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AN ANALYSIS OF FISCAL POLICIES IN THE SUDAN:

A PRO-POOR PERSPECTIVE

A DISCUSSION DRAFT

Professor Medani M Ahmed
Khartoum University

Rahamtalla Ali Babiker
Ministry of Finance and National Economy

Michael E. Bell
George Washington University
And
MEB Associates, Inc.

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George Washington Institute of Public Policy (GWIPP)
The George Washington University
805 21st St. NW
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An Analysis of Fiscal Policies in the Sudan:
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The purpose of this chapter is to discuss the impact of fiscal policies in the Sudan, over the last 20 years, on poverty reduction. In the best of circumstances this would be a daunting task. For example, what do we mean by poverty? Do we use an income or consumption measure to determine poverty levels? Once we define a poverty line in terms of income or consumption, do we simply want to calculate the percentage of the population living below that poverty line? If so, that might lead to policies directed at those closest to the poverty line. Or, alternatively, do we want to take into account in our measure of poverty the distance of poor people from the poverty line and the degree of income inequality among poor people? [See World Bank, World Development Report 2000/2001, pp. 15-29].

In the Sudan, however, these issues are something of a moot point at this time since there has been no comprehensive household survey in more than 25 years that would allow us to define a poverty line in terms of income or consumption. Therefore, we cannot use an income or consumption based definition of poverty in the Sudan; we must look elsewhere for determining what we mean by poverty in the Sudan.

Another approach to defining poverty is in terms of human development, or more precisely, human deprivation. For example Sen argues that

"If our attention is shifted from an exclusive concentration on income poverty to the more inclusive idea of capability deprivation, we can better understand the poverty of human lives and freedoms in terms of a different informational base…seeing poverty as a deprivation of basic capabilities, rather than merely as low income." [Sen, p. 20]

In this context, poverty alleviation is seen in terms of expanding opportunities of the poor through better education, improved health care, better nutrition, clean water and improved sanitation, greater economic opportunities, political liberties, access to product markets, improved public facilities, and the encouragement and cultivation of initiatives. [Ibid., pp.3-11].

If we accept this non-income concept of poverty as our notion of poverty and what we mean by poverty alleviation, our task in this chapter is to explore how the patterns and trends of fiscal policies of the Government of Sudan[1], their revenue raising and spending decisions, impact

[1] Sudan is a federal state so we consider the revenue raising and spending patterns and trends of the central government as well as state and local governments.

our notion of poverty alleviation. Traditionally, what one would do to address these issues is conduct an incidence study of the various taxes used to finance government services and look at the incidence of benefits from various government spending programs and see how they vary across income classes. Looking at the combination of tax and benefit incidence by income class winners and losers can be identified and the net impact on the poor can be discerned.

This is where the situation becomes more complicated, in large part, because of the lack of meaningful data on revenue raising and spending for all levels of government in the Sudan and the lack of data from household surveys necessary for such incidence studies. Most of the national data available has gaps in terms of coverage and statistical reliability, and few national surveys exist at the household or firm level. In addition, there are no reliable statistics for the war-affected areas. [World Bank, Sudan Stabilization and Reconstruction: Country Economic Memorandum, 2003].

The next sections make the best use of available information to describe fiscal patterns and trends of the central government of the Sudan, as well as state and local governments in Sudan, and speculate on their impact on poverty and poverty alleviation. One major lesson learned from this exercise, however, is that a major priority for the immediate future is to improve the policy analysis capacity of government, at all levels, through the development of more useful and meaningful information. [For a discussion of related data issues see Yilmaz, Hegedus and Bell, 2003].

