available here: www.sudanembassy.nl/news%20_events.html

sector investments with others working in the same sector – the international community and the government; this could be a useful opportunity going forward, noting the need to build trust between the different actors, and to focus on actions, for example the sharing of assessments and mapping information, rather than just dialogue.

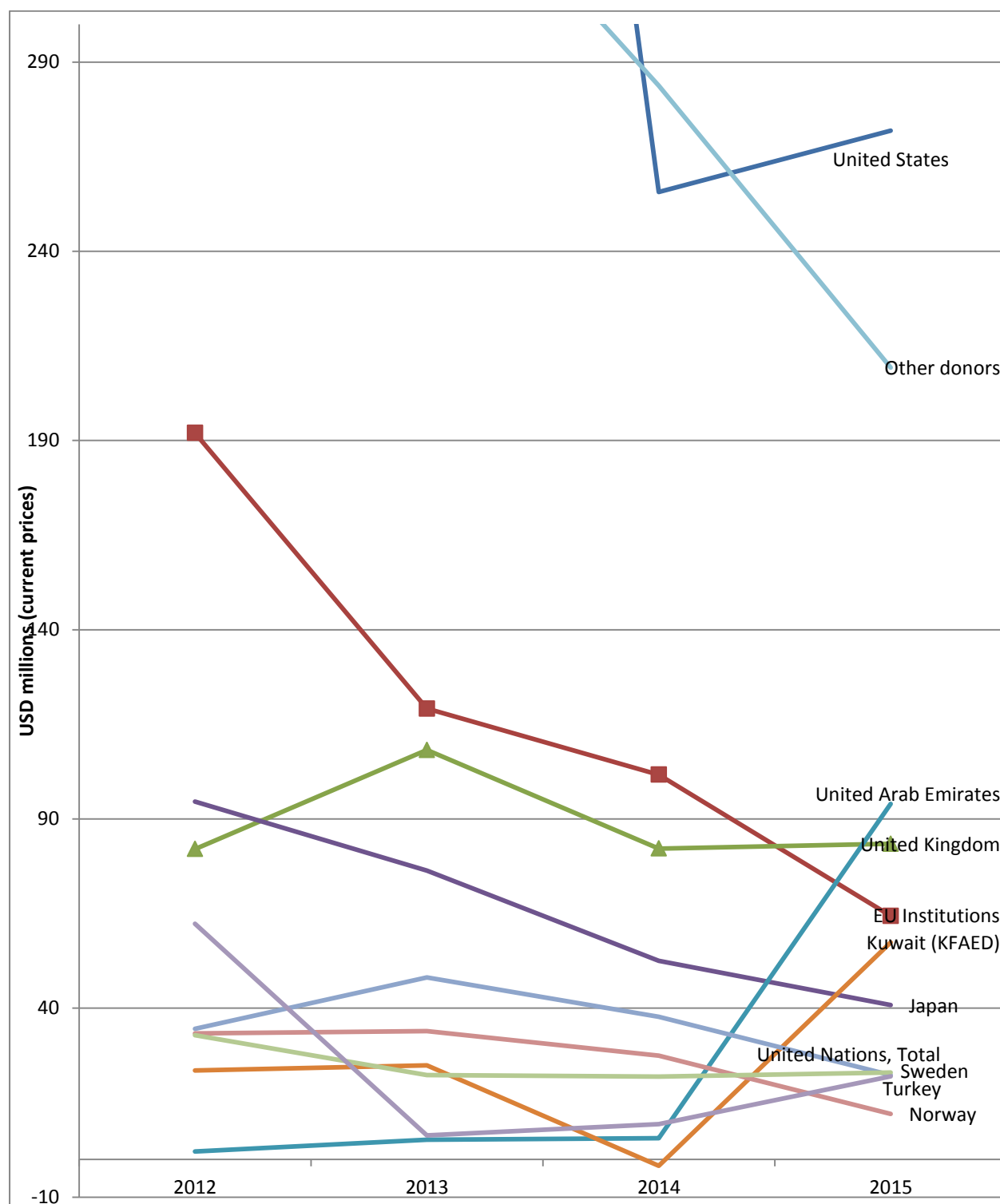
Public philanthropy. Local civil society organisations, of which 350 are grouped under the SCOVA umbrella, indicated that local philanthropy is widespread, focused mainly on tangible results – hardware and infrastructure like hospitals and wells, rather than softer programmes like capacity building.

Zakhat. In Sudan, Zakat is mandatory by law and the government-run Zakat Chamber, established in 1990 and operating under the auspices of the Ministry of Social Welfare, is mandated with distribution. A 2 per cent Zakat tax is automatically deducted from the salaries of people who earn more than USD 1,500 per month, and the Sudanese government itself also makes significant contributions into the Zakat Fund. In 2011-2012, the collection totalled 700 million Sudanese pounds (about USD 105 million). Beneficiaries include: disabled people, refugees, poor students, the homeless, orphans, mentally ill people, those with health problems, and the poorest of the poor. Sudan's government also provides these groups with free health insurance. Zakhat can also be made privately (see Corporate Social Responsibility below).

3. International public flows

Overall ODA flows into Sudan have fluctuated significantly since 2012, with non-DAC Arab donors increasing investments, and many DAC donors decreasing their participation (Figure 3). The United States remains the most significant donor in Sudan, although amounts have declined significantly since 2012, and remain concentrated on humanitarian food aid. Italy, Japan, Sweden and the United Kingdom have included Sudan in their priority partner country lists. The United Kingdom has announced cuts to its future development programme in Sudan.

Figure 3: ODA to Sudan, 2012-2015



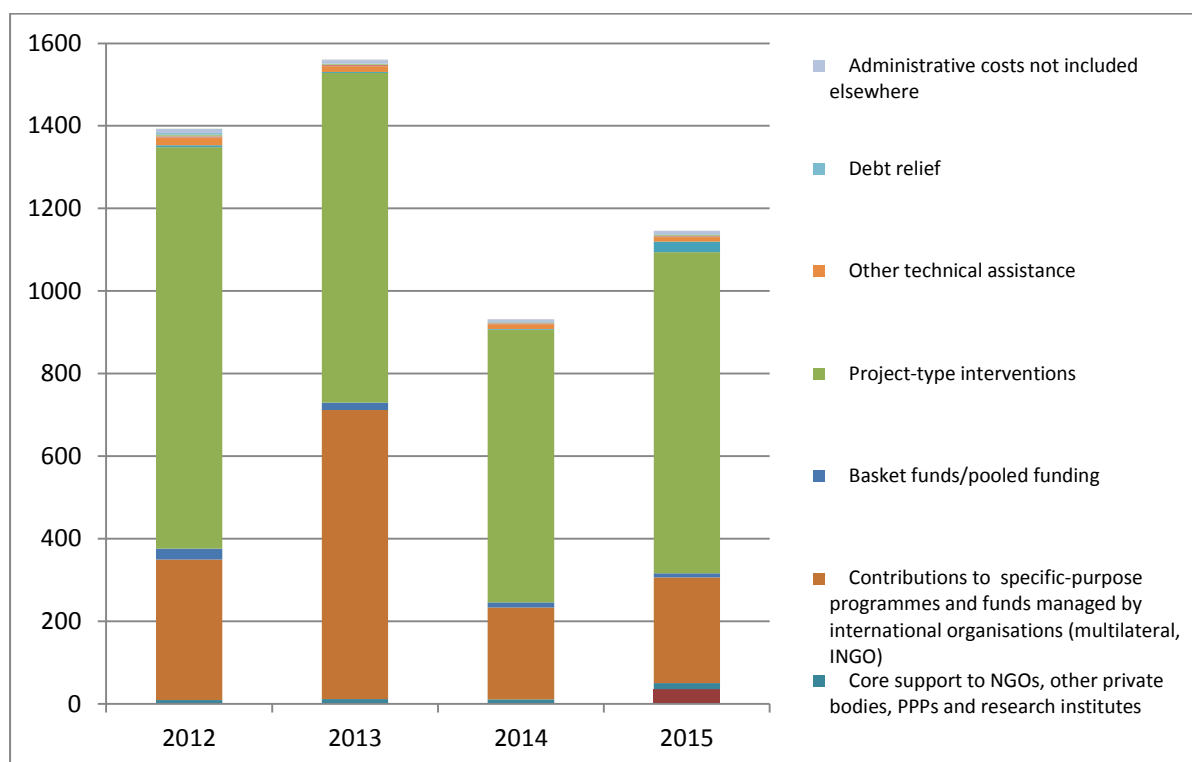
Source: OECD Creditor Reporting System, author calculations

More detailed analysis of funding flows to Sudan can be found in Annexes A and B.

Currently, there is only **limited co-ordination** between the traditional donors, and even weaker links between the traditional donors and the non-DAC donors, such as the UAE and Kuwait, who are increasing their investment portfolios in Sudan, largely focused on productive sectors.

Project type funding makes up the majority of all ODA investments, followed by multi-bi (contributions to multilateral organisations and INGOs working in Sudan). Only a small amount of funding is placed through pooled mechanisms. In 2015, the UAE made some investments through budget support (figure 4).

Figure 4: ODA by type of flow 2012-2015



Source: OECD Creditor Reporting System. Author calculations

This mix of funding is unusual in a low middle income country, and is largely due to the economic and political sanctions, which have blocked many donors from working with and through government systems and focusing on government capacity building.

It also demonstrates the **overreliance on humanitarian financing** in Sudan (humanitarian aid makes up 76% of ODA on average from 2014-2015), where humanitarian finance is stretched to cover activities that would – in other contexts – be covered by development programming. This, of course, leaves less money available for ‘core’ humanitarian activities.

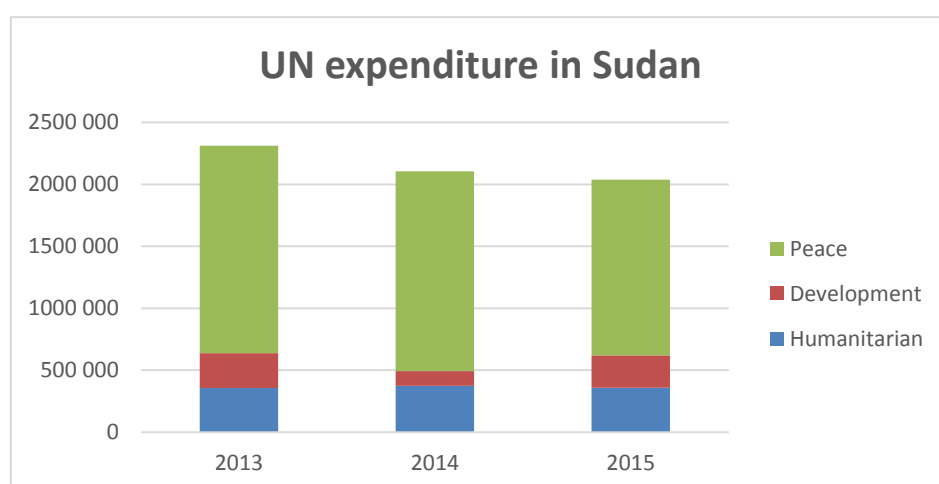
The **sanctions regime** also means that many donors cannot deploy the full range of financial instruments from their toolboxes. There is potential for the economic sanctions to be temporarily lifted on July 12, but political sanctions – Sudan’s designation as a State Sponsor of Terrorism – will remain in place, at least for the foreseeable future, blocking arrangements with creditors and therefore significant tools such as access to World Bank IDA funds (see below). Actors in Sudan were particularly interested in exploring opportunities for deploying a greater range of tools if and when economic sanctions are temporarily lifted, areas mentioned include US Food for Peace interventions, and microcredit and finance for urban environments. Many other development programming and finance tools, especially around private sector engagement, infrastructure, and stepping up technical assistance could also be useful – especially in an effort to get Sudan ‘ready’ for when and if sanctions are lifted or technically suspended.

