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# POVERTY AND SOCIAL PROTECTION IN SUDAN

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On my honor, I pledge that I have neither given nor received unauthorized help on this assignment.

A handwritten signature in black ink, appearing to read "Cameron Haddad". The signature is fluid and cursive, with the first name "Cameron" written in a larger, more prominent script than the last name "Haddad".

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## List of Acronyms

<b>CCT</b>	Conditional Cash Transfer
<b>CFR</b>	Case Fatality Ratio
<b>GoS</b>	Government of Sudan
<b>MICS</b>	Multiple Indicator Cluster Survey
<b>MoF</b>	Ministry of Finance
<b>MoLSD</b>	Ministry of Labor and Social Development
<b>NCR</b>	National Civil Registry
<b>PID</b>	Project Information Document
<b>PMT</b>	Proxy Means Test
<b>PPP</b>	Purchasing Power Parity
<b>PSN</b>	Productive Safety Net
<b>PSNP</b>	Productive Safety Net Program
<b>SFSP</b>	Sudan Family Support Program
<b>SIP</b>	Social Initiative Project
<b>UCT</b>	Unconditional Cash Transfer
<b>UNICEF</b>	United Nations Children's Fund
<b>USD</b>	United States Dollars
<b>USR</b>	Universal Social Registry

## Executive Summary

**Approximately 36 percent of Sudan's estimated 40 million residents are living below the national poverty line (AFDB, 2018).** Severe and chronic poverty is a major social problem in the country which harms the wellbeing of millions of Sudanese and limits the economic future of Sudan. Additionally, the constantly-changing COVID-19 pandemic poses a unique threat to Sudan and it is poised to disproportionately affect the nation's poorest. Social protection programs are designed specifically to handle the type of health and economic shocks that COVID-19 will create. In this current moment in time, the potential shocks from the pandemic could be especially devastating for the country's poor and the penalty of inaction remains high. In this report I offer four policy alternatives for the Government of Sudan and the World Bank to consider:

1. Let present trends continue
2. Reinstatement of the food and fuel subsidy program
3. Implement a productive safety net
4. Implement a quasi-universal social impact mitigation project

To recommend the best alternative, I evaluated the projected outcomes of all four alternatives across five criteria:

1. Effectiveness
2. Financial Cost
3. Political Feasibility
4. Administrative Feasibility
5. Equity

**After conducting my analysis, the best option for the Government of Sudan and the World Bank to pursue is implementing the quasi-universal, unconditional cash transfer.** This policy alternative ranks the highest out of all of the options on the criteria of equity, effectiveness, and political feasibility. As the Government of Sudan and the World Bank work to increase the impact and efficiency of the country's social protection strategy and lift millions out of poverty, the characteristics of this program best fulfill the Government of Sudan's intended goals. Admittedly, the high program costs and administrative capacity challenges still remain significant concerns, however, these are not insurmountable issues and other countries have shown that it is indeed possible to implement effective social protection reform in other low-income countries with political and social instability.

In order to address persistent poverty, build economic resilience against COVID-19 and further generate support for and trust in the transitional government, the Government of Sudan must make social protection reform a key component of its COVID-19 response package. A quasi-universal, unconditional cash transfer, would be a critical step for the transitional government during the impending economic and health crisis.

## Problem Statement

**Approximately 36 percent of Sudan's estimated 40 million residents are living below the national poverty line (AFDB, 2018).** Poverty is deep as well and an estimated 25 percent of Sudan's population falls below the extreme poverty line of \$2 per person per day (AFDB, 2018). Additionally, poverty is not dispersed evenly throughout the country and disproportionately affects rural areas. Around 26.5 percent of rural households compared to 22.6 percent of urban ones live in extreme poverty (AFDB, 2018). This urban-rural divide becomes more pronounced in certain regions, where poverty is highly concentrated. For example, South Kordofan, West Darfur and Central Darfur, all rural provinces, have extremely high poverty rates with about two-thirds of residents living in poverty (AFDB, 2018).

## Background

### A Historical Overview of Poverty in Sudan

Poverty has been a persistent issue throughout Sudan's recent history and is deeply rooted in the conflicts that have plagued Sudan since gaining independence from Britain in 1956. The First Sudanese Civil War lasted from 1955-1972, resulting in an estimated 500,000 deaths. After ten brief years of peace, the country was thrown into the throes of its Second Civil War, in which factions in the majority Arab-speaking Muslim north and mixed-Christian and traditionally African religious south battled from 1983 to 2005. The conflict claimed the lives of close to two million people (US Committee for Refugees, 2001).

Following the end of the Second Sudanese Civil War, the country experienced significant economic growth for a brief period of time due to increasing oil revenues. As a result, the country's per-capita income increased enough for the World Bank to classify Sudan as lower-middle income country up from a lower income country (World Bank, 2015). However, in 2011, the southern states of the country seceded to form South Sudan, which resulted in a major economic downturn for Sudan. Most directly, Sudan lost large chunks of its total oil revenue, which comprised over half of Sudan's government revenue and 95% of its exports (World Bank, 2019).

Additionally, war broke out in South Sudan in 2013, which led to additional strains on the oil sector and a large increase in the numbers of refugees seeking asylum in Sudan. As of this year, the country hosts an estimated 750,000 South Sudanese refugees and 150,000 additional refugees from neighboring countries (World Bank, 2019). The near-ceaseless conflict and resulting social issues have prevented sustained economic growth and have firmly entrenched poverty as a widespread and deep social problem throughout Sudan's provinces (Copnall, 2014).



## Alleviating Poverty

Poverty is a highly complex social phenomenon that arises from a variety of reasons and can be quite challenging to eradicate. In their book, *Poor Economics*, Nobel Prize-winning economists Abhijit Banerjee and Esther Duflo cover a range of interventions, which seek to eliminate poverty in developing countries. While summarizing their research into the topic, they conclude that while “we do know a number of things about how to improve the lives of the poor,” there are ultimately “no magic bullets to eradicate poverty, no one-shot cure-all,” (Banerjee & Duflo, 2011). Still, there are a number of programs, interventions and tools that governments and donor organizations can implement to drastically improve the lives of poor and vulnerable households.

Social safety nets are one such option and carry a range of benefits with them. Safety nets, or social assistance, are the broad category of noncontributory transfer programs targeted in some manner to the poor or vulnerable (Grosh et al., 2008). Across a number of applications and contexts, safety nets, in-kind transfers, and cash transfers have demonstrated and immediate impacts on reducing extreme poverty rates across many groups (Devereux, 2002). While many groups can benefit from safety nets, targeting mechanisms enable these interventions to benefit the chronic poor, transitory poor and other vulnerable groups the most (Devereux, 2002).