1. Introduction

This work focuses attention closely at the federal government budget in the Sudan in the period 1980/81-2001/02 in order to analyze the factors that have affected the performance of revenues and expenditures on one hand, and their impacts on poverty on the other. We divide the abovementioned period into two separate periods using before and after 1992 fiscal year as a tool of analysis. The immediate question to be asked is: Why 1992? As mentioned in the introductory chapter of this study, the 1992 fiscal year witnessed the self- imposition and implementation of aggressive rapid Structural Adjustment Programs [SAPs]. The self-imposed SAPs aimed at managing the government budget deficit through curbing expanding government expenditures and increasing amounts of government revenues through broadening of revenue sources, especially taxes. The SAPs also attempted to liberalize the economy to depend more on market forces for allocating resources and determining their relative costs and values. The role of the private sector was also strengthened through adoption and implementation of an aggressive privatization program intended to transfer resources from the domain of the public sector to that of the private sector. In addition, foreign trade was liberalized and attempts were made to encourage foreign direct investment through the provision of generous fiscal and non-fiscal incentives to prospective foreign investors. The SAPs also adopted a policy of floating the Sudanese pound against the U.S. dollar, resulting in substantial devaluations of the pound. For instance, the conversion rate for the Sudanese pound deteriorated substantially from LS100 for one US$ in 1992 to LS2610 in 2003; a devaluation rate of 2510%[See Bank of Sudan: Annual reports for respective years].

Freeing prices from administrative controls and the emphasis after 1992 on market forces to reflect real factor costs created a framework for rapid increases in prices in the short-term which were exacerbated and prolonged by an easy monetary policy and deficit financing. The resulting inflation in the prices of consumer goods and inputs pushed up the cost of production and consumption to producers and consumers alike. Because of the failure to adopt critically needed safety net programs to offset the negative and adverse effects of these SAPs, the poor and most vulnerable groups were hit hard and their economic and social situations further deteriorated.

Reduction of government spending was mainly directed to curb spending on social services; especially health and education, water and other critically needed goods and services. Most of these essential services were provided by the private sector at levels of prices that most people cannot afford. With no matching increases in the level of wages and salaries, the fixed salaried people, middle class and small-scale producers as well as a large number of unskilled and seasonal labor have become net losers and their incomes and consumption positions worsened joining the masses of the poor people. In fact, the initial draft of the Sudan Interim Poverty Reduction Strategy Paper acknowledges that “This stringent economic policy and the poor state of social service delivery contributed to increased poverty and human deprivation, in spite of high economic growth fuelled by the start up of oil production and continued favorable weather conditions over a number of years.” [Atabani, 2004, p. 7]

This discussion of central government fiscal policy is organized in five sections. The first section examines federal government revenues as a ratio of the GDP and the decomposed revenue [tax and non-tax revenues] as percent of total revenues. Furthermore, tax revenues are broken into indirect and direct taxes as percent of total revenues and GDP. We argue that government revenues as percent of GDP on average amounted to 11.6% and 8.9% for the periods 1980-1991 and 1992-2002 respectively. Government revenues in the Sudan are a relatively small share of GDP compared to other countries, including other African countries. Tax revenue as a ratio of total government revenues was 74.4% and 71.9% for the same periods, whereas non-tax revenue's ratio, on average, was 21.5% in the period 1980-1991, increasing to 28% in the period 1992-2002 due to the introduction of oil proceeds which started to assume an important source of revenue generation in late 1990s. Analysis has also shown that indirect taxes's share in total tax revenues has been the biggest, amounting to 58% and 41.5% for the same periods, whereas direct taxes scored a ratio of 16.7% and 22.5% for the same periods, with an obvious rise in the period 1992-2002.

The second section deals with federal government expenditures in the period 1980-2002, classified by functional and economic classifications for 1980-1991 and by chapter classification for the period 1992-2002. It is important to point out that the Ministry of Finance and National Economy does not currently classify expenditures by function but only by chapters. The aggregate data do not help researchers and policy makers conduct a thorough and useful analysis of the possible impacts of the pattern of government spending on growth and poverty reduction. This is an area where some institutional reforms should be undertaken to improve the quality of data, and have a detailed functional and economic classification of expenditures. Improvement of budget control procedures, professional auditing, accountability and transparency in ways and means of resource use and distribution are critically needed.