Some donors have voiced **concerns about overly-ambitious funding requests** in some areas, for example around Darfur development planning, where they feel that their individual allocations will not be significant and therefore not make a useful contribution to the overall goals of funds and plans. Therefore, there was a **call for all programming to be realistic** in scale and scope, and for co-ordination structures and programming to be streamlined.

There is an **Aid Management System**, supported by UNDP and the EU, but the data quality is poor and there are only limited incentives for donors to populate the database.

Figure 5 illustrates the **UN funding flows to Sudan** over the period of 2013-2015, broken down by peace, humanitarian and development type of financing, which amount to over USD 2 million per year. More than USD 1.5 billion per year has been spent by the UN for its peacekeeping operations, including within that programmatic funding for sustaining peace (these are all assessed contributions). A fairly high volume of ODA funding has also been channelled through the United Nations Organizations for both development assistance (USD 262 million in 2015) and humanitarian response (USD 357 million in 2015).

Figure 5: UN Expenditure in Sudan (in USD million)

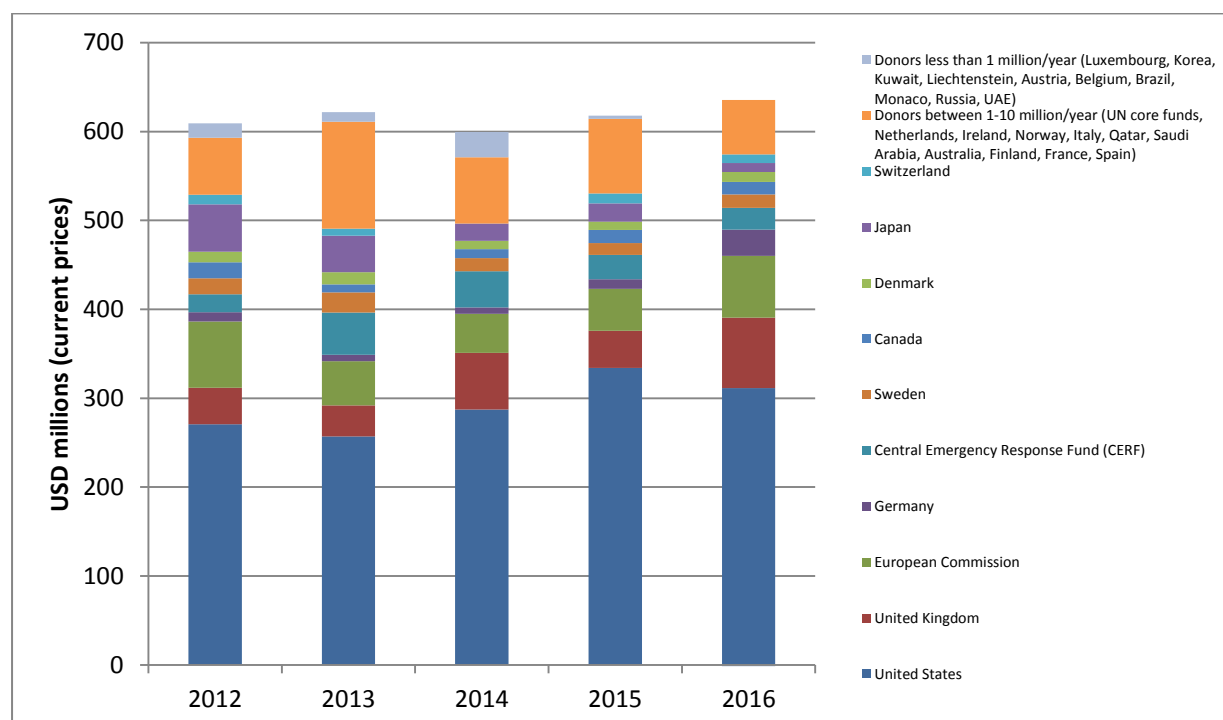


Multi-donor funds in Sudan

- The **Sudan Multi-Partner Fund (SMPF)**, administered by the World Bank, has received USD 2 million from the United Kingdom, of which 49% was spent on Public Administration – Social Protection, 25% on general public administration (both currently ongoing) and also fisheries and aquaculture (13%) and livestock (13%) (both programmes now closed).
- The **Sudan Humanitarian Fund** has been in operation since 2006 and has channelled over USD 1.2 billion in humanitarian funding to UN Agencies and NGOs to support the humanitarian response. The Fund has been supported by 11 donors (see <http://mptf.undp.org/factsheet/fund/HSD20>). In 2016, the Fund received USD 48 million from the UK, Sweden, the Netherlands, Ireland, Denmark, Norway, Germany and Switzerland, and channelled this funding to UNICEF, UNHCR, IOM, FAO, WHO, UNFPA and national and international NGOs.
- **United Nations Fund for Recovery Reconstruction and Development in Darfur (UNDF)** is supported by USD 88.5 million from the Qatar Development Fund, of which USD 43.8 million has been transferred to partners.
- The **Darfur Community Peace and Stability Fund (DCPSF)** has received USD 6.8 million in 2016 from Sweden, the UK, Norway, Switzerland and the US.
- The **UN Peacebuilding Fund** has provided USD 12.5 million to Sudan.

Humanitarian financing is heavily dependent on the United States. There are 32 donors who regularly (although not every year) provide humanitarian finance to Sudan. However, only 10 of those are significant, i.e. regularly provide over USD 10 million/funding per year. Over half of the total humanitarian funding each year has – at least since 2014 – been provided by the United States (Figure 5). Diversification of the portfolio may therefore be useful to reduce risk, although it is unlikely that the US’s humanitarian portfolio – built largely around food aid and thus protected by the Farm Bill and lobby – will decline in the foreseeable future. Interestingly, despite the increase in ODA spend by non-DAC donors, particularly the UAE and Kuwait, and the increase in development finance from Turkey, there is very little support from these donors for humanitarian programmes.

Figure 5: Humanitarian financing to Sudan by donor 2012-2016



Source: Financial Tracking System, accessed 10 April 2017. Author calculations

So far, there have been no discussions about how to **apply the Grand Bargain and other World Humanitarian Summit commitments** in Sudan. Given **issues with the predictability in funding** in Sudan – many agencies noted a heavy reliance on end of year fund flows (often undisbursed emergency set aside funds or undisbursed development funds) – it could make sense to focus on the multiannual financing commitments first, or to explore other options to improve liquidity, such as loan facilities that can be paid back by future grants. Competition for funding was also raised by many actors, who see individual agencies mostly going separately to donors with their proposals; this could be remedied under a planning environment focused on collective outcomes and with clear criteria for funding allocations.

In addition to this, **tools such as crisis modifiers**² could be useful in the Sudan context, allowing development actors to quickly scale up to respond to emerging crises in their areas of operation.

Greater coherence between humanitarian and development programming and investments could provide useful synergies. There appears to be broad agreement on the following areas: coherence between humanitarian cash transfer programming and social protection programming (eg information sharing on targeting), durable solutions for displaced populations, and nutrition.

² USAID has pioneered the use of crisis modifiers to quickly inject emergency funds during crises into existing development programs. These funds allow partners to respond rapidly to address humanitarian needs, reducing livelihood and other development losses.

There are a limited amount of Other Official Flows, around USD 66.5 million between 2012-2015, mostly loans from the Islamic Development Bank – including for solar projects to benefit the health system – and the OPEC Fund for International Development. Other Official Flows are official sector flows that do not meet ODA criteria, often related to export credits or loans that are not sufficiently concessional in nature.

The World Bank has a range of investments in Sudan. Current active projects include devolution and sub-national fiscal management, technical assistance, livelihoods and safety nets, natural resources management and education totalling USD 98.85 million, of which USD 76.5 is education (Figure 6). The Bank’s strategy is structured around two pillars: managing the economic transition; and addressing the socio-economic roots of conflict, with a cross-cutting focus on governance and gender.

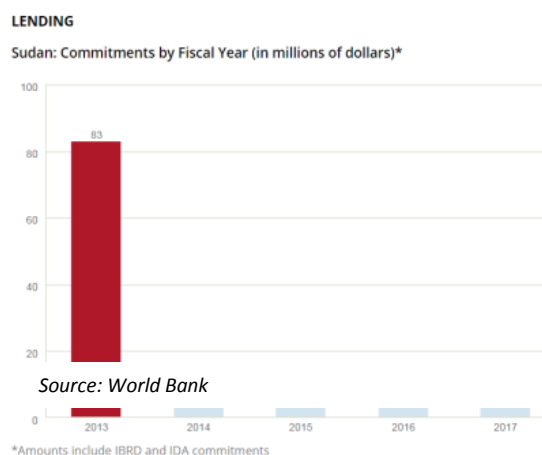
The African Development Bank currently has 12 projects in Sudan with a total commitment of about UA 140.9 million, that is, about USD 200 million (all grants). The portfolio includes agriculture, gender, public financial management and basic services including water and sanitation, education and health.

Graduation and Middle Income Country status could limit the aid instruments available to Sudan, post-sanctions. However, the World Bank has ring-fenced Sudan’s eligibility for IDA allocations, which somewhat mitigates that risk, but this may prohibit other donors from using instruments that were designed for LDCs. The economic and population data that feed the income category calculations are likely flawed, however (population censuses in particular are very dated) and this should be investigated further, especially as the question of debt relief comes onto the table.

Continued issues with the normalisation of relations with creditors lead to challenges for the external debt problem. The government has yet to agree on a new IMF-Staff Monitored Programme (SMP) as a prelude for reaching a decision on the Heavily Indebted Poor Countries (HIPC) Initiative. In 2015, Sudan was removed from the “black list” of the Financial Action Task Force, an international financial-fraud monitoring body located at the OECD. However, the continued difficulties of processing international banking transactions may fuel informal transfers, contribute to exchange-rate distortion, and reduce fiscal revenues (OECD, 2016a).

Sudan’s foreign debt overhang increased to about USD 52.6 billion³ (AEO, 2017) as at December 2016, mainly driven by arrears, which constitute about 88% (of which 59% are delayed payments penalties). Sudan owes UA 232 million to the Bank. From 2011-2014, in close collaboration with the World Bank (WB) and IMF, the Bank played a central role in assisting Sudan meet the technical requirements for accessing HIPC debt relief. With the Bank’s technical assistance, Government in 2013 prepared a Debt Relief Strategy (DRS) that was shared with the AfDB, WB, and IMF. Based on the DRS, a tripartite committee comprising Sudan, South Sudan, and the African Union High Level Implementation Panel (AUHIP) was formed to expedite a joint outreach to the international community with the main goal of seeking debt forgiveness. The Bank will continue to provide technical assistance to AUHIP by sponsoring the Senior Adviser and updating the DRS.

Figure 6: World Bank lending commitments by fiscal year (in millions of dollars)



³ As of end 2016, it is reported that the Government contracted debt of USD 44 billion, together with the foreign deposits at the Central Bank of USD 8.6 billion, bring Sudan’s debt to a total of USD 52.6 billion

In 2013, with the Bank, World Bank and IMF assistance, Sudan met all technical requirements for accessing HIPC debt relief, leaving the country with only effective political outreach (to South Sudan) to give traction to the process. Even though a Tripartite Committee (comprising the two countries and the AUHIP) was formed for this purpose, the process has yet to effectively take off the ground owing to the civil war in South Sudan. The Government is being encouraged to accelerate the Joint Political Outreach after the deadline for the Zero Option was extended to September 2018, and to finalize the preparation of a full PRSP.