Beyond reducing immediate poverty rates, social safety nets also enable households to better invest in their future and manage their risk, improving health and economic outcomes later in life. A growing body of evidence indicates that cash assistance can help households address immediate consumption needs and can improve future consumption patterns by encouraging recipients to reinvest a portion of the transfers they receive into productive enterprises (Grosh et al., 2008). For example, beneficiaries of Mexico’s PROGRESA/Oportunidades conditional cash transfer program invested an estimated 12 percent of their transfers in productive assets, allowing them to increase their household’s consumption by over 30 percent after just five years in the program (Gertler et al., 2012).

Furthermore, safety nets play an important role in building households’ resilience against economic shocks. Families with low coping capacities must often sell productive assets or disinvest in their livelihoods in order to address immediate consumption needs (Grosh et al., 2008). This can have devastating, long-term impacts for households’ human capital development and general social welfare. By providing households with enough capital to maintain minimum consumption levels without selling off assets, cash transfer programs help beneficiaries withstand shocks. Their effectiveness has been demonstrated across a range of contexts (Garcia & Saavedra, 2017; Janvry et al., 2006). Another important benefit of implementing social safety nets are their political implications. Governments can utilize social assistance policy to make beneficial reforms to their society and support their constituents (Grosh et al., 2008). A well-designed safety net, which is fair, equitable, cost-effective and appropriate can help build trust between the government and civil society.

However, despite the many documented positive impacts of social safety nets on the livelihoods of the poor, it is important to remember that they are not blanket, cookie-cutter solutions to poverty. Social protection programs must be tailored to local contexts and must be accompanied by structural reforms and market strengthening services (Devereux, 2002). Governments, multilateral organizations and other key stakeholders must clearly define the nature of the crisis when developing social protection strategies. Addressing natural disasters, short-term recessions, or deeply-entrenched poverty or malnutrition, all require slightly different program designs and stakeholders must tailor their social programs to these objectives and support them with additional reforms.

### The Social Protection System in Sudan

Despite all of the political turmoil, the Government of Sudan has sought to alleviate poverty within the country using social safety nets. Historically, the primary social protection mechanism in Sudan was Zakat, which is a mandatory religious tithe that constitutes one of the five pillars of Islam. In most Arab countries a national Zakat fund will collect contributions from citizens and will administer cash transfers to poor households (Ahmed, 2015). The first national Sudanese Zakat fund was established in 1980, and the program plays an important role as a source of social assistance for the poor. An estimated 2.3 million families in Sudan are covered by the Zakat fund (Abdelgadir, 2018).

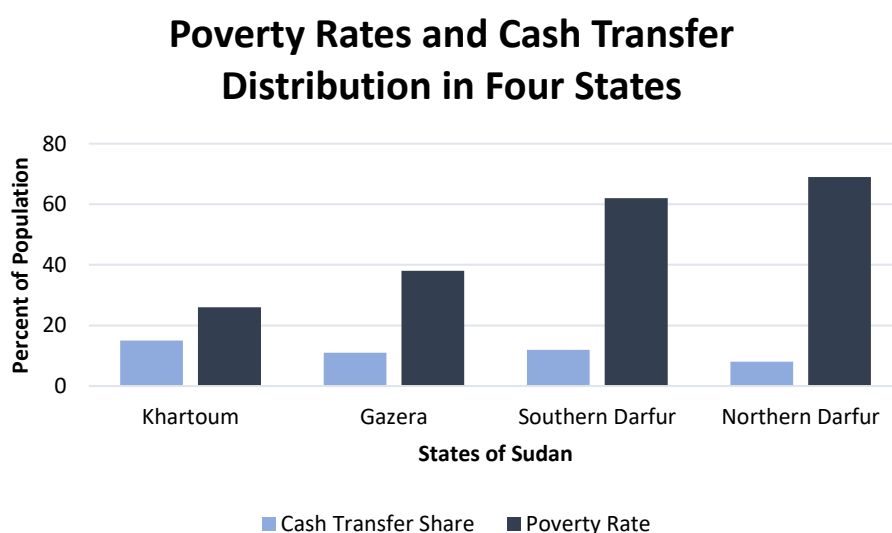
The Government of Sudan also supports other social protection programs. As a response to the 2011 economic shocks arising from the secession of South Sudan, the government created the Social Initiative Program (SIP), which included a large cash transfer and health insurance program. The Ministry of Finance dedicated about \$200 million per year to support the project which benefits over 500,000 households with an average transfer of about \$117 per household per month (World Bank, 2018). While the SIP has shown success at reducing and alleviating poverty, many anecdotal reports have criticized the program for its numerous inclusion and exclusion errors and have called for its reform (Alamir, 2014).

### Social Protection Reform

Over the past decade, the Government of Sudan has been increasing its pro-poor expenditures and has significantly increased coverage rates for its social protection programs (Ali Siddig, 2016). However, there are number of institutional and design challenges with the current social protection system that warrant reform (Alamir, 2014). Namely, Sudan's social protection strategy struggles to direct funds to the neediest and the current federal distribution system does not appear to promote equitable distribution.

Sudan has relied on a costly system of fuel and food subsidies which have disproportionately benefitted the well-off (World Bank, 2015).<sup>1</sup> Additionally, there are significant imbalances in the allocation of public spending, where the wealthiest states receive disproportionately more of government services. Researchers found that in 2008, the estimated per capita health *and* education spending in poorest states was about half that reported in Khartoum (Alamir, 2014). The distribution of the SIP follows similar patterns as we can see in Figure 1 below. Khartoum, for example, has a poverty rate of about 26 percent and it hosts about 15 percent of all SIP cash transfer beneficiaries. Conversely, North Darfur has a poverty rate about twice as high as Khartoum (69 percent) but only has 8 percent of beneficiary households (Ali Siddig, 2016). While admittedly not adjusted by population size, this disparity still evidences a high level of unmet “need” and a thinly spread social safety net.

*Figure 1 – Disparities between poverty rates and cash transfer distributions*



Source: Alamir et al., 2014; World Bank NBHS 2009; Author adjustments, 2020

The government is also concerned about the inclusion and exclusion errors and culture of dependency from its cash transfer system (World Bank, 2015). Anecdotal reports suggest that some poor households have access to multiple transfers, while others receive nothing at all (World Bank, 2015). However, reliable information on the degree of mistargeting of funds is not presently available, as there is a marked lack of adequate monitoring and evaluation systems in place. A lack of sufficient technical and financial resources prevents government ministries from monitoring issues related to misallocation (Alamir, 2014). While, the Government of Sudan already maintains a social protection system, it is currently reevaluating its social protection strategy in conjunction with the World Bank.