The third section addresses government budget with direct emphasis on the magnitude and development of internal public debt in the Sudan. It emphasizes that an expansionary fiscal policy has been adopted in the Sudan during the decades of the 1980s and 1990s. Deficit financing is being aggressively used as a strategy to finance development and current expenditures during the 1990s. Collection of taxes was stepped-up and borrowing from the central bank, the banking system and the public was widened greatly in magnitude. Together with enormous accumulated external debts [from the 1970s to present time] amounting to over

$23 billion, the overall public debt starts to raise questions on the fiscal sustainability of this government policy. The fourth section examines transfers from the central government to the states through the National State Support Fund and the fifth section takes a look at one of the major off-budget activities of the Government of Sudan – the Zakat. The final section of the report looks at the role of state fiscal policy in poverty alleviation. The remainder of this section briefly reviews the role of fiscal policy in the economy.

1.1. Fiscal Policy: A General Setting

The government uses fiscal policy to allocate and redistribute resources because the allocation and distribution resulting from private sector activities are not satisfactory in most cases, especially in the Less Developed Countries [LDCs]. In LDCs, the private sector often has not been given the chance to develop into a fully-grown vibrant and dynamic productive sector [as in the case of western Europe and United States of America] due to a combination of historical, social, political and economic factors. Likewise, in these countries the market system has not developed naturally and has continued to be characterized by severe distortions and inadequacies. As a result, the government becomes an essential and influential player in the economy in matters concerning the use, allocation and distribution of resources among different groups and sectors. It compensates for the deficiency in the private sector's allocation and distribution of resources to certain sectors and groups of people, directly by spending more or less to make up for the rest of the economy spending more or less. On the other hand, the government compensates indirectly by raising or lowering of taxes to encourage the rest of the economy to spend more or less. There are important differences among various government spending patterns and variation of taxes and non-tax revenue sources that affect resource generation and distribution in the economy.

We should mention that government interference in the economy is hotly debated in both economic and political spheres. For instance, neoclassical economists directly oppose government intervention in the economy as they consider it a major cause of economic distortion. It is argued that it takes resources away from the private sector and gives them to the public sector. The private sector is seen as much more efficient in the allocation and uses of resources compared to the public sector that constitutes the worst alternative user and allocater of resources. However, in the aftermath of the 1997 Asian economic and financial crises that hit hard most of East Asian countries and endangered the world financial stability, a new realism and recognition of the need for government regulation and intervention in the economy to offset any negative external shocks and to ensure macrocosmic stability, are widely demanded and agreed upon by many scholars and decision -makers as well as multilateral institutions. This is often referred to as the Neo-liberal approach to public finance, in contrast to the more restrictive view of the role of government in the economy under a libertarian approach to public finance. [See Baily, Chapter 1 for a fuller discussion of these issues].

Through the various revenue raising and spending tools of fiscal policy, the government can have a positive or a negative impact on the economy. For instance, the perceived positive roles of the government in the economy are seen to lie in the following spending areas: infrastructure services, education, health, and research and development. A positive government intervention to increase the level of activity can increase employment and reduce unemployment; in many cases it raises prices. Conversely, spending on wages and salaries, administration, military and security and in areas where the private sector can provide goods and services more efficiently, all are considered as examples of negative government interventions that should be controlled and minimized. On the other hand, a negative action to reduce prices may indeed reduce employment and increase unemployment.

Generally, the ratio of government expenditure to GDP is taken as an indicator of the extent to which the government is interfering in the economy and, as the ratio rises, some see that as a negative indicator of this intervention. Also, when the government's share of wages and salaries in GDP rises, it is often viewed as a negative intervention. More attention is also given to the ratio of government investment to gross investment, which is considered an indicator of bad government intervention, discriminating against the private sector. Finally, it is important to mention that government subsidies to certain groups and direct transfers to the states give mixed signals – a positive one that redistributes income in favor of poor people and regions and a negative one that distorts resource allocation and thus reduces competitiveness and causes resource misallocation in the economy.

2. Federal Government Revenues

Different regimes in the Sudan tend to generate revenues for financing public programs from two sources: tax-revenues and non-tax revenues. Tax revenue is divided into direct and indirect taxes. Direct taxes are defined to include Personal Income Tax [PIT], Business Profit Tax [BPT], Sudanese National Working Abroad [SNWA] contributions, stamps and others. On the other hand, indirect taxes include Customs Duties [CDs], Import Duties [IDs], Export Duties [EDs], Defense Tax [DT], Excise Duties [XDs], Value Added Tax [VAT], and miscellaneous revenues. The non-tax revenue category includes contributions of agricultural, industrial and commercial companies and corporations [sometimes more conveniently called Parastatals], Sugar Monopoly Profit [SMP], Profits from the Banking System, Pension Contributions, Interest and Dividends and fees, and charges on public services, commodity price differentials, loan payments, oil revenues and other revenues [especially sale of property e.g. land]. Oil revenues began to constitute a big share of the federal revenues in late 1990s and beginning of the 2000.