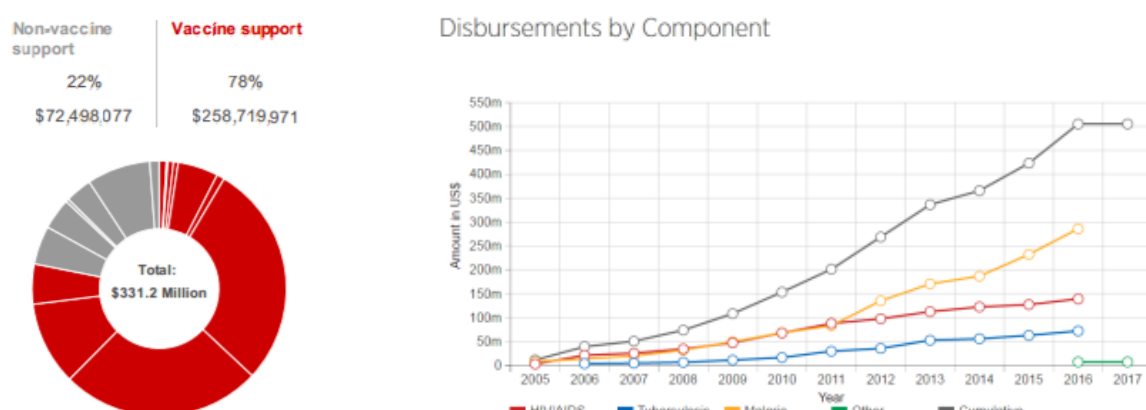
Climate finance for mitigation and adaptation activities totalled USD 76.26 million over 2014/2015 (note that this is not additional to the ODA figures noted above). Ten OECD/DAC donors reported principal or significant climate financing in 2014 and 2015⁴. This was supplemented by climate finance from IFAD, the African Development Bank, and the Global Environment Facility Trust Funds. UNDP also has a new proposal in to the Green Climate Fund for around USD 42 million.

Migration related funds are also starting to be used in Sudan. The EU Emergency Trust Fund for Africa (the Valetta Fund) has allocated EUR 11 million to establish climate resilient livelihoods and reduce natural resource conflicts in North Darfur, and reduce displacement due to loss of livelihoods, plus EUR 4 million for administration support, and Sudan is part of a wider EU 44 million regional programme on sustainable peace, security and stability in the IGAD region.

Sudan is involved in at least 8 triangular co-operation initiatives, mostly around food security. These include sharing of best practices between Indonesia and Sudan: in fisheries management, facilitated by UNIDO; in democracy, mass media and civil society, and governance facilitated by USAID; on watershed management in Eastern Nile Basin through Finland, the World Bank and the Global Environment Fund; on youth employment and migration through Spain and the ILO; and with WFP and Brazil on fighting hunger and poverty. Sudan also provided in-kind food contributions to the 2011/2012 Horn of Africa food security crisis, along with SADC countries and Cuba, supported by WFP. To support this type of co-operation, Sudan has recently set up a South-South and Triangular Cooperation Unit. Discussions with the government indicate its willingness to expand South-South cooperation.

GAVI has been supporting Sudan since 2002, disbursing USD 331.2 million so far. The Global Fund has invested USD 505.26 million, mainly in HIV, Tuberculosis and Malaria (Figure 7), this portfolio will reduce by 38% from 2018.

Figure 7: Health support to Sudan: GAVI 2002-2017 and the Global Fund



Source: GAVI and the Global Fund

⁴ Australia, Germany, Ireland, Italy, Japan, Korea, Norway, Sweden, the United Kingdom and the United States.

4. International private flows

With some regulatory, policy and programme action, Foreign Direct Investment in Sudan could significantly increase. FDI has declined since 2012, from USD 2.3 billion in 2012 to USD 1.7 billion in 2015 (World Bank, 2016) – although there is scope for optimism, as there was a significant increase in FDI – 37% – between 2014 and 2015. UNCTAD’s 2015 Investment Policy Review shows that Sudan has put in place a relatively open investment legislative framework with several of the existing laws being modern and in line with good practices. However, their implementation is often impeded by the absence of secondary legislation, insufficient institutional capacity and lack of coordination among different levels of the Government. This is notably the case for the FDI-specific, environment and competition regimes. In addition, UNCTAD recommends that key issues such as access to land, a review of the tax regime, and an anti-monopoly council and the anti-corruption commission be addressed as priorities. In addition, the development of free zones and local skills, in particular given the objective of reorienting and upgrading Sudan’s participation in global value chains, as well as a dedicated FDI promotion unit would be useful next steps (UNCTAD, 2015).

Additional complications are posed by US sanctions on Sudan, which generally prohibit U.S. persons from importing or exporting goods, services, or technology from or to Sudan, and generally prohibit U.S. persons from engaging in financial transactions with the Sudanese government, among other prohibitions – although trade is allowed in some areas, particularly in some agricultural and medical commodities⁵. In addition, Sudan ranks 160 out of 189 countries on the June 2014 World Bank-International Financial Corporation’s “Doing Business Report – Ease of Doing Business”.

In January 2017, the Obama administration lifted restrictions on petroleum and petrochemical industries, including oilfield services and oil- and gas-pipeline transactions by Americans, and also allowed U.S. citizens to process deals involving people in Sudan, and import and export goods. The immediate benefit in the short-term is the international opening of bank transfers and return of relations with foreign banks, which lowers transaction costs. If reforms are launched, this may unlock the potential for the government to tap its rich mineral and agriculture resources. However, two weeks later, Sudan was among the seven nations whose citizens were part of the Trump administration’s attempts on a US immigration ban (although not yet in force), creating uncertainty about the potential for foreign investment.

Remittances have declined significantly, from USD 595.8 million in 2012 to USD 151.4 million in 2015. There are reports that this is largely due to the difference between the official exchange rate and the black market rate – meaning that significant amounts are channelled informally, denying the country the benefits of foreign currency reserves. However other issues also contribute, such as the underdeveloped banking sector, the unprofitable business environment, and the restrictions imposed by sanctions, which make it impossible to transfer funds. These issues need to be addressed if remittance levels to Sudan are to grow.

⁵ More information available at <https://www.state.gov/e/eb/rls/othr/ics/2015/244456.htm>

Annex C: Donor profile: Sudan

Recipient country
Sudan

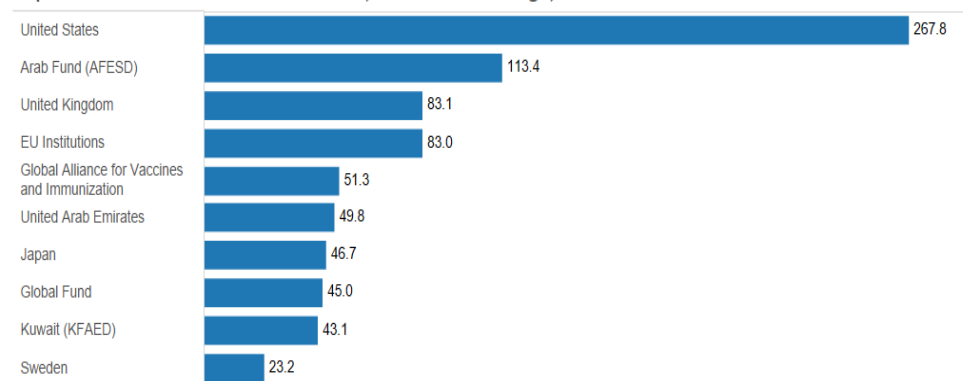
Receipts for Sudan

	2013	2014	2015
Net ODA (USD million)	1,507.3	874.8	899.9
Net ODA/GNI (%)	2.4	1.2	1.1
Gross ODA (USD million)	1,572.9	950.2	1,049.2
Bilateral share (gross ODA) (%)	71.7	59.6	69.6
Net Private flows (USD million)	13.5	-54.2	-11.0
Total net receipts (USD million)	1,564.3	845.6	879.0

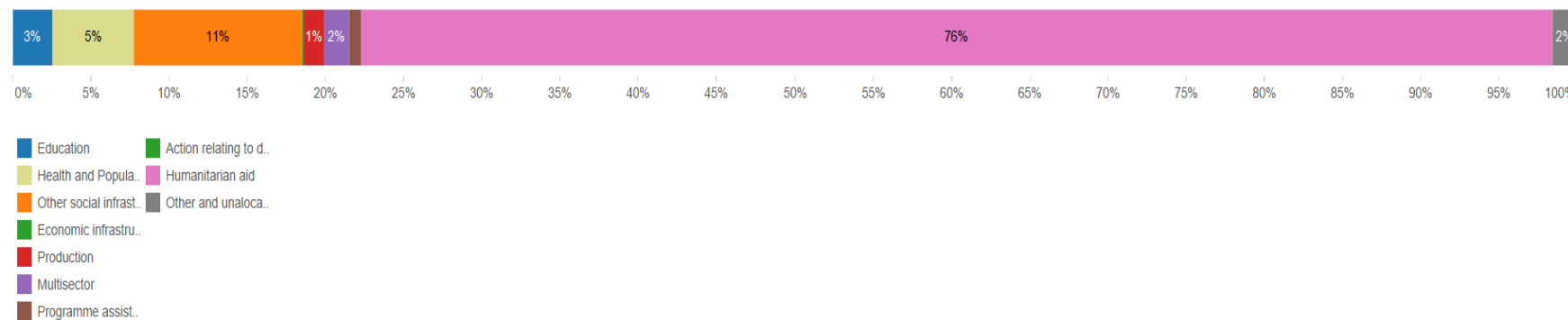
For reference

	2013	2014	2015
Population (million)	39	39	40
GNI per capita (Atlas USD)	1,670	1,710	1,840