<sup>1</sup> The inequity from food and fuel subsidies is discussed at greater length in the following section titled “Food and Fuel Subsidies”.

## Food and Fuel Subsidies

In the past, economic circumstances have forced the Government of Sudan (GoS) to reform the social protection system. In 2013, largely arising from the economic shocks of the secession of South Sudan, the GoS reformed its expansive fuel subsidy programs. Fuel and energy subsidies are highly regressive (meaning the benefits primarily go to the wealthier quintiles) and are often costlier than safety nets (Grosh et. al, 2008). This fiscal reform sought to become the basis of a more progressive social protection system. However, this had a detrimental impact of the poor's abilities to access basic services and social protection programs. The World Bank estimated that approximately 1.7 million Sudanese fell into poverty as a direct result of the 2013 fuel subsidy reform. Then in 2018 the government removed bread and fuel subsidies, which sparked a wave of protests beginning in late 2018 (World Bank, 2018).

Despite the popularity of food and fuel subsidy, their costliness and distributional failures deemed them worthy of reform from the perspective of the GoS. The World Bank estimated that compensating the bottom 60 percent of the population for the direct and indirect impacts of these painful reforms would have only cost the Ministry of Finance an estimated \$16 million USD. This is about 15 percent of the total savings of these reforms (World Bank, 2019). Still, these case studies highlight the importance of public opinion and civil society in relation to social protection reform. Because safety nets can have immediate impacts on domestic unrest, the World Bank and the GoS are actively incorporating this dynamic into their reform efforts. The country's social protection strategy needs to improve the general welfare of the population, encourage investments in human capital and importantly, *and* build political stability during a time of transitional government.

## The Productive Safety Net

In order to explore potential policy alternatives for their social protection reform, the GoS piloted a Productive Safety Net (PSN) program in 2015. A PSN approach provides a safety net in the form of an in-kind or cash transfer to vulnerable households while building capacity for public work projects and productive asset creation. In turn, able-bodied recipients participate in public works projects as a condition of the transfer. Because the pilot is still ongoing, there is limited publicly available data on the program's effectiveness. However, we can begin to assess the value of a PSN strategy by learning from other countries who have adopted this approach.

Within the literature on social safety nets, there is emerging evidence that Productive Safety Nets in low-income countries can reduce poverty and build resilience in vulnerable groups. The most expansive and prominent PSN was implemented by the Government of Ethiopia in 2005 and the program covers an estimated eight million people with a two-billion-dollar budget (Weld-Michael, 2007). The Ethiopian Productive Safety Net Program (PSNP) sought to improve food security and prevent the sale of assets for rural food insecure households in a way that would also stimulate private markets and improve access to services

and natural resources (FSCD, 2007). The program combined geographic and community-based targeting methods to select recipients, which was an effective targeting method as poverty is highly correlated with food insecurity (Coll-Black et al., 2011).

Impact evaluations of the PSNP found that the intervention drastically improved food security and households' abilities to raise funds in the event of an emergency, increasing their resilience to economic and health shocks. Importantly, beneficiaries perceived their welfare to have improved (Gilligan et al., 2009). Further, the PSNP's public works component resulted in significant additions to the country's infrastructure. Program recipients constructed over 30,000 km of new roads, 15,000 new springs and wells, and 3,000 new schools (Weld-Michael, 2007). The positive impacts to both beneficiaries of the program and the country as a whole, evidence the strong potential of productive safety nets. However, the most important finding from the literature is that it is indeed possible and effective to implement a large-scale social safety net in a low-income country with limited infrastructure and administrative resources (Gilligan et al., 2009).

With Productive Safety Nets, and any social protection strategy in general, there are a number of political and economic concerns that arise beyond accurate targeting methods, service delivery challenges, and administrative capacities. The GoS has already expressed concern with dependency on social programs and has expressed a desire to "graduate" recipients to self-sufficiency. Built into this concern is the fear that safety nets have disincentive effects, reducing labor market participation and entrepreneurial activities. However, with Ethiopia's PSN, there is little evidence of the safety net having disincentive effects, which is consistent with behavioral theory of households near a poverty trap threshold (Gilligan et al., 2009). Furthermore, an estimated two million food-insecure program beneficiaries became self-sufficient, evidencing the potential for productive safety net approaches to graduate their recipients (Weld-Michael, 2007).

## Unconditional Cash Transfers

Another type of social assistance program that has been gaining support globally is the unconditional cash transfer (UCT). This type of safety net would provide cash assistance, without any conditions attached. The PSN is a form of conditional cash transfer (CCT), because receiving the transfer is dependent on one's participation in the public works project. A UCT, on the other hand, would provide households with cash transfers, without necessitating any condition in order to "earn" the benefit.

Meta-analyses of the effectiveness between conditional versus unconditional cash transfers is very difficult, as there is incredible variety between program design, benefit levels, types of conditions, and the country contexts of these program (Pega et al., 2017). All of these variables make rigorous comparison difficult. However, individual studies highlight that there is likely no statistically significant difference in many of the outcomes of UCTs compared with CCTs. There is evidence in the literature that UCTs maintain many of the health and economic

benefits of CCTs and also do not have labor disincentive effects (Egger et al., 2019). As a result, UCTs are gaining in popularity, because of their reduced administrative costs, as governments and implementing partners do not have to dedicate as many resources ensuring conditions are met.

The GoS is actively considering this type of safety net – a quasi-universal, unconditional cash transfer. They intend to pilot an UCT in April 2020, in what would be called the Sudan Family Support Program (SFSP).

### COVID-19's Implications for Sudan's Poor

The constantly-changing COVID-19 pandemic poses a unique threat to Sudan and has important implications for the country's poor and the social protection system writ large. In a video call on April 2, David Malpass, President of the World Bank, stated that the COVID-19 crisis "will likely hit the poorest and most vulnerable countries, and their people, the hardest" (Malpass, 2020). Furthermore, COVID-19 will not only likely hurt Sudan more than high-income countries, but it will likely hit Sudan's poorest harder than the rest of the country.