Table [1] gives data on the federal government budget, revenues, expenditures, and deficit as ratios of the GDP. It is clear from **Table [1]** that government revenue for the period 1980-1991 constitutes on average 11.6% of the GDP and dropped to 8.9% of the GDP for the period 1992-2002, with an overall average of 10.3% for the whole period 1980-2002.[2] On the other hand, government expenditures as a ratio to GDP scored an average of 19.4% for the period 1980-1991 and dropped sharply to 11% of GDP in the period 1992-2002, because of the implementation of self-imposed SAPs intended to reduce government spending, but which resulted in reduced spending primarily on social sectors as well as on new development projects. The table also includes information on tax and non-tax revenues as well as direct and indirect taxes as percent ratios of GDP. For instance, tax revenue as a ratio of GDP was 8.2% in the period 1980-1991 and dropped to 5.8% in the period 1992-2002. These ratios are much lower compared to those of the LDCs [18% of GDP] and substantially lower than the industrialized countries' ratio of 38% of GDP. The non-tax revenue's ratio to GDP constituted 2.5% in the period 1980-1991 and slightly increased to 3% during the period 1992-2002. On the other hand, indirect taxes, on average scored 6.3% in period 1980-1991 and dropped to 4% during the period

[2] The decline in central government revenues relative to GDP between the 1980s and 1990s is difficult to interpret for several reasons. For example, some revenue sources included in central revenues in the 1980s where turned over to state governments and are not included in central government revenues in the 1990s. Thus, the decline in relative importance of central government revenues reflects, in part, a realignment of revenue raising responsibilities and does not simply reflect a reduction in revenue mobilization by the central government.

1992-2002, whereas the performance of the direct taxes is much lower, on average scored 1.8% for the whole period 1980-2002.

2.1. The 1981-1991 periods

The period 1981-2001 witnessed a number of changes in fiscal policy objectives that have directly affected the behavior of tax-revenues in the Sudan. Some taxes have been abolished and many others are added to generate revenues. In what follows we make a quick survey of these changes.

Since 1978, and through the 1980s, the Sudan has been implementing Structural Adjustment Programs [SAPs] under the supervision and guidance of the International Monetary Fund [IMF]. Those programs were less aggressively applied in terms of comprehensiveness and depth as compared to the self-imposed SAPs implemented in 1992 and after.

If we start with 1981/82 budgets we observe a notable increase in import duties due to devaluation of the Sudanese pound. The fiscal year also witnessed lifting the subsidy on canned milk and drugs. In addition, a 35% increase in petroleum products prices was announced and a 62.5% increase of local and imported tobacco as well as an increase in alcoholic products was decreed. As a result of all these measures government revenues increased compared to previous fiscal year.

In the fiscal year 1982/83 two important things happened. First, production duties fell sharply due to cancellation of the production tax on oil seeds, soap, and footwear industries. Secondly, income tax increased due to tax reform policies implemented to broaden taxation umbrella.

The revenue collected in 1983/84 fell by 35% due to the abolition of the personal income tax and inefficient use of Zakat as a sole tool to generate revenues. Another adopted measure was the devaluation of the pound from LS1.30 for each US dollar to equal LS 2.5 for one US dollar (a 92.3 percent devaluation), which led to an improvement of import duties share in total government revenues.

In the fiscal year 1984/85 Personal Income Tax and Business Profit Tax were reinstituted after being abolished in 1983/84, with the adoption of the Islamic Sharia’a Laws. Also, surtaxes on banks and insurance companies profits were imposed. Furthermore, rates on soft drinks, cement, and airlines’ tickets and hotel services were raised and a new tax on telephone and communications services was imposed. The 1984/85 budget also witnessed adoption of Social Justice Tax to sustain revenues from Zakat. Also Excise Tax and Defense Tax were abolished whereas a consumption tax on domestically produced and processed goods was included in the item “Duties on Goods and Services”.