Top Ten Donors of Gross ODA for Sudan, 2014-2015 average, USD million



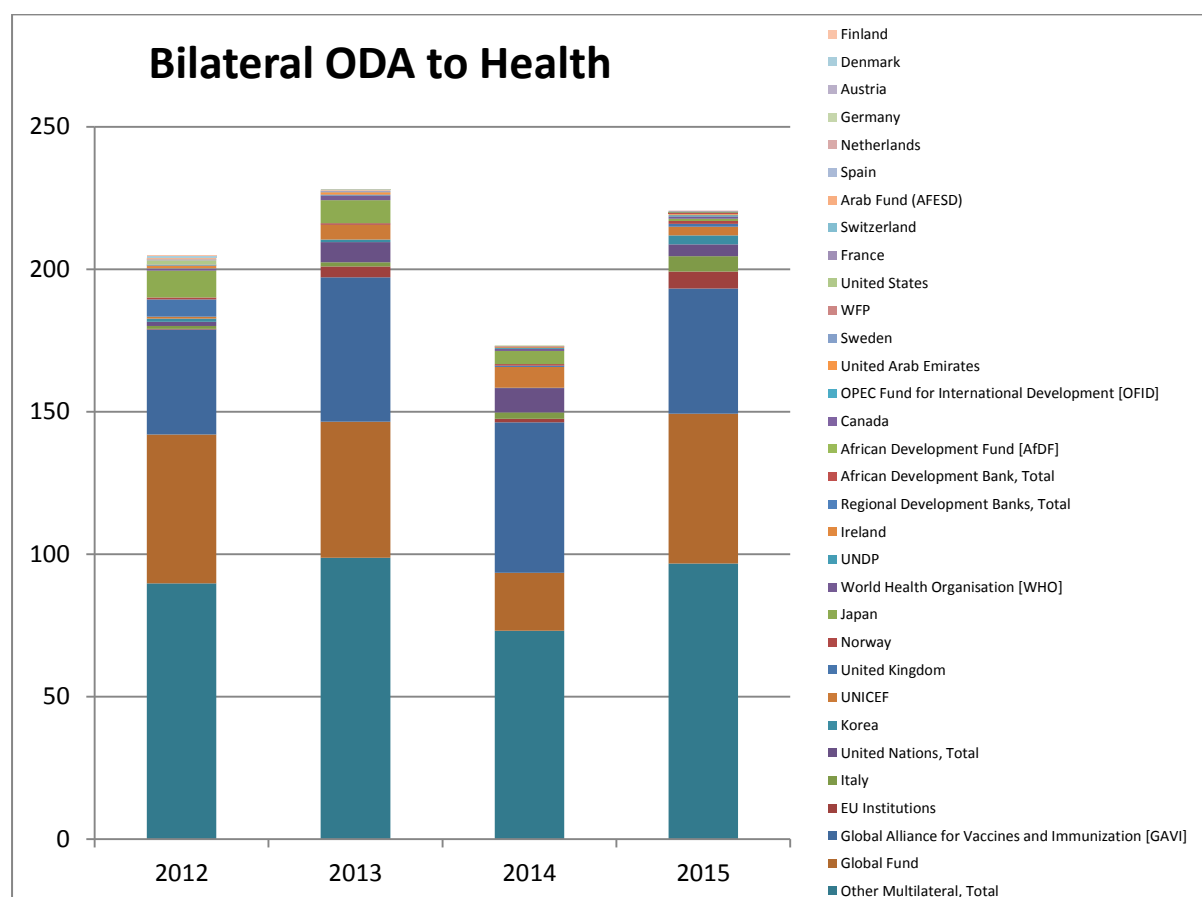
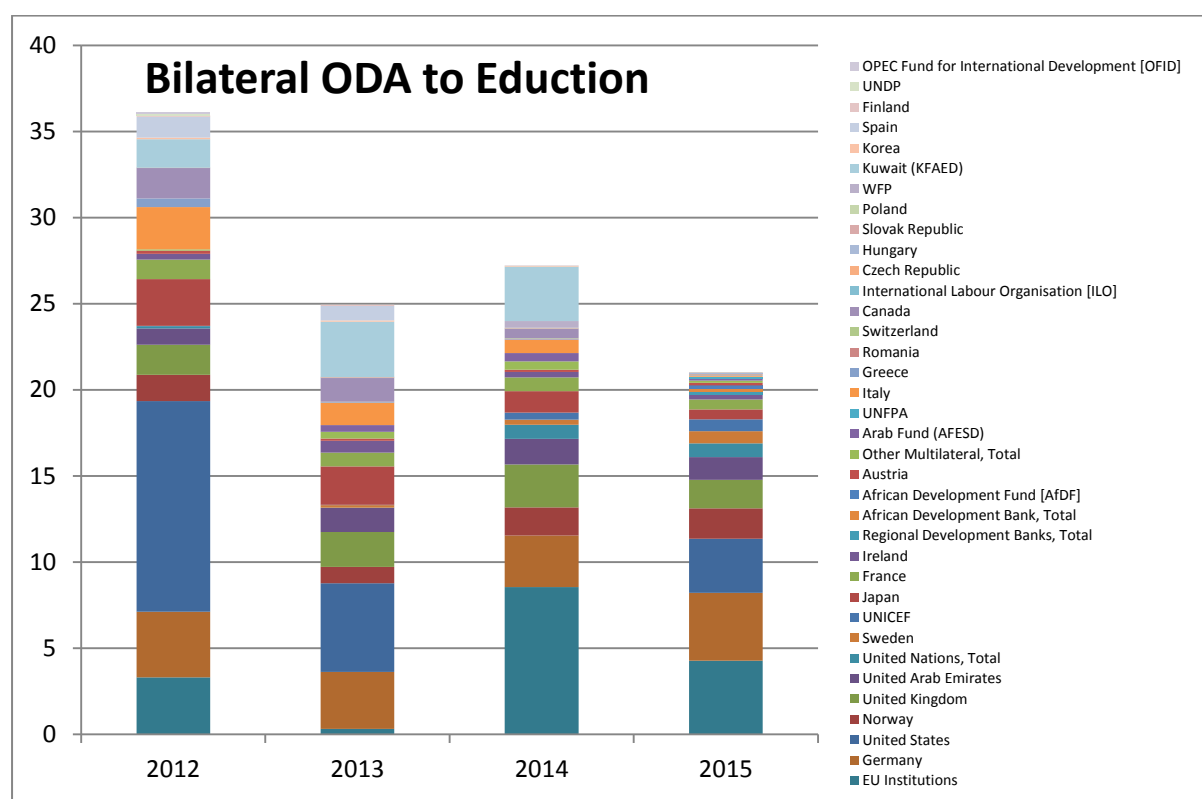
Bilateral ODA by Sector for Sudan, 2014-15 average

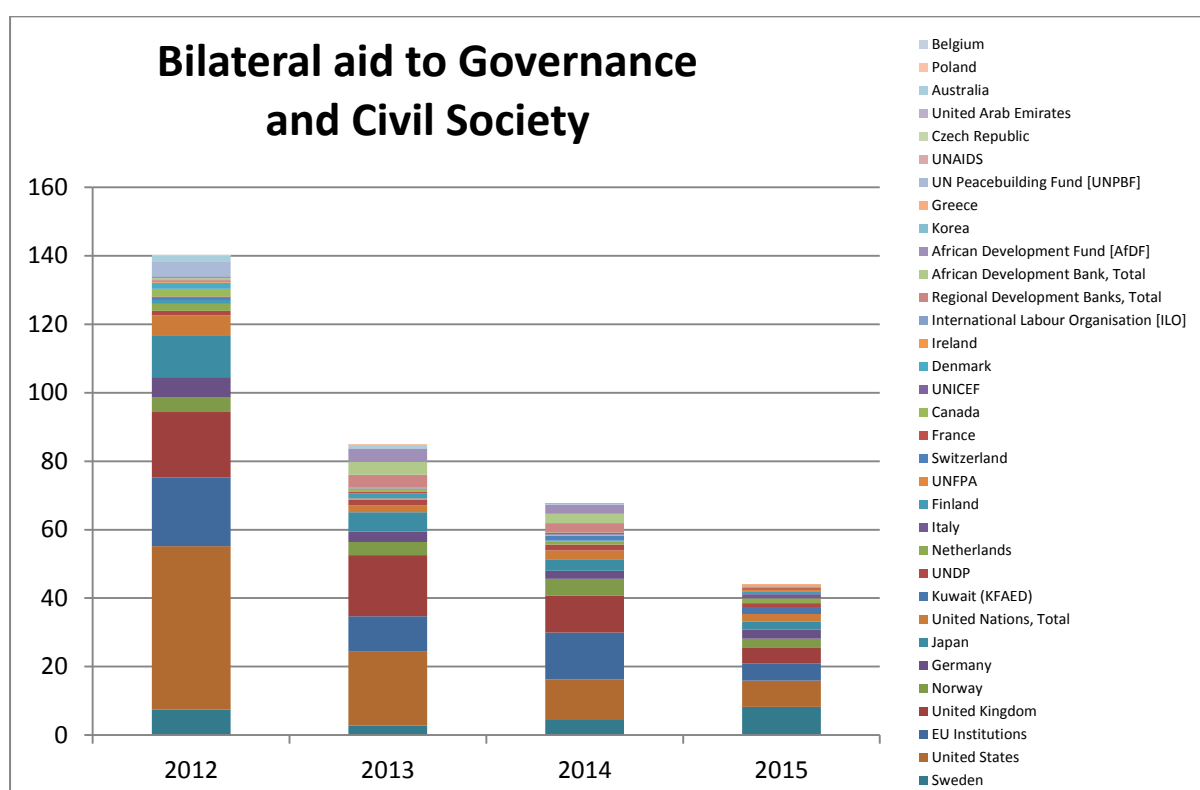
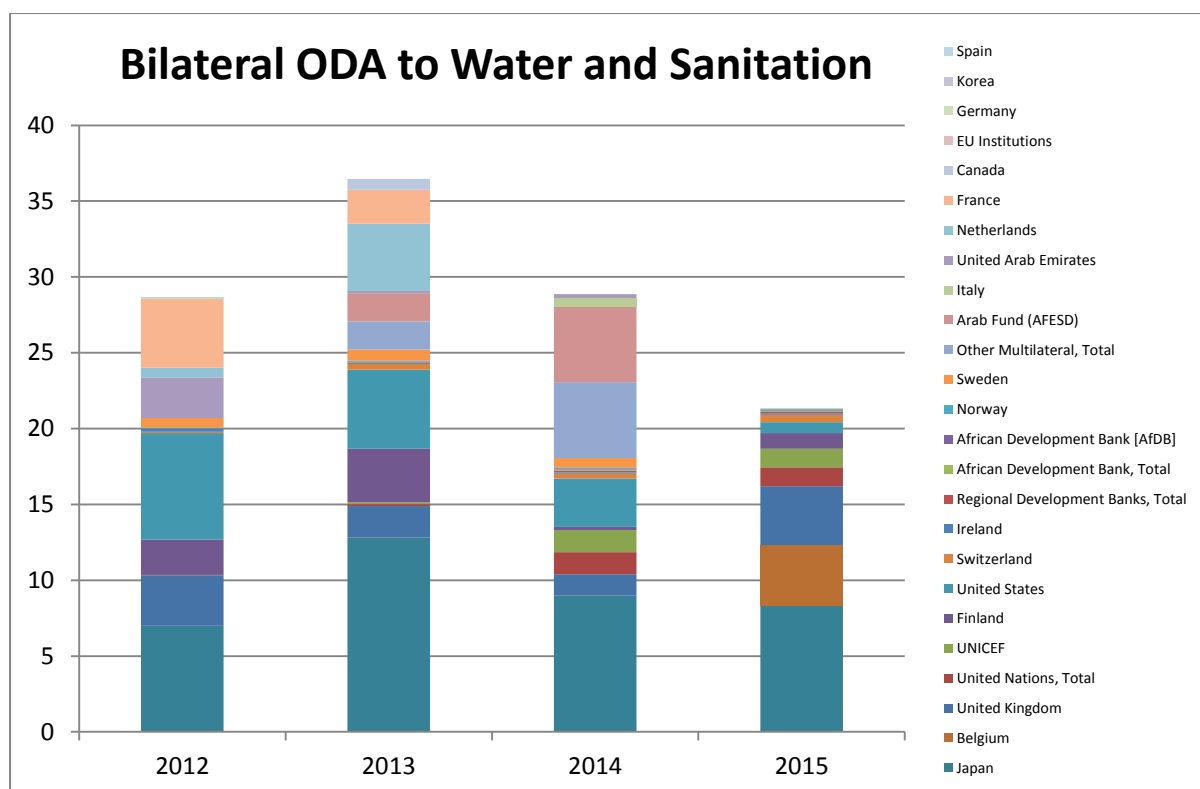


Source: OECD - DAC: <http://www.oecd.org/dac/financing-sustainable-development/development-finance-data/aid-at-a-glance.htm>

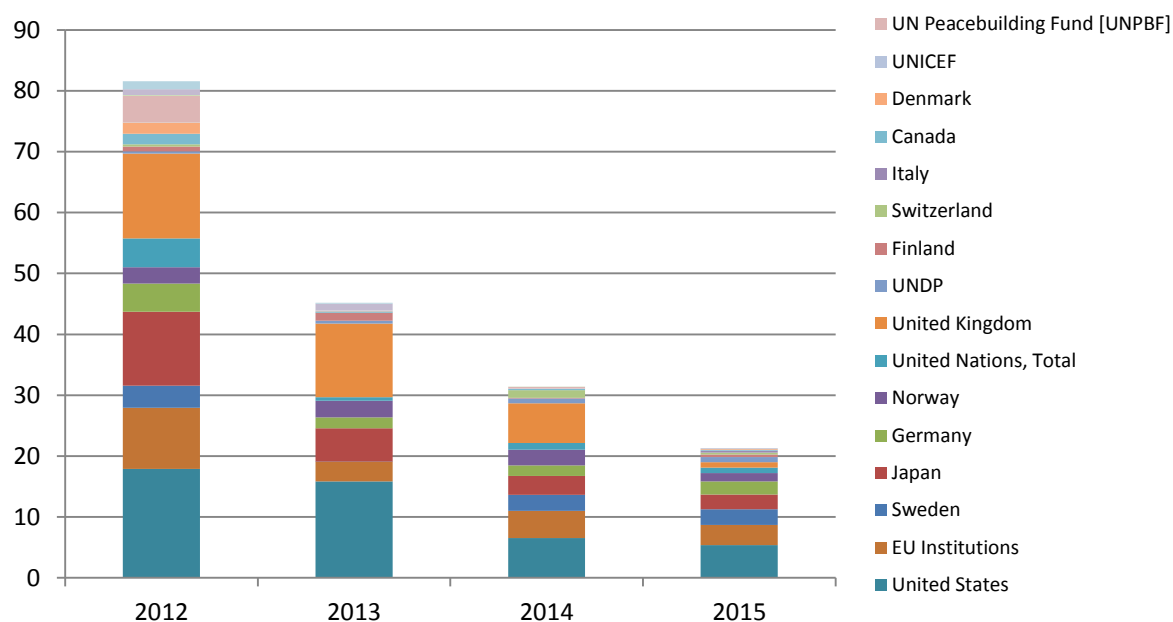
Annex B: Bilateral ODA per sector, 2012-2015

Methodology: All prices 2014 current USD. Source: OECD Creditor Reporting System.