#### Health Shocks

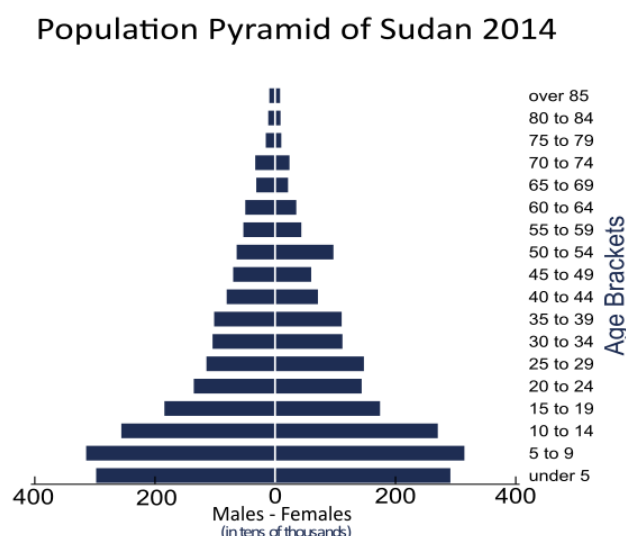
Sudan's poorest already have vulnerability to respiratory illnesses and are thus, much more likely to face the brunt of the health shocks arising from the pandemic. UNICEF's 2014 Multiple Indicator Cluster Survey (MICS) asked households about whether or not children under the age of five had symptoms of Acute Respiratory Infections (ARI) in the past two weeks. The responses immediately highlighted concerning high levels of ARIs among Sudan's children, but importantly, they also exposed variation across wealth levels as shown in Figure 2 below. The poorest 40 percent of Sudan's children were about four percentage points more likely to have experienced ARI symptoms in the past two weeks compared with the richest 20 percent of children.

*Figure 2 - ARI Rates by Wealth Quintile*

Wealth Index Quintile	Percentage of children under 5 who had ARI symptoms in the last two weeks	Estimated total number of Sudanese children under 5 who had ARI symptoms in the last two weeks
<b>Poorest</b>	18.4	244,964
<b>Second</b>	18.1	230,421
<b>Middle</b>	18.2	222,756
<b>Fourth</b>	14.6	163,495
<b>Richest</b>	14.1	133,339
<b>Total</b>	16.7	994,976

Source: MICS, 2014 – Author Calculations

Additionally, the elderly are particularly vulnerable to COVID-19 and are significantly more likely than children to die of the disease. In one study of about 72,000 cases, researchers found an estimated overall case-fatality rate (CFR) of about 2.3 percent (Wu & McGoogan, 2020). Of striking concern, were the high CFRs amongst elderly. The same study found a CFR of 8 percent amongst those aged 70 to 79 years and a startling 14.8 percent CFR amongst those aged 80 years and older. A policy response must place significant emphasis on Sudan's elderly who are sharply vulnerable to the disease.



*Figure 3 - 2014 Population Pyramid of Sudan*

Source: MICS, 2014 – Author Calculations

Still, Sudan's population structure lends itself to also adapting any COVID-19 response package to support poor and vulnerable children. Sudan has a very "young" population as evidenced in the population pyramid above. Children under 18 comprise about 53 percent of the total population, whereas only about 3 percent of the population is above the age of 70 (MICS, 2014). The GoS' response must be sure to protect both of these vulnerable groups.

### Economic Shocks

Furthermore, the poor are likely to suffer the most from the COVID-19-related economic shocks. Necessary social distancing measures and policy responses will hurt an already weak healthcare system and economy. It is estimated that such measures will lead to a 5-10 percent GDP loss in Sudan (Amin, 2020). This will likely be compounded by the oil price shocks from this past month, which will severely impact government revenue streams. In March, both demand and supply shocks caused oil futures prices to fall by about 40% (IEA, 2020). This price drop is largely a result of movement restrictions, reduced travel and production, which are expected to continue and extend the economic impacts. In April alone, oil demanded is expected to drop by about 30 percent, down to its lowest level since 1995 (IEA, 2020). These trends are all predicted to have significantly negative impacts on the economy and people of Sudan.



### Social Protection and COVID-19

Social protection programs are designed specifically to handle the type of shocks that COVID-19 will create and many countries have already introduced new social protection measures or have adapted old ones in response to COVID-19. As of April 10, 2020, over 126 countries have implemented “COVID-19-sensitive” programs, twenty of which were in the last week. Among all responses, non-contributory cash transfers are the most popular, accounting for almost two thirds of all programs (Gentilini et al., 2020). Sub-Saharan Africa’s response over the past few weeks is particularly noteworthy. As of March 20, 2020, no country in Sub-Saharan Africa had implemented any COVID-19-related social protection program, yet as of April 10<sup>th</sup>, over twenty countries had. Of these twenty countries, five (Guinea, Kenya, Madagascar, Mauritania, and South Africa) have implemented cash transfer programs (Gentilini et al., 2020).

Countries have also adapted already existing programs to address the pandemic, instead of introducing new programs. Such modifications are pursued via six basic strategies, namely (i) increasing coverage, (ii) increasing benefit amounts, (iii) advancing payments, (iv) simplifying administrative requirements, (v) plugging COVID-response schemes into existing delivery platforms and (vi) providing innovative design solutions, such as school feeding programs delivering food directly to children’s homes or nearby distribution points (Gentilini, et al., 2020).

### Summary

Social protection programs and productive safety nets represent one of many tools available to government officials and policy makers to address the extremely high poverty rates in Sudan. Generally, implementing social protection reform will help to improve the welfare of the country’s population and allow it to further invest in its future. However, in this current moment in time, social protection reform needs to be a critical component of Sudan’s COVID-19 response plan. While there have only been 32 confirmed cases of COVID-19 and no documented community transmissions, testing still remains low and the pandemic is very likely to spread and negatively impact the country over the coming months (WHO, 2020; Amin, 2020).

Admittedly, the GoS has already responded in part to the pandemic by closing land borders and cancelling international air travel. The GoS has also established a 24-hour lockdown in Khartoum for the next three weeks, which will go into effect on April 18<sup>th</sup>, 2020 (US Embassy in Sudan, 2020). Despite the government’s response, the potential health and economic shocks from the pandemic could be devastating and the penalty of inaction remains high.



## Criteria

While, the Government of Sudan already maintains a social protection system, it is currently reevaluating its social protection strategy in conjunction with the World Bank to better support the estimated ten million Sudanese living in extreme poverty. In order to determine what potential reform would be best for the government of Sudan, I plan to evaluate my policy alternatives along five criteria. The criteria will be quantified where possible, and in the event that the criteria are unquantifiable, I will evaluate them on a ranked basis. The criteria are listed below.

1. Effectiveness at Reducing Poverty
2. Total Financial Costs
3. Political Feasibility
4. Administrative Feasibility
5. Equity

### Effectiveness at Reducing Poverty

This criterion measures the degree to which each alternative will reduce poverty rates among the targeted populations, which is the central goal of the social protection strategy reform. I will calculate effectiveness by estimating how much the poverty rate decreases after the introduction of the program. There are a variety of ways to measure poverty. There are various national and international poverty lines and poverty status can also be established by measuring income or consumption levels (Deaton, 1997). Because the World Bank uses the purchasing power parity (PPP) international poverty line of \$1.90 per person per day, this threshold will form the standard for my analysis.