The 1986/87 fiscal years adopted a set of measures to strengthen government revenues; namely restoring the price of gasoline to its previous level of LS3.50 and raising prices of other petroleum products per gallon. Also, a 5% compulsory savings on salaries above LS 150 per month in both public and private sectors was implemented and a flat rate of 10% reduction in expenditures of public units was done.

Some more fiscal measures were taken in the fiscal year 1988/89 to augment revenues; namely:

- An increase in excise duties on cement,
- An increase in Defense Tax from 5% to 10%,
- An increase in Excise Tax on cigarettes,
- An increase in fees charges on travel documents,
- An introduction of a Wealth Tax and a National Development Tax,
- An increase in the price of sugar from LS 1.25 per pound to LS 3.0 per pound, and
- An increase in the price of bread.

2.2. Fiscal Measures in the Period 1991/92-2001/02

The 1990s witnessed the adoption and implementation of three Three-Year Economic Programs within an overall Ten-Year National Comprehensive Strategy 1992-2002 [NCS]. These programs are: the first three-year economic salvation program 1990/91-1992/93, second three-year economic salvation program1996-1998, and the third three-year economic salvation program 1999-2001.

Within the overall guidance of the SAPs adopted and implemented in the 1990s, the 1992 fiscal year served as a base for the NCS [1992-2002], which aimed at achieving an internal balanced budget between expenditures and revenues and further make a surplus to finance development projects and activities of the NCS. As we see from **Table [1]** this objective was not achieved and the budget continued to have a deficit for the entire period of the NCS. Indeed the balanced budget was not even conceivable, as the government has firmly adopted an expansionary fiscal policy to finance both current and developmental activites. As we will be arguing in this chapter, deficit financing has enabled the economy to grow at some positive growth rate exceeding 5% on average in the 1990s but also resulted in significant inflation [three digit figures for good part of the 1990s], increases in internal government debt and wide spread incidences of poverty both in the rural and urban areas. The devastating effects of inflation further deteriorated the standard of living of the people, eroded the values of physical capital and resulted in massive out-migration of skilled people and flight of capital from the Sudan. Both monetary and fiscal instabilities were the norm. In 1996, the government applied very strong stabilization measures that attempted to curb the excessive supply of money, reduced its borrowing from the central bank, instructed commercial banks to curb their credit expansion and broadened and strengthened taxes. Sharp reduction in government spending on social services [especially education and heath] was done and development spending was mainly directed to maintain existing projects not to carry out new ones. On the other hand, special concern was given to oil exploration and production activities via provision of hospitable fiscal and non-fiscal incentives.

Table [1]
Federal Government Budget and Decomposed Revenues
As % of GDP [1980-2003]

ITEM/ YEAR	Expenditure As % of GDP	Revenue As % of GDP	Budget Deficit As % of GDP	Tax Revenue As % Of GDP	Non-tax Revenue As % Of GDP	Direct Tax As % of GDP	Indirect Tax as % Of GDP
1980	21.7	15.9	5.80	10.8	5.0	2.4	8.2
1981	25.8	15.3	10.5	11.5	3.7	2.2	9.4
1983	24.7	16.3	8.40	12.9	3.4	2.9	10.1
1984	27.9	13.7	14.3	11.8	2.1	2.6	9.2
1985	17.5	14.3	8.80	6.8	0.9	1.5	5.3
1986	18.4	9.2	9.20	5.6	2.4	1.5	4.1
1987	19.7	9.9	9.70	5.6	2.3	1.4	4.2
1988	18.9	8.5	10.4	6.2	1.3	1.5	5.5
1989	13.8	8.5	5.20	7.9	0.9	1.7	5.9
1990	9.5	8.6	0.90	5.5	3.6	1.3	3.7
1991	15.9	7.6	8.40	5 .3	2.3	1.1	4.2
1992	13.3	9.7	3.50	6.0	2.5	2.3	3.9
1993	10.1	7.5	2.60	5.9	1.6	2.3	3.5
1994	13.6	12.0	1.50	8.8	3.2	3.5	5.2
1995*	9.1	4.9	2.10	4.0	0.9	1.6	2.5
1996	8.9	6.8	1.20	5.9	1.7	2.3	3.5
1997	8.0	6.8	1.20	5.2	1.6	1.4	3.8
1998	8.8	7.9	0.80	5.8	2.2	1.6	4.3
1999	9.3	8.3	0.90	6.3	2.1	1.5	4.8
2000	11.9	11.2	1.70	5.4	5.8	1.3	4.1
2001	12.4	10.8	1.6	5.5	5.2	1.2	4.4
2002	15.9	12.3	1.2	5.6	6.7	1.1	4.5