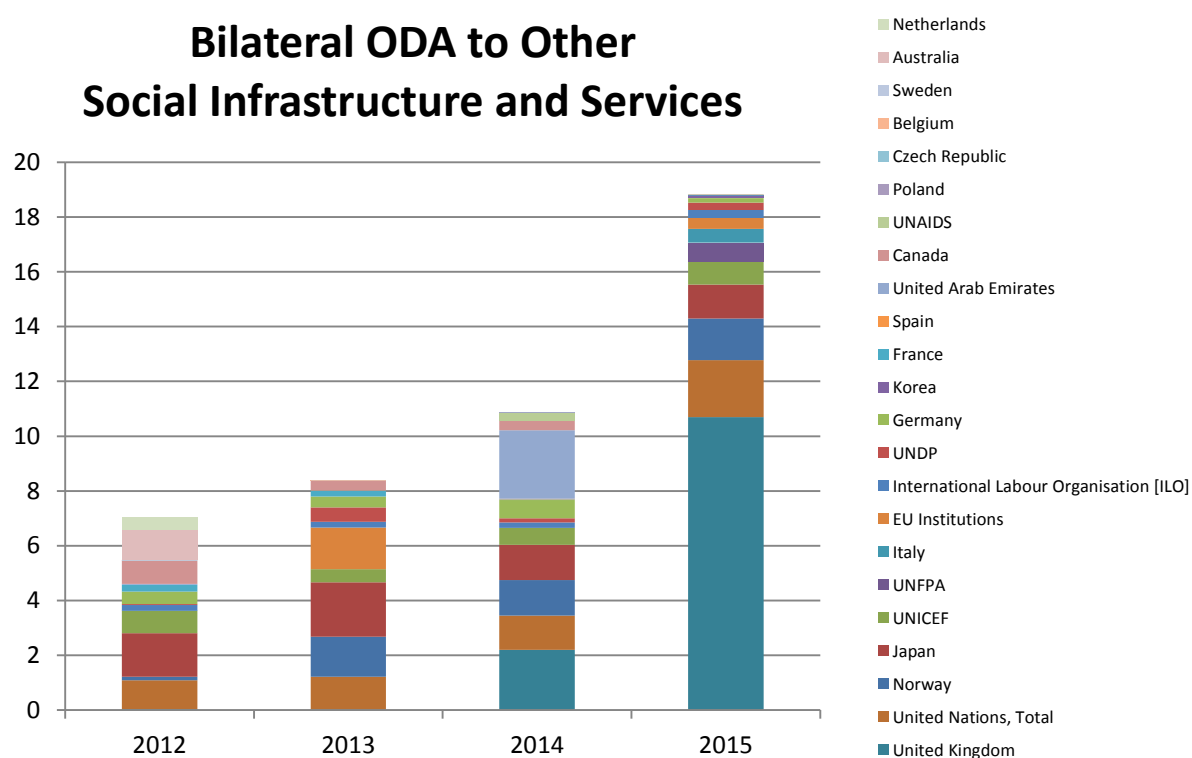




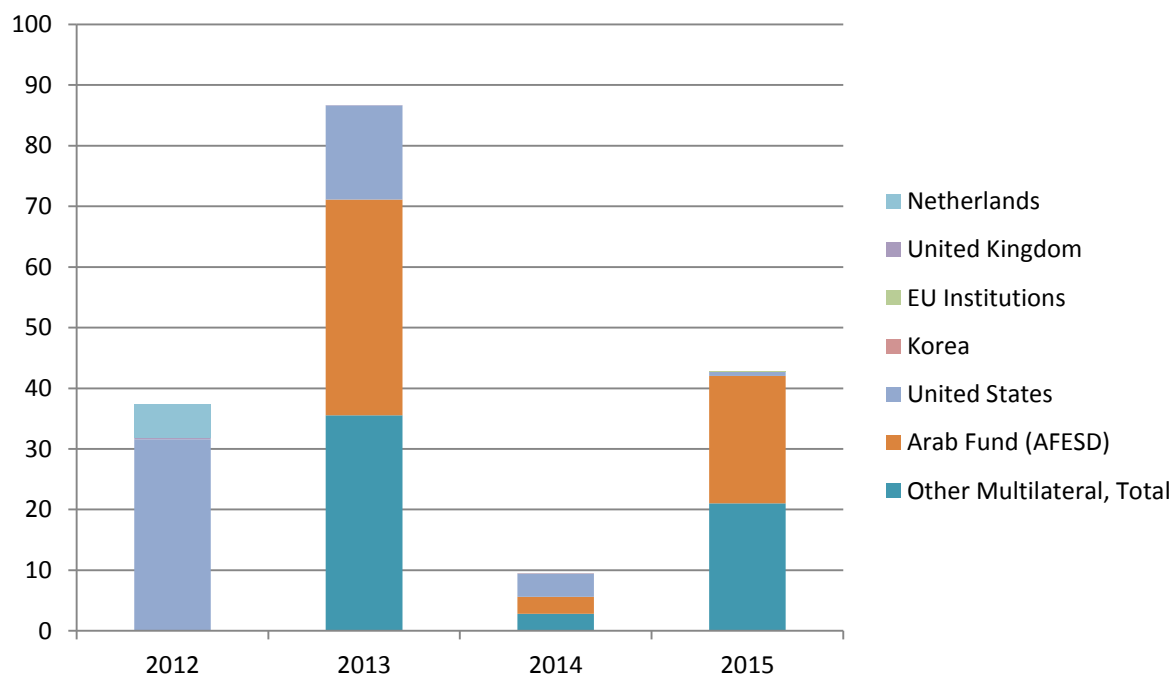
Bilateral ODA to Conflict, Peace and Security



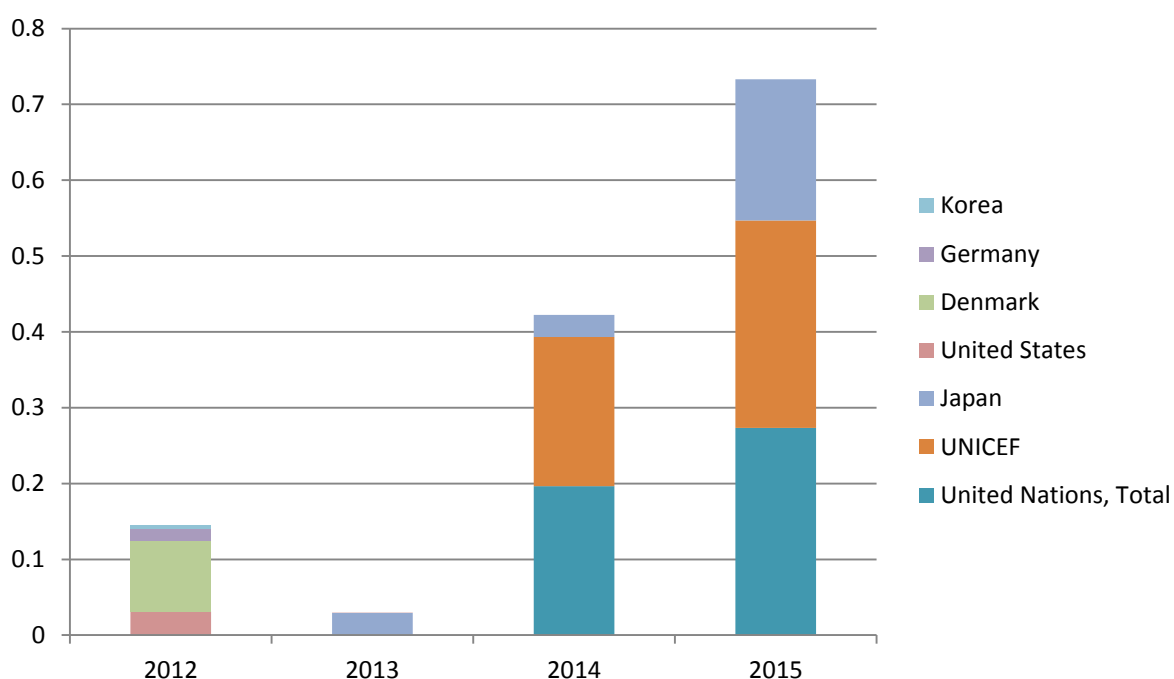
Bilateral ODA to Other Social Infrastructure and Services