### Total Financial Costs

This criterion measures the total estimated cost of each proposed alternative, which is a critical consideration for the World Bank and the Government of Sudan. Costs will be determined by calculating the average dollar value of each individual benefit for every alternative. Then, I will estimate the total yearly cost of each program in USD by accounting for the scale of the program (how many individuals or households are reached) as well as the frequency of the benefits (how often a benefit is received).

### Political Feasibility

This criterion measures the anticipated difficulty of implementation from a public stand point. It seeks to answer the degree to which the public (or sub-sections of the public) will support each alternative. Political feasibility is a critical aspect that the transitional government has listed as one of its top priorities with its strategy reform. While difficult to measure quantitatively, I will

attempt to draw on past in-country examples in an attempt to measure political feasibility. Additionally, where concrete examples are not present, I will use insights from political economy texts, like Robert Bates' *Markets and States in Tropical Africa*, to forecast public reaction (Bates, 2014).

### Administrative Feasibility

This criterion measures the anticipated difficulty of implementation from an administrative capacity standpoint. The Government of Sudan faces many capacity challenges given its recent political changes and the access challenges it has faced in terms of service delivery. I will attempt to measure this through qualitative assessments, discussions, and with written evaluations of capacity, which is a core component of World Bank Project Information Documents (PID) (World Bank, 2020).

### Equity

This criterion measures the distributional effects of the alternative. Beyond reducing poverty rates, which is captured in effectiveness, it will be important to determine if the benefits of the response are allocated equitably across people and states. In order to best fight against poverty, social protection systems should target the most vulnerable. Still, it will be important for any estimation of equity to be accompanied by ex-post monitoring and evaluation systems to ensure that there are no, or at the least very limited, issues with targeting.

## Policy Options:

Following a review of the social protection literature and an overview of the economic and political landscape of Sudan, I have selected potential policy alternatives for the GoS and World Bank. The following four policy options are presented as potential solutions.

- Option 1 – Let present trends continue
- Option 2 – Reinstate the food and fuel subsidies
- Option 3 – Implement a Productive Safety Net
- Option 4 – Implement a quasi-universal, unconditional cash transfer

### Policy Option 1: Let Present Trends Continue

#### Overview:

Sudan has already made great strides in its social protection strategy. Over the past fifteen years, the government has considerably increased its pro-poor expenditures and coverage rates of its current social protection programs (Ali Siddig, 2016). For example, the Social Initiative Program (SIP), which has been very successful in reducing poverty. Every year the Ministry of

Finance allocates about \$200 million to support the project, which, as of 2014, has benefitted over 500,000 households through its large cash transfer program (World Bank, 2015; Ali Siddig, 2016). Accounting for all of the government and multilateral organization-led social protection programs shows that there are almost 20 million recipients of social programs in the country (Ali Siddig, 2016).

Instead of reforming the nation's social protection system, the government of Sudan could allow present trends to continue. The government would continue to operate its current social programs without introducing any new social safety nets or implementing any reforms to the current programs.

### Policy Option 2: Reinstatement Food and Fuel Subsidies

#### Overview:

For many years Sudan supported a universal food and fuel subsidy program. However, due to the government's large total debt burden and consistent budgetary deficits, the government was forced to reform its subsidy programs in 2013. Reintroducing these programs to its previous \$103 million annual distribution could significantly and immediately reduce the high rates of poverty in Sudan.

### Policy Option 3: Implement a Productive Safety Net

#### Overview:

A Productive Safety Net approach provides a safety net in the form of an in-kind or cash transfer to vulnerable households while building capacity for public work projects and productive asset creation. In turn, able-bodied recipients participate in public works projects as a condition of the transfer. A PSN, building off of the pilot program, could be rolled out nationally to provide cash transfers to reduce the poverty rate. In return, the GoS would also spur infrastructure improvements.

### Policy Option 4: Implement a Quasi-Universal, Unconditional Cash Transfer

#### Overview:

A quasi-universal, unconditional cash transfer program would provide cash transfers of \$5 per person per month to approximately 80 percent of the population – 32 million people. Following a pilot in April 2020, the program would be rolled out nationally until it reaches full coverage by December 2020.

## Projected Outcomes

### Policy Option 1 – Let Present Trends Continue

#### Effectiveness at Reducing Poverty

When considering whether or not to allow present trends to continue it is imperative to acknowledge that almost a quarter of the country lives in extreme poverty - under \$2 per person per day. This status quo is unacceptable as not enough is being done to address the scale and depth of poverty in the country. Furthermore, absent an adequate policy response, the poverty rate will increase significantly due to the health and economic shocks imposed by COVID-19.

In Sudan, there has been a documented trend over the past few decades of numerous economic shocks, such as droughts or macroeconomic instability (Ndip & Touray, 2019). These shocks primarily impact rural agricultural areas, which are already the most poor and vulnerable regions in Sudan. As the number and severity of shocks are expected to increase, poor households (and those right above the poverty line) are in particularly precarious positions. In addition to increase the severity of situations for those already living under the poverty line, the impending economic situation also has the potential to drive additional Sudanese into poverty in the absence of effective social safety nets. Increasing access and coverage of social protection systems will help build resilience, reduce current deprivations, and prevent future poverty (Ndip & Touray, 2019). A policy of allowing present trends to continue would see no expected additional reduction in the poverty rate, and thus ranks low on effectiveness.

#### Total Financial Costs

Allowing present trends to continue and not increasing social spending would be fiscally responsible, as the government already has a high debt burden. As of 2019, the total external debt burden of the Sudanese government was about \$60 billion USD, or 203 percent of its GDP. (FRED, 2019). Maintaining current expenditures could be a wise strategy, especially as the government sees revenue fall over the coming month. This policy option would rank low on total financial costs, presenting no immediate financial costs to the GoS.

#### Political Feasibility

This policy option would likely not be effective in terms of public opinion. The Sudanese public has proved itself to be quite sensitive to changes in social protection programming and economic welfare. The transitional government would likely face public backlash if it does not adequately respond to the economic crisis and only imposes painful social distancing measures. This policy ranks low on political feasibility.

#### Administrative Feasibility

This policy option would require no further responsibilities from the ministries, and thus, ranks high on administrative feasibility.