Source: Medani M Ahmed [2004] own calculations based on data obtained from Bank of Sudan: Annual Reports, for respective years.

*1995 figures are for five months only. The fiscal year used to start July 1st and end on June 30 each year and was changed to start on January 1st and end on December 31 of each year.

Table [2] gives data on decomposed government revenues [into tax and non-tax revenues] as percent ratios of total government revenues. It also provides information on direct and indirect taxes as pecent ratios of tax revenues as well as of total government revenues. As evident from **Table** [**2**] tax-revenues on average constituted 74.4% and 71.9% of total government revenues for the period's 1980/81-1991/92 and 1992/93-2001/02 respectively. The World Bank reported average ratios of 78.9% and 74.6% for the same periods. The small difference in ratios is attributable to the fact that the World Bank data are estimated figures and not actual. It is important to mention that taxes have been and continued to be the main sources of the federal government revenue for the whole period 1980-2002; with an average of 76%. On the other hand, non-tax revenues as % ratio of the federal government revenues amounted to

21.5% and 28% for the periods 1981-1991[before 1992] and 1992-2001 [after 1992] respectively. The rise of the share of non-tax revenues in total federal government revenues in the period after 1992 was caused by introduction of oil as an important new source of revenue generation.

If we decompose tax revenues into direct and indirect taxes, we clearly see the significance of the later as a major source of generating revenues in the Sudan for whole period 1980-2002. For example, the share of indirect taxes in total government revenues reached on average 59% and 48% for the periods before 1992 and after 1992 respectively. For the period before 1992 the share of indirect taxes in total revenues

Table [2]
Tax and Non-Tax Revenues As % of Total Revenues.
[1980-2003]

Year/Item	Tax Revenue As % of Total Revenue	Non-Tax Revenue As % of Total Revenue	Direct Tax as % of Total Revenue	Direct Tax As % of Tax Revenue	Indirect Tax As % Of Total Revenue	Indirect Tax as % of Tax Revenue
1980	68.2	31.8	15.0	22.0	53.3	78.0
1981	75.5	24.5	14.3	18.9	61.2	81.1
1983	79.2	20.8	17.6	22.2	61.6	77.8
1984	84.6	15.4	18.8	22.2	65.8	77.8
1985	89.9	10.1	17.5	19.5	72.3	80.5
1986	64.4	35.6	14.9	23.1	49.5	76.9
1987	74.2	25.8	18.0	20.6	52.7	79.4
1988	77.9	22.1	12.4	15.9	65.5	84.1
1989	69.9	30.1	16.4	23.5	53.5	76.5
1991	69.6	30.4	14.1	20.3	55.5	79.7
1992	76.1	23.9	26.8	35.2	49.3	64.7
1993	78.5	21.5	31.7	40.3	46.8	59.7
1994	71.4	28.6	28.3	39.7	43.1	60.3
1995	82.2	17.8	31.9	38.9	50.2	61.1
1996	86.6	13.4	28.7	33.1	57.9	66.9
1997	76.0	24.0	20.0	26.3	56.0	73.7
1998	73.0	27.0	19.6	26.9	53.4	73.1
1999	75.0	25.0	17.6	23.4	57.4	76.1
2000	48.4	51.6	11.5	23.8	36.8	76.2
2001	51.5	48.5	11.2	21.7	40.3	78.3
2002	45.3	54.7	8.7	19.3	36.5	80.7

Source: Medani M. Ahmed [2004] own computations based on data obtained from Bank of Sudan: Annual Reports, for respective years.

was higher than the period 1992-2002 indicating that more sources of revenue were added in the 1990s as well as the fact that the federal government started to rely more on direct taxes. The share of direct taxes in the total government revenues was 15.9% and 21.5% for the periods

1981-1991 and 1992-2002, respectively, albeit their share of total government revenues declined steadily since 1995.