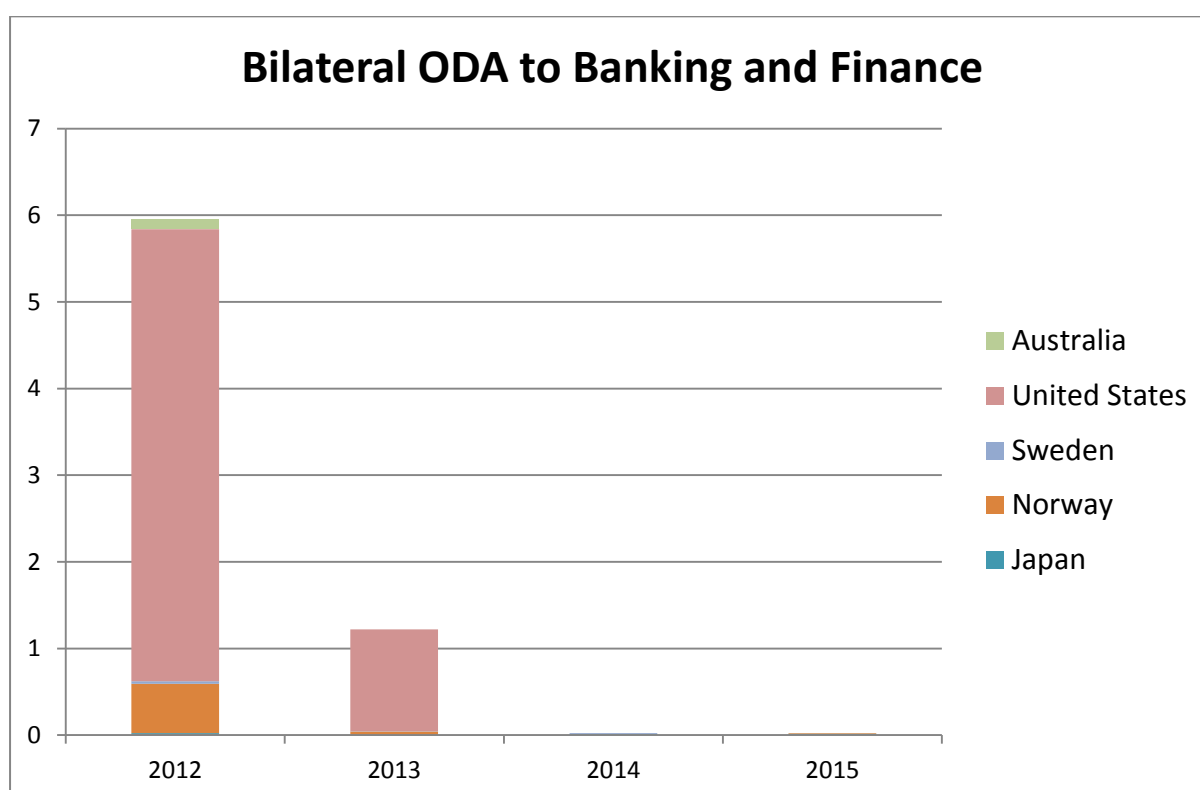
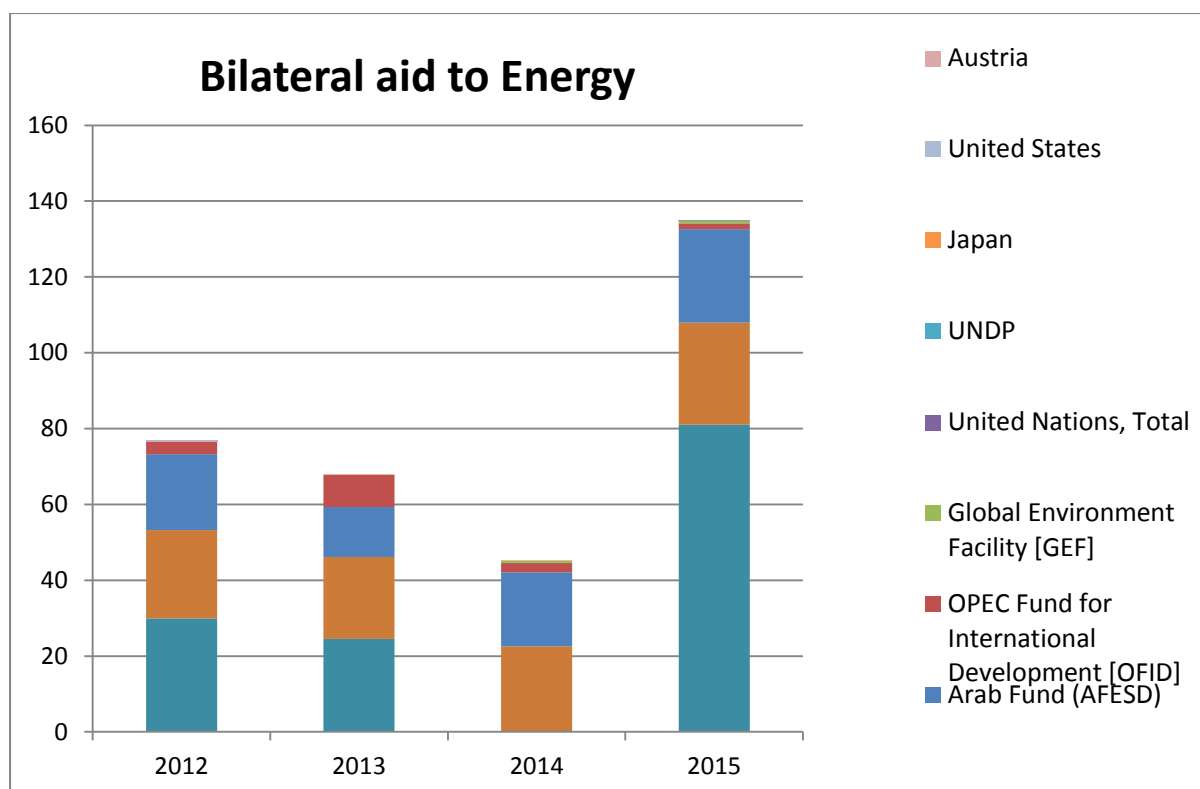


Bilateral ODA to Transport and Storage

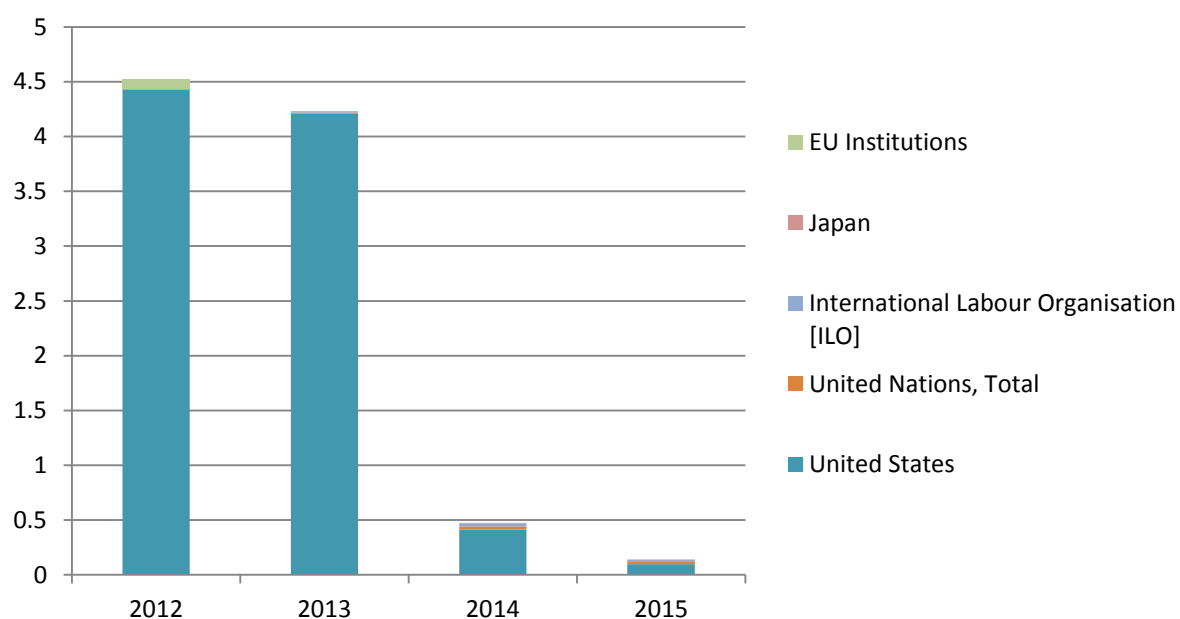


Bilateral ODA to Communications

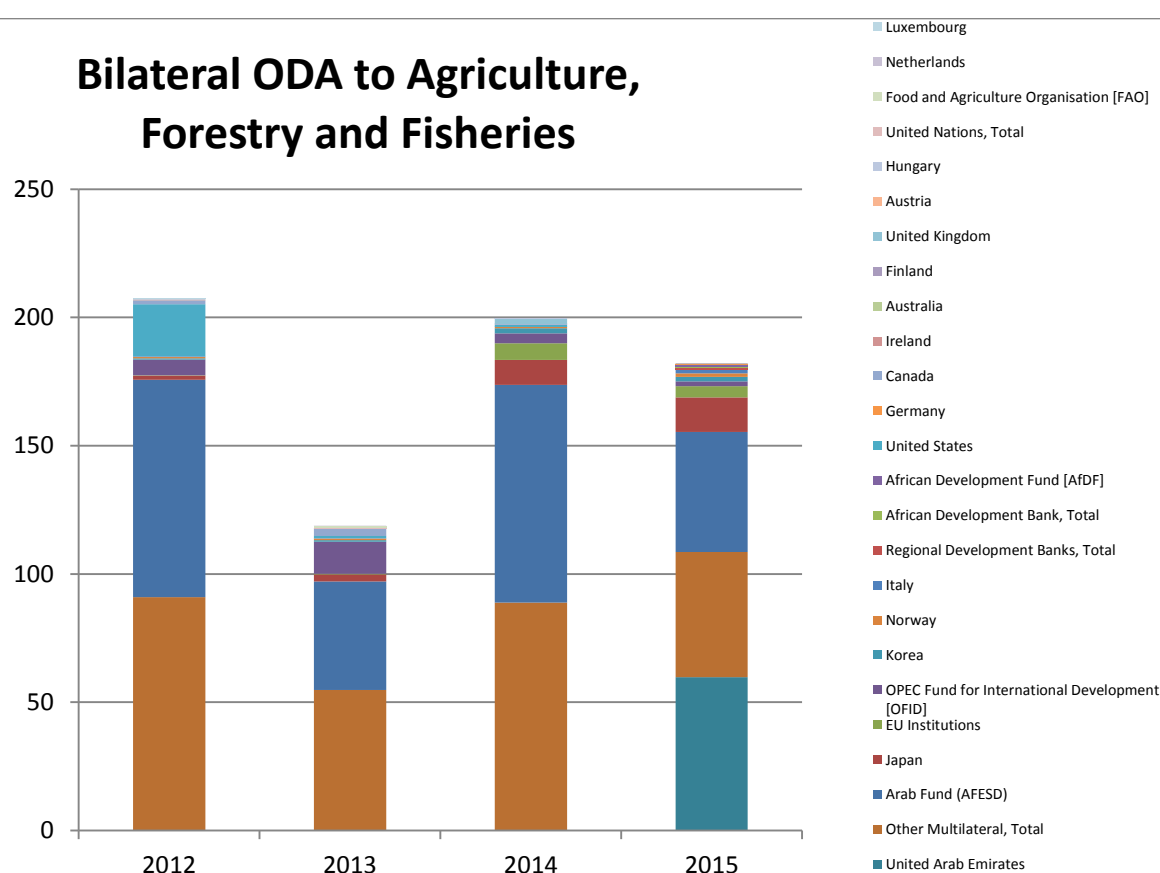




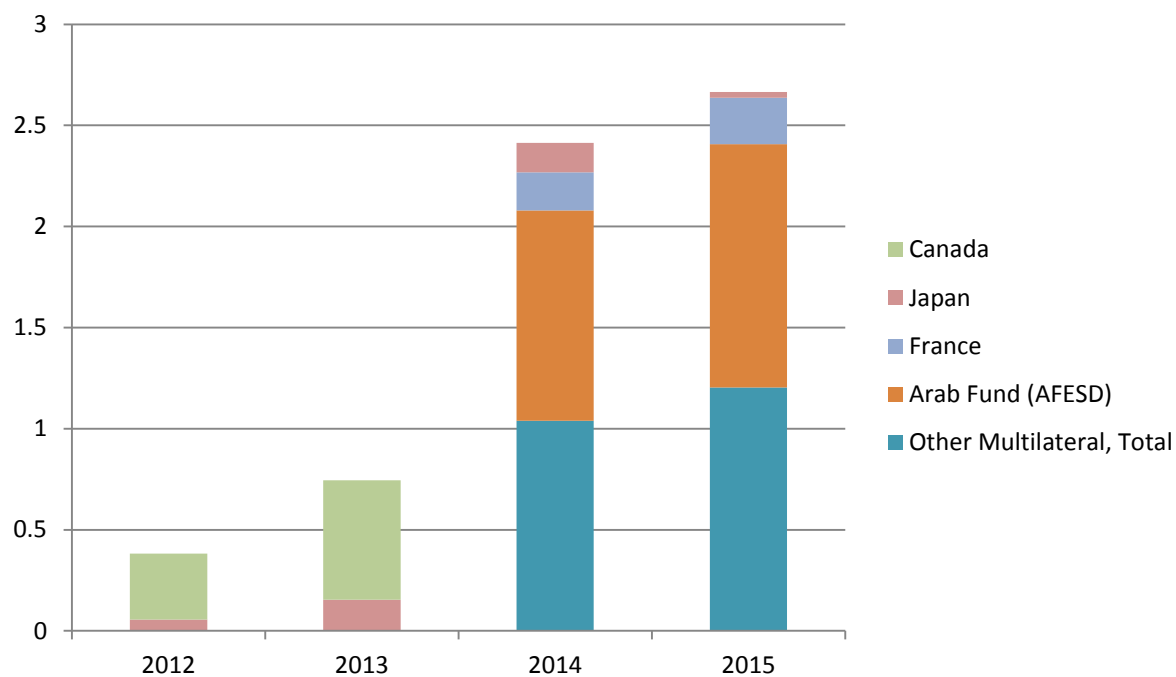
Bilateral ODA to Business & Other Services