### Equity

While quite successful at reducing and alleviating poverty, the current social protection system has been criticized for its numerous inclusion and exclusion errors (World Bank, 2015). Sudan's social programs struggle to direct funds to the neediest and the current federal distribution system does not appear to promote equitable distribution. There are still significant imbalances in the allocation of public spending, where the wealthiest states receive disproportionately more of government services. This policy option ranks low on equity.

## Policy Option 2 – Reinstatement Fuel and Food Subsidies

### Effectiveness at Reducing Poverty

The removal of the fuel and food subsidies over the past decade have had a detrimental impact on the many poor households' ability to achieve a basic living standard. The World Bank estimated that in 2013 approximately 1.7 million Sudanese fell into poverty as a direct result of eliminating the subsidy reform (World Bank, 2015). Reinstating fuel and food subsidies to pre-2013 levels would reduce poverty rates by about five percentage points.<sup>2</sup>

### Total Financial Costs

While this would have a sizeable effect on reducing poverty, it is a very costly and inefficient program. Subsidies already account for 36 percent of the government's \$1.6 billion USD 2020 budget and expanding this program would continue to strain the financial sustainability of the government (Alaraby, 2019). Assuming similar benefit levels and usage rates of the previous fuel subsidy program, the financial cost of this policy would be about \$106 million annually.

### Political Feasibility

This policy option would be politically popular. In 2019, the government expressed a desire to completely eradicate Sudan's subsidy program, and supplement this change with a 100 percent increase in public service wages and a subsidy increase for health and education services. Still, the public opposed this change to the subsidy program and the government was forced to backtrack (Amin, 2019). Subsidies are incredibly popular and could be a feasible tool to build support, especially during the transitional government's governing period before the 2022 general election. This policy option would rank high on political feasibility.

### Administrative Feasibility

The GoS has adequate capacity and experience to implement an effective subsidy program. This policy option ranks high in terms of administrative feasibility.

### Equity

The subsidies are regressive as they have disproportionately benefitted the well-off, who consume food and fuel (like gasoline) at much higher rates (World Bank, 2015). Reintroducing

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<sup>2</sup> A reversal of the 1.7 million who fell into poverty following the 2013 subsidy reforms.

the universal subsidies would recreate a system where the majority of the benefits flow to the wealthiest quintiles of the population. This policy option would rank relatively low on the equity criteria, as there are more efficient ways to target social spending to the neediest. However, it would still be more equitable than doing nothing.

### Policy Option 3 – Implement a Productive Safety Net

#### Effectiveness at Reducing Poverty

The temporary results of the PSN pilot in Sudan are still awaiting the completion of a benchmark survey. However, building upon the model of the Productive Safety Net in Ethiopia, we can produce a rough estimate of the impact of a nationwide productive safety net program in Sudan. The Ethiopia PSNP graduated almost 500,000 households from the program between 2008 and 2012, indicating that the program helped bring a considerable number of poor households out of poverty. Assuming a similar benefit level, coverage rate and targeting effectiveness, a Sudan PSN could be estimated to reduce poverty by around four percentage points. This option would rank relatively in the middle on the effectiveness criteria.

#### Total Financial Costs

A Productive Safety Net could be quite expensive, adding additional pressure to an already strained Ministry of Finance. While the exact specifications of what a national rollout would look like, depend on the results of the PSN pilot, we can estimate the financial costs of the program by building off the Ethiopia PSNP example. The total payments also vary with household size, but the average benefit amount of the Ethiopia PSNP was around \$40 USD per household per year (Berhane et al, 2011). Assuming a similar benefit amount, proportional administrative costs, and coverage rates, this project would be expected to cost around \$659 million USD, making it an expensive program.

#### Political Feasibility

This would likely be a politically popular response, but less so than subsidies or unconditional transfer programs which do not carry stipulations or conditions along with them.

#### Administrative Feasibility

The overall risk for the PSN was listed as “substantial” in the World Bank’s Project Information Document. A nationally-coordinated rollout of a Productive Safety Net program would require significant technical resources and inter-ministerial communication. This policy ranks medium in its administrative feasibility.

#### Equity

In terms of equity, a PSN will generally target the poorest households well, because the public works component of the project is mainly pursued by poor people. It is important to establish in the program condition exceptions, for those who are not able to work due to physical or mental limitations. The Ethiopia PSNP did this and impact evaluations of the program found that it was

well targeted to the poorest households, making this alternative a highly equitable policy option (World Bank, 2013).

#### Policy Option 4 – Implement a Quasi-Universal, Unconditional Cash Transfer

##### Effectiveness at Reducing Poverty

By providing monthly cash transfers on the order of \$5 USD per person to 80 percent of the population, the GoS will be able to markedly reduce the poverty rate. This unconditional cash transfer program is projected to decrease the poverty rate across Sudan by 6.8 percentage points. Rural areas will benefit the most with a poverty rate decrease of around 7.6 percentage points and urban areas will see a 5.2 percentage points decrease (World Bank, 2020).

##### Total Financial Costs

However, this is also the most expensive policy option. In total, this project is estimated to require about \$1.9 billion USD annually, of which the government of Sudan will contribute \$270 million. The Government of Sudan seeks the aid of donor organizations in funding the remainder of the project (World Bank, 2020).

##### Political Feasibility

A quasi-universal, unconditional transfer will likely be more politically popular than other forms of social assistance. While the benefit amount is low, universal or quasi-universal convey a different sense of fairness, where everyone, or most everyone, receives equal treatment. These types of programs are often more palatable to citizens who fear political favoritism, which would be especially important for the transitional government to demonstrate against.

##### Administrative Feasibility

Like with the PSN, there are still significant concerns about the administrative capacity to effectively implement the program. However, there are administrative benefits to having an unconditional cash transfer over a conditional program, and in this situation, conditionality may not be appropriate. Because a quasi-universal program would reach almost 80 percent of the population, the program will have limited risk of errors of inclusion. Administering conditions and verifying these conditions have been met, might not be worthwhile (Grosh et al., 2008). Reducing these requirements would slightly reduce the difficulty of program implementation.

##### Equity

This program would include a proxy means test (PMT), which would be able to effectively target benefits to the lowest four quintiles of the population, ranking high on equity. Projections have shown that a PMT-based cash transfer program in Sudan would be a much more effective targeting mechanism than the current system (Olinto et. al, 2014). This means that the benefits would likely be transferred to those who need it the most.