If we decompose direct taxes into some of its components, we find that Business Profit Tax [BPT] and Personal Income Tax [PIT] are the most significant ones in this category. For instance, BPT scored on average 11% and 14.7% for the periods 1981-1991 and 1992-2000, respectively whereas PIT on average amounted to 3.0% and 1.7% of total federal revenues for the same periods.

In addition, the contributions of Sudanese National Working Abroad [SNWA] were 1.5% and 2.3% for the same period; slightly improved in the period after 1992 but their share in total revenues has been very small indeed. Likewise, the share of development tax in the total government revenues was very low amounting to 0.8% and 0.2% for the same periods.

It is important before closing discussion on the direct taxes to say a few words on some of the advantages that could have been realized if different regimes in Sudan depended on them as main sources of generating revenues, instead of relying solely on indirect taxes. One would have imagined that in response to an increase in demand for its services, the government would prefer to rely on taxes that have higher income elasticity to generate more revenues. The personal income tax is considered a powerful tool for achieving income distribution among those above the poverty level. It gives freedom to people to allocate their after tax incomes as they desire. It is also generally thought to conform to the conception of equity more so than other types of taxes. A progressive personal income tax can be a good tool for income distribution in favor of the poor. It is simple and can generate substantial revenues for the federal government.[3] In addition, the incidence of the income tax rests with the taxpayers.

Despite the abovementioned positive characteristics of the direct taxes [income and profit taxes] various regimes in the Sudan relied mainly on indirect taxes as we outlined before. For instance, the share of Business Profit Tax in both direct taxes and total government revenues could be increased substantially with expansion of the productive activities of the private sector and sustenance of growth in the economy. However, the existing investment policy that provides enormous fiscal and non- fiscal incentives, most important of which is exemption from BPT for

[3] In fact, as part of agreements with the IMF, the Government of Sudan has included in its 2004 budget measures to increase the personal income tax on wages and salaries by two percent.

more than five years, deprives the economy of significant amounts of revenues.[4] A serious study of the cost-benefit of BPT exemptions should be done to determine their viability and cost effectiveness. Tax exemptions are no longer considered the main factors in attracting foreign investment as investors start to value more the enabling environment and macroeconomic stability, good governance, transparency, accountability and rule of law. Also, the adjusted after tax rate of return on investment became critical for foreign investors in a risky environment. Finally, low productivity caused by many distortions and institutional deficiencies handicap foreign investment. These deficiencies include obstacles to international trade; overvalued exchange rates; poor infrastructure; bad governance; and corruption; and insufficient competition and domestic monopolistic structures in many sector especially agriculture.

2.3. Indirect Taxes Decomposed

Again, it is important to breakdown indirect taxes into their main types to see their shares in total government revenues. [**See Table [3]]**. We should recall that indirect taxes on average amounted to 59% and 48% of the total federal revenues for the periods before and after 1992 respectively. Eventhough there was a decline of the share of indirect taxes in the period after 1992, the share of total revenues has continued to be very high. As we look into the components of indirect taxes we find that Customs Duties, for example, have on average constituted 43.6% in the period 1980-1991 and declined to 32.2% in the period 1992-2002. Import Duties' share of total government revenues, separately, contributed 18.7% in the period before 1992 and amounted to16.8% in the period after 1992 showing a little decline. On the other hand, Export Duties as a ratio of total government revenues, on average, scored 6.7% and 2.1% for the same periods. The fall in export duties in the period after 1992 is caused by the implementation of export promotion strategy that resulted in substantial reduction of the duties on exports. The impact of foreign trade liberalization policy can also be felt in the sharp fall of the import duties in the 1990s.