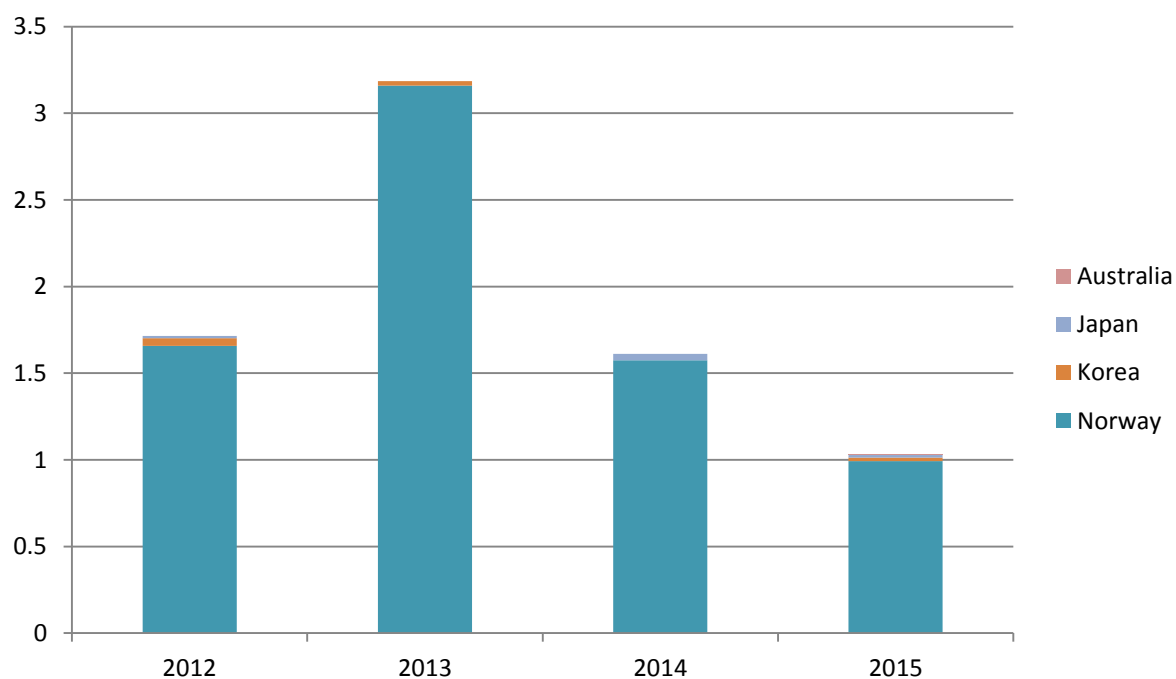
Bilateral ODA to Agriculture, Forestry and Fisheries



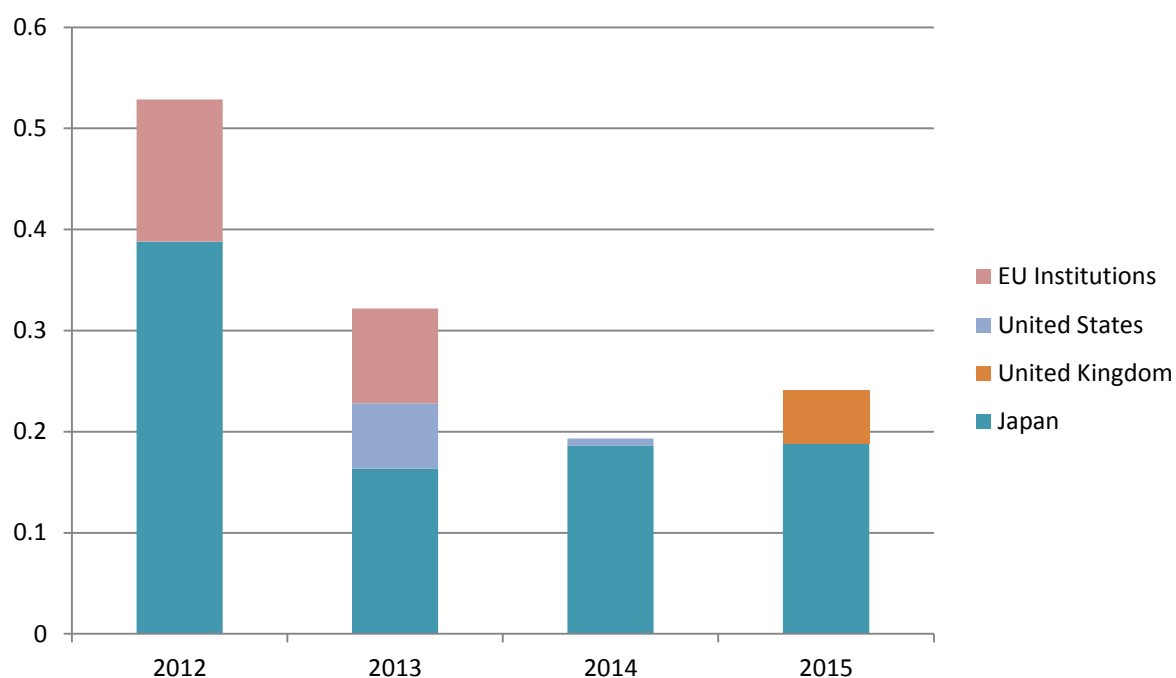
Bilateral ODA to Industry



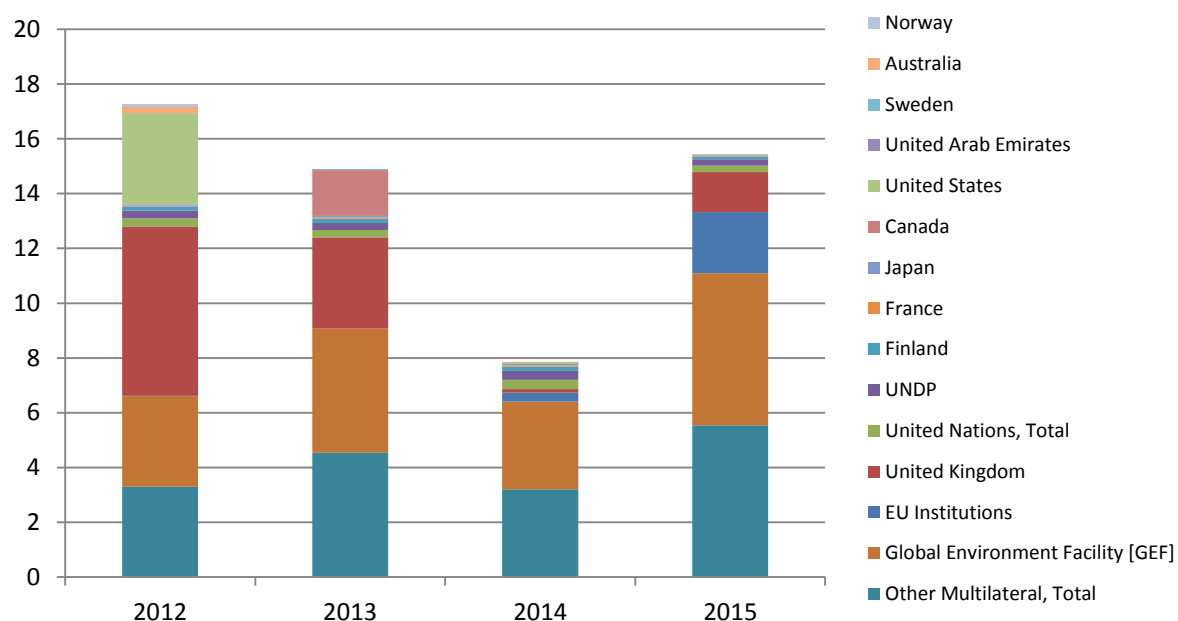
Bilateral ODA to Mineral Resources



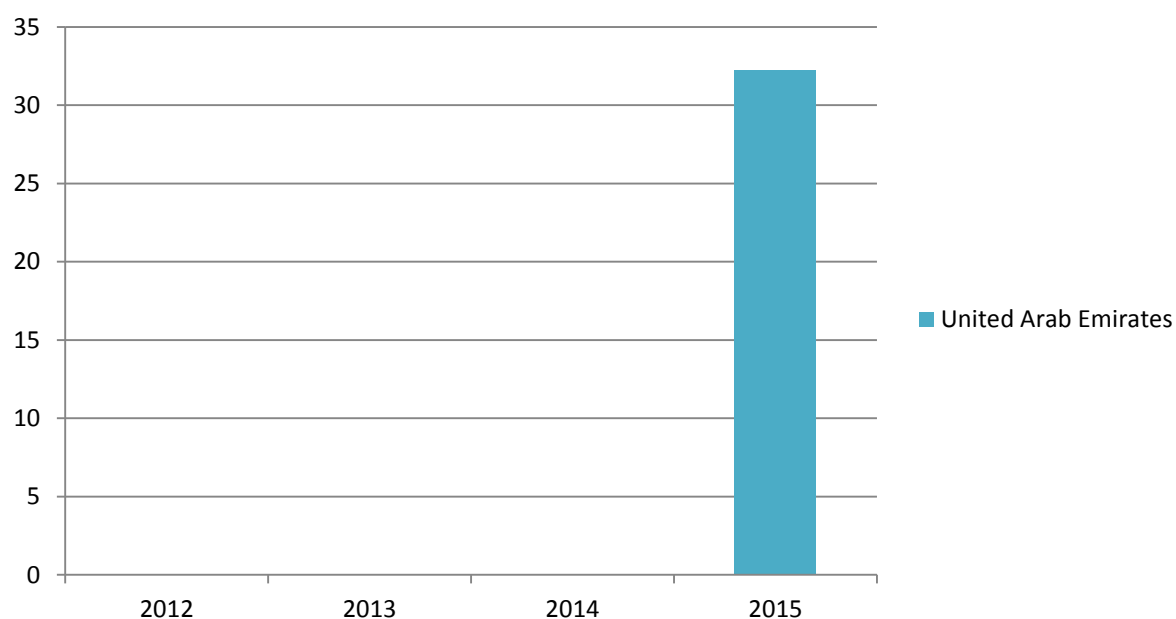
Bilateral ODA to Trade Policy



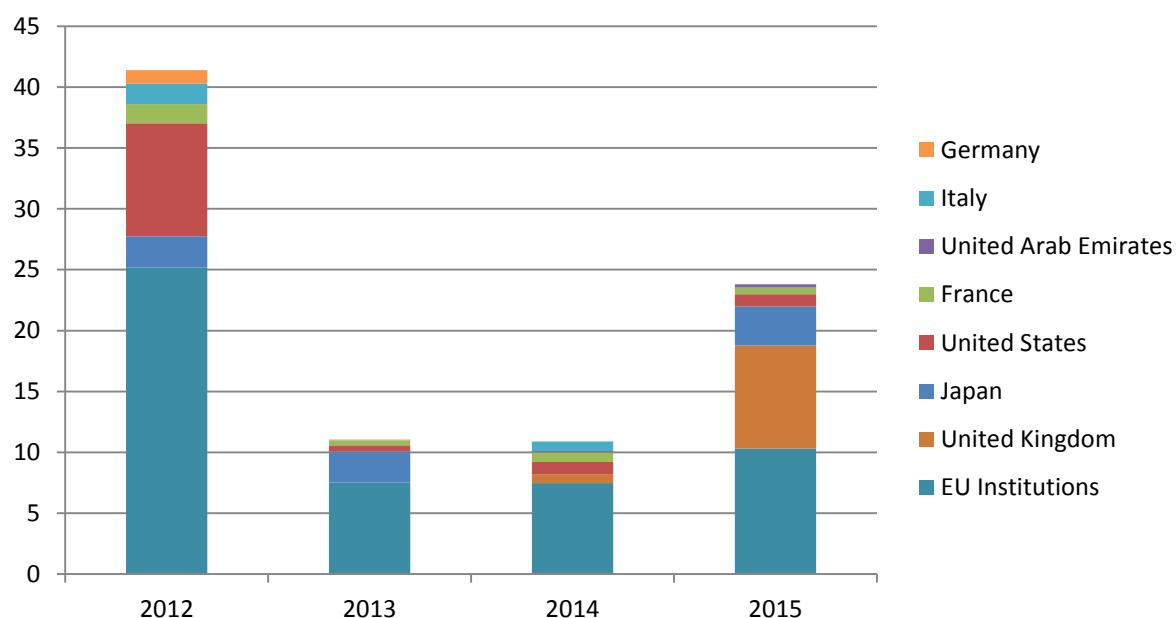
Bilateral ODA to Environmental Protection