**Figure 4 - Outcomes Matrix**

	Effectiveness	Cost	Political Feasibility	Administrative Feasibility	Equity
<b>#1 Allow Present Trends to Continue</b>	Low	Low	Low	High	Low
<b>#2 Food and Fuel Subsidies</b>	High	Medium	High	High	Low
<b>#3 Productive Safety Net</b>	High	High	Medium	Medium	High
<b>#4 Quasi-Universal, Unconditional Transfer</b>	Highest	Highest	High	Medium	Highest

## Recommendation

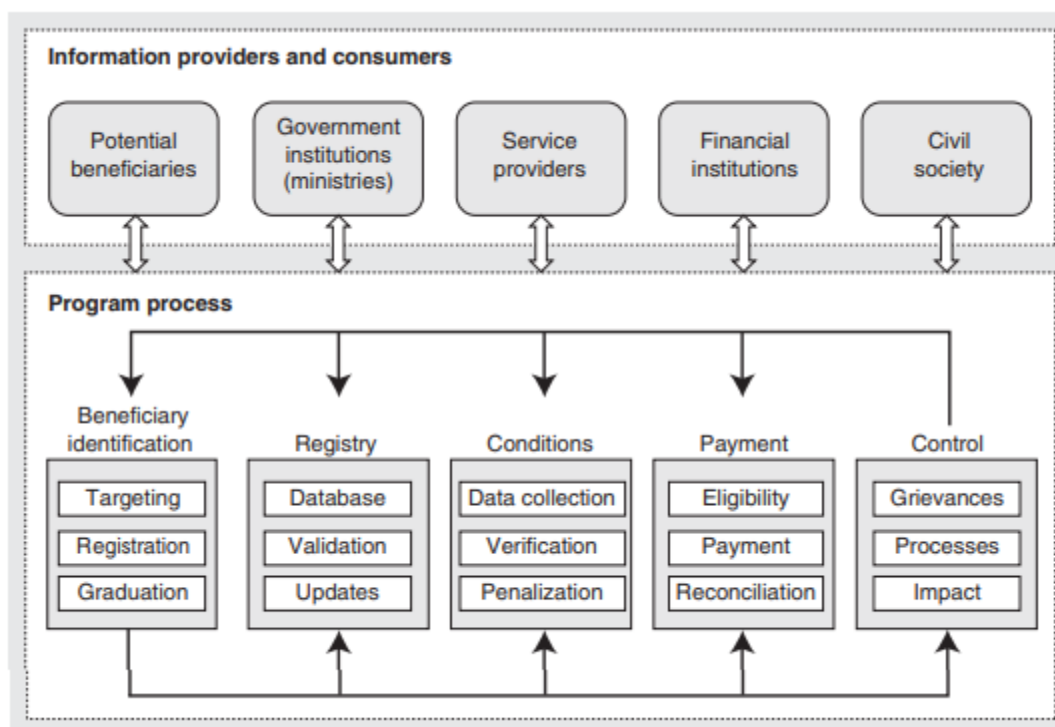
After evaluating all four policy options along the five established criteria, the best option for the GoS and to World Bank to pursue would be implementing the quasi-universal, unconditional cash transfer. While expensive and difficult administratively, this policy alternative ranks highest on the criteria of equity, effectiveness, and political feasibility. As the Government of Sudan and the World Bank work to increase the impact and efficiency of the country's social protection strategy, the characteristics of this program best fulfill the Government of Sudan's goals. Furthermore, the program has the potential to be a critical element of the transitional government's COVID-19 response. While costs and administrative feasibility still remain significant concerns, other countries have shown that it is indeed possible to implement effective social protection reform in low-income countries with political instability.



## Implementation

Implementation of a national safety net is a highly complex process that involves a number of stakeholders (ranging from beneficiaries, government agencies, service providers, financial institutions and civil society). The World Bank, and other donor agencies, will provide both funding and technical assistance to the Government of Sudan, to support the cash transfer program over its lifecycle. Specifically, the international donor agencies will need to work with the Ministry of Finance, the Ministry of Social Development and Labor, and the Ministry of the Interior to implement the proposed transfer program with the aid of financial institutions for the benefit of civil society. The ministries will have to coordinate with payment agencies to distribute the funds and gather information for monitoring and evaluation. This process is further outlined below in greater detail.

*Figure 5 - Processes and stakeholders involved in a safety net*



Source: Grosh et al., 2008; adapted from Arribas-Baños and Baldeón, 2007

### General Implementation Process

The Ministry of Social Development and Labor (MoLSD), which is authorized to implement social protection programs, must extract beneficiary data from the National Civil Registry (NCR), which is housed within the Ministry of the Interior. The NCR includes an extensive list of potential beneficiary households and relevant household data. After gathering

the list, the MoLSD will apply a proxy means test (PMT) to the full list of households to determine the bottom 80 percent poorest households. This process will provide the MoLSD with the entire population of eligible households that they will target.

Next, the Ministry of Social Development and Labor must share this list with the Ministry of Finance (MoF), which would have the ability to work with banks and deposit funds into their accounts. The funds will be distributed to the selected households on a quarterly basis in order to reduce the total number of payments made. This consolidation of payments reduces the administrative load on the MoF. The GoS will then transfer benefits directly to bank accounts or mobile money accounts. Because of the ease and transparency of digital payments, this method should be prioritized over others.

Monitoring and evaluation and accountability must play a central role in the implementation strategy. The Ministry of Social Development and Labor should maintain a complaint mechanism through which it would be able to gather and address grievances. This would take the form of phone applications, in-person centers and a free hotline linked with a call center. This component is critical for ensuring that the needs of targeted households are heard and this input should play a central role in informing future reforms and adjustments to the program. After distributing funds, payment agencies will need to prepare a report for the Ministry on the number of payments it has dispersed and to which households. This will greatly aid with monitoring and evaluation efforts, which will be conducted by the Ministry of Social Development and Labor and with technical assistance from the World Bank.

### Ensuring Access

There are a few important risks that must be accounted for, particularly regarding access. There is the potential that eligible individuals might not be able to receive payment (exclusion error), and this is most likely to occur if households do not maintain bank accounts. Where possible, the government and program should encourage households to open bank accounts and receive electronic payments. However, given the constraints of the financial sector in Sudan, other methods must be relied up. Where digital payments are not possible, cash payments should be coordinated with other delivery mechanisms such as the Zakat chamber, local schools, or humanitarian actors, all of which have established processes to effectively distribute cash and in-kind aid, particularly to the poor.

Access challenges could also arise if the National Service Registry information is not up-to-date. This would prevent effective targeting, and funds could, for example, be sent to households with members who are out of the country or deceased. Additionally, the transfer might have additional exclusion errors arising from lack of identification. For example, individuals who do not have a national identification, and are disproportionately more likely to be vulnerable, would not be part of the National Civil Registry and thus, would not receive payments.