[4] Based on agreements with the IMF, Sudan has been moving toward reducing these exemptions by taking a number of steps to reform the tax incentive regime of the Investment Encouragement Act. Specifically, the GoS has recently made progress in tightening exemption criteria, centralizing the authority to grant exemptions, and setting limits on renewing exemptions. The 2004 budget includes efforts to abolish the corporate tax exemptions for rehabilitation purposes and cancel the tax privileges of the oil distribution companies. Finally, the GoS is committed, once the peace accord is signed, to enforcing an immediate ban, through a decision of the Cabinet of Ministers, on all tax exemptions granted outside the Investment Encouragement Act.

Table[3]
Foreign Trade Duties as % of Total Revenues.
[% Distribution]

Year/Item	Tax Revenue As % of Total Revenue	Customs Duties as % of Total Revenue	Import Duties as % of Total Revenue	Export Duties as % of Total Revenue	Excise Duties as % of Total Revenues
1980	68.2	44.4	31.1	5.3	7.6
1981	75.5	34.9	29.5	5.4	9.1
1983	79.2	47.9	47.4	4.9	7.6
1984	84.6	53.8	52.4	1.3	3.6
1985	89.9	56.6	54.9	1.7	14.0
1986	64.4	37.5	35.2	2.2	10.1
1987	74.2	47.8	40.6	1.9	10.3
1988	77.9	44.8	36.3	1.4	18.4
1989	69.9	35.1	29.1	0.9	21.7
1991	69.6	33.6	17.7	0.3	15.6
1992	76.1	35.9	16.8	3.3	15.7
1993	78.5	27.8	12.4	2.9	12.4
1994	73.3	26.1	14.5	2.3	9.3
1995	82.2	26.1	14.5	2.3	10.7
1996	86.6	39.7	24.2	3.0	18.3
1997	76.0	41.4	23.5	3.0	14.6
1998	73.0	51.9	22.2	0.7	15.3
1999	75.0	40.1	25.5	0.7	16.9
2000	48.4	21.7	16.1	-	10.3
2001	51.5	21.3	16.2	0.08	8.8
2002	45.3	21.9	15.9	-	5.9

Source: Medani M Ahmed [2004] own calculations based on data obtained from Bank of Sudan: Annual Reports, for respective years.

The Sudanese government signed a number of trade agreements that abolished dual tax systems and reduced tariffs on imports and gave generous exemptions from taxes and tariffs on mutual investments.

Another type of indirect tax is the Excise Tax, which has contributed to total government revenues on average 11.4% in the period 1981-1991 and 13.2% in the period 1992-2001. In addition, Consumption Tax recorded average shares in total government revenues of 5.7% and 9.1% for the same periods; with a clear rise in the 1990s. These types of indirect taxes [mentioned above] have low elasticity because their tax bases increase less rapidly than income and are considered regressive and their incidence fall on consumers and as well they discriminate against consumption in favor of savings. Since most people in Sudan have a relatively low per capita income that is mostly consumed and have no way to escape from these taxes [have little or no choice to shift to other non-taxed goods], the impact of these taxes have been regressive and further deteriorated the consumption level of the poor.

The data discussed above indicate that before oil revenues became an important source of non-tax revenues in the Sudan, indirect taxes accounted for between half and two-thirds of all government revenues. Even now indirect taxes account for 80 percent of tax revenues in the Sudan and 37 percent of total federal government revenues. Custom duties and import duties account for the vast majority of indirect taxes.

The primary advantage of indirect taxes is their administrative ease. In fact, Bird and Oldman argue that indirect taxes in developing countries may continue to be an important source of revenues because "growing concern with the inevitable administrative inadequacies of developing countries has highlighted the relatively greater administrative ease of raising required revenues through indirect taxes." [Bird and Oldman, p. 311]

The concern with indirect taxes, however, is with their generally regressive nature – that is they tend to fall more heavily on low-income families. For example, it has been estimated that taxes, with indirect taxes accounting for almost all taxes paid by low-income families, account for between 10 and 20 percent of incomes of the urban poor and slightly less for the rural poor. [Bird, p.124] The situation may not be so bad in the Sudan because Bird says traditional excise taxes are often the largest single source of indirect tax revenues in developing countries, but that