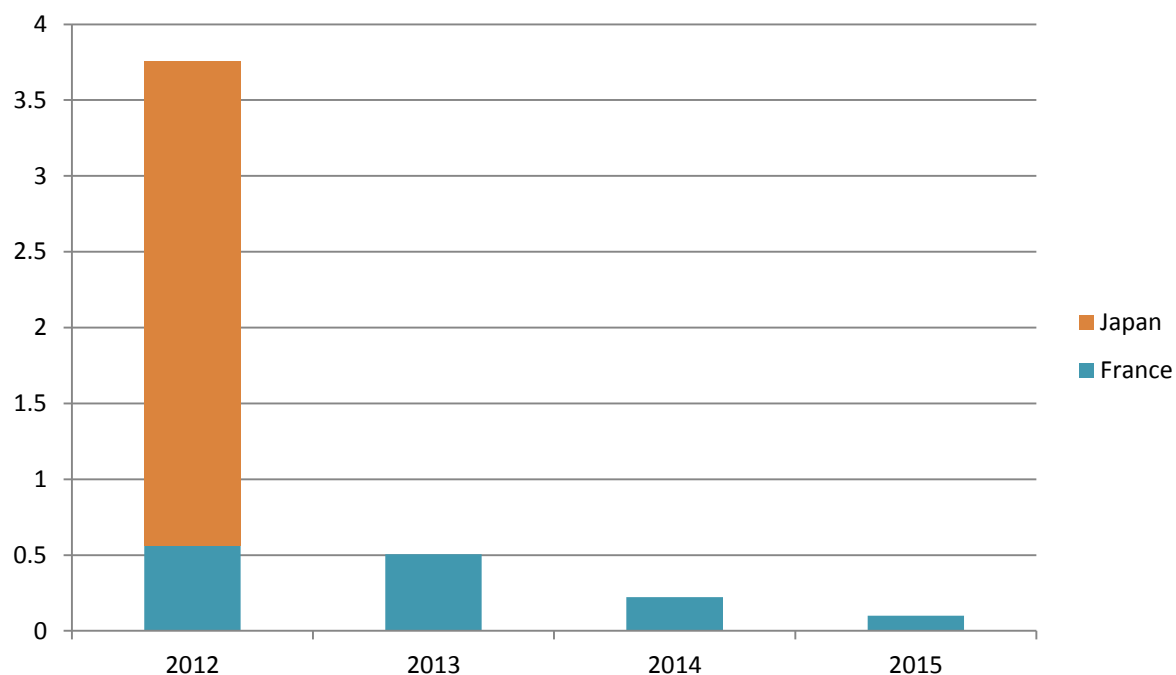
Bilateral ODA to General Budget Support



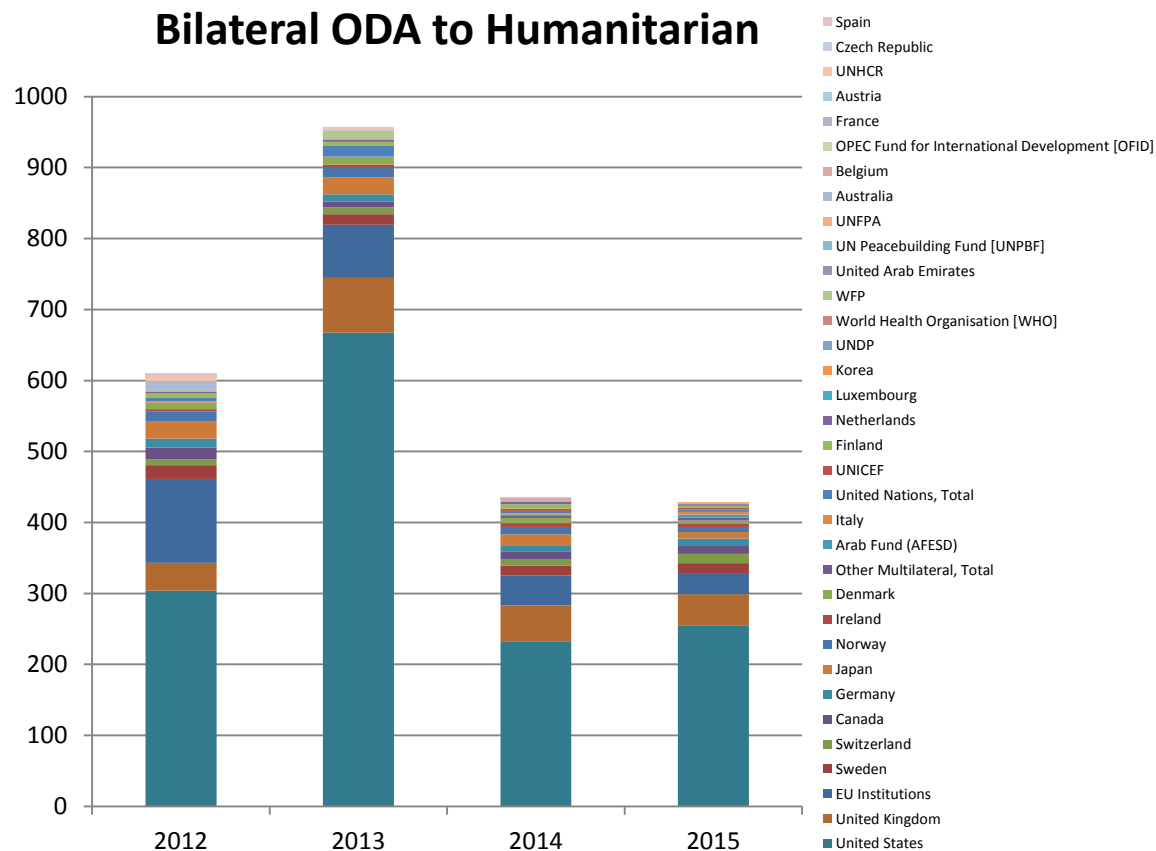
Bilateral ODA to Development Food Aid



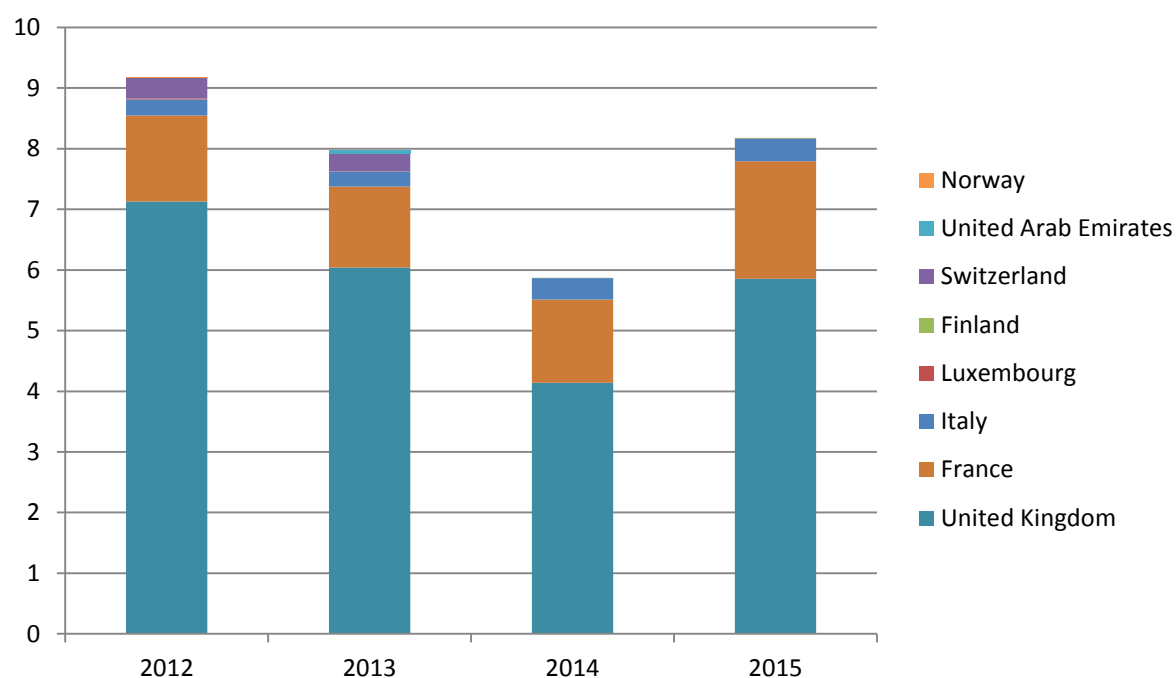
Bilateral ODA to Debt Action



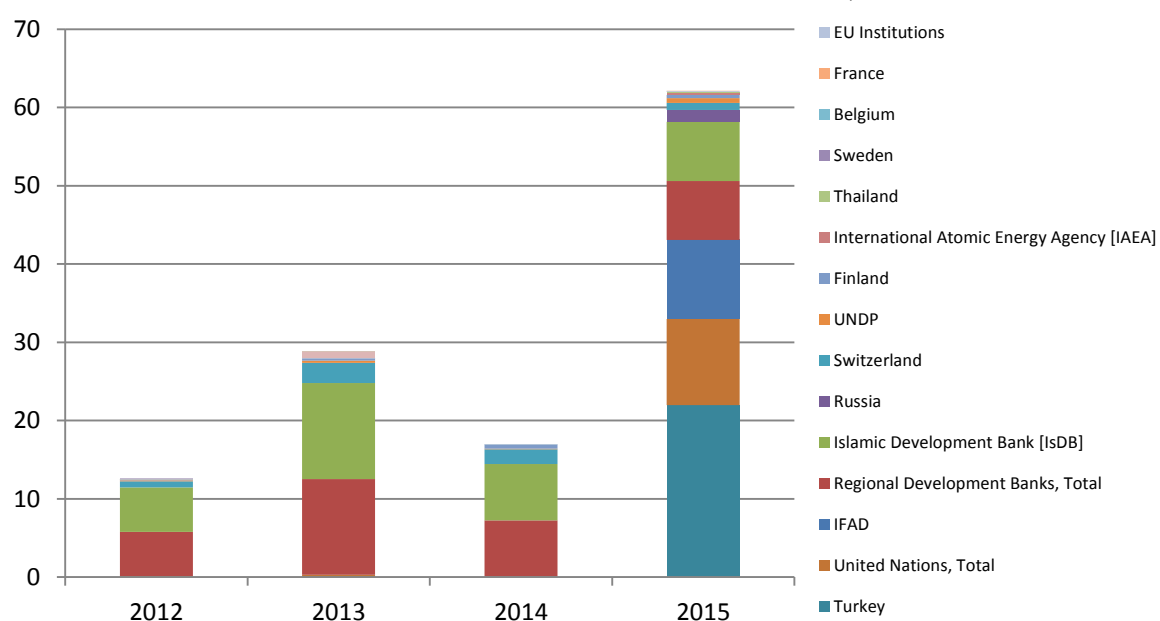
Bilateral ODA to Humanitarian



Bilateral ODA to Administration Costs



Bilateral ODA Unallocated



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