### Addressing Risks

There is also the potential that ineligible households receive benefits when they should not have (inclusion error). The likelihood of this risk is reduced, as such a broad portion of the population is covered and there are not too many “ineligible” households. Further, these ineligible households are the wealthiest 20 percent and there will not be as strong of an incentive to access the benefits as there are for poorer households. However, with any social program there are concerns about inclusion errors and fraud. To address these concerns, the World Bank has dedicated \$90 million USD towards establishing improved delivery systems, building institutional capacity, and increasing accountability. Still, potential issues with access and fraud are still central concerns and warrant additional study.

## Additional Considerations

### The Importance of Universal Social Registries

Another social tool which is increasing in usage and importance in the Arab region is the unified social registry (USR). This mechanism centralizes the collection and housing of data on potential beneficiaries of social protection programs in order to integrate registration and eligibility determination. USRs can include information on individual and household characteristics, socioeconomic statuses, and asset value, allowing governments to determine eligibility for multiple social programs (Barca, 2017).

While a low-cost solution like a USR would not directly address the high levels of poverty within the country, this integrated process of eligibility determination has the potential to reduce administrative costs and improve service delivery (Barca, 2017). Furthermore, a USR could also integrate services and social policies, reducing the potential for exclusion and inclusion errors (Barca, 2017). A Universal Social Registry is a low-cost program that could be beneficial to the GoS during their social protection reform and could help improve targeting mechanisms, and eliminate unnecessary social spending.

Admittedly, there are a few potential downsides to implementing a USR that warrant discussion, namely regarding data privacy concerns and the potential for data overload. Also, the benefits of USRs have not rigorously been evaluated, so their benefits could be understated. While USRs are not currently widespread with the Arab world, some countries are beginning to pilot these social registries (Leite et al., 2017). Egypt, for example, is currently using its expansive Takaful and Karama social programs in order to develop a unified database registry. While this registry was expected to be finished before 2019, its current status is unclear (Arab Republic of Egypt, 2018). Lastly, this policy option would require high-quality data and information as well as reliable cooperation between government agencies. The current fragmented and unstable political situation in Sudan could pose a serious challenge towards effectively implementing a universal social registry. Further research into this topic could be beneficial in order to determine the viability and usefulness in Sudan.

## The Importance of International Donor Support

Ultimately, the GoS is highly dependent on international donor support in order to implement a comprehensive social transfer system. The recommended policy option would provide cash transfers of US \$5 per person per month to around 80 percent of the population of Sudan (32 million individuals). This would have an estimated annual cost of about \$1.9 billion USD, which would be enormously burdensome for the GoS if it had to bear upfront the full cost of the program. The GoS has already allocated \$270 million of its own budget to launch the program, but is seeking international financing to fill the remaining gap of the program's estimated \$1.9 billion annual cost.

As a result, program benefit amounts and rollout timelines are highly dependent on the GoS's ability to raise funds from the international donor community. Full donor financing will be critical to supporting the SFSP program and its goal to lift millions of Sudanese out of poverty and increase their resilience to COVID-19 shocks. However, donor financing has not yet been secured and there is the potential that the requested amount from the GoS will not be fulfilled completely.

In order to project what a large quasi-universal, unconditional cash transfer program would look like at different funding levels, five potential funding scenarios have been forecasted.<sup>3</sup> The GoS has maintained that retaining the program's 80 percent coverage rate is a key goal, and it will be more important to first adjust timelines, benefit frequencies and levels, before reducing the number of beneficiaries. With those constraints guiding the forecasting, five scenarios and their different benefit levels and rollout schedules are summarized below.

### High-Funding Scenario:

In this scenario, the budget is set at \$3.12 billion – the amount that would be available to the GoS if international donors financed \$2.85 billion to supplement the \$270 million already allocated to the SFSP by the GoS. This would be enough to support a monthly \$7.50 per person benefit that reaches 80% of the population. This cash transfer program would be able to last until December 2021.

### Fully-Funded Scenario:

In this scenario, the budget is set at \$1.92 billion – the amount that would be available to the GoS if international donors financed \$1.65 billion (the full requested amount) to supplement the \$270 million already allocated to the SFSP by the GoS. This SFSP scenario would provide a \$5 per person monthly benefit that reaches 80% of the population. Including a pilot, scale-up and scale-down periods, the program would last until December 2021.

### Medium-Funding Scenario:

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<sup>3</sup> Complete rollout timelines and benefit levels for the five scenarios are included in detail in the Appendix.

In this scenario, the budget is set at \$1.095 billion – the amount that would be available to the GoS if international donors financed \$825 million (half of the requested amount) to supplement the \$270 million already allocated to the SFSP by the GoS. The benefit amount would have to be reduced to a \$2.5 per person monthly transfer (\$5 every two months), but could still maintain the original coverage rate and timeline, which would have the program lasting until December 2021.

#### Low-Funding Scenario:

In this scenario, the budget is set at \$820 million – the amount that would be available to the GoS if international donors financed \$550 million (one-third of the requested amount) to supplement the \$270 million already allocated to the SFSP by the GoS. Like the medium-funding scenario, the benefit amount would have to be reduced to a \$2.5 per person monthly transfer (\$5 every two months). While the program could still reach 80% of the population, the additional financial pressures would necessitate shortening the length of the program by about three months, lasting only until August 2021.

#### Sudan Alone Scenario:

In the absence of international donor support, the budget is set at \$270 million – the amount already allocated to the SFSP by the GoS. In order to maintain the 80% coverage rate, the benefit would have to be reduced to a \$1.25 per person monthly transfer (\$5 every four months) and the program would only be able to last until March 2021 before funding ran out. This is a significantly reduced timeline and benefit level compared to the previous financing scenarios.

## Conclusion:

While the current situation in Sudan is already precarious and necessitates a sweeping policy response, the economic and health shocks from COVID-19 threaten to further harm Sudan's poor. In order to address persistent poverty, build economic resilience against COVID-19 and further generate support for and trust in the transitional government, the Government of Sudan must make social protection reform a key component of its COVID-19 response package. A quasi-universal, unconditional cash transfer, would be a critical step for the transitional government during this impending economic and health crisis.

However, it is important to remember that while this policy option is important and should be undertaken, it will not “solve” poverty. In order to continue to address the high poverty rates and build longer-term economic stability, the Government of Sudan must accompany these efforts with additional macroeconomic reforms and social programming. This program, and future programs, would greatly benefit from a robust national household survey and improved management information systems. Developing the breadth and quality of household data and knowledge will help inform the best policy responses, as the Government of Sudan and World Bank continue to work to lift millions of Sudanese out of poverty.

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## Appendix

Due to size constraints of these pages, the full rollout timelines of the five projected scenario are detailed at length in an online appendix located [here](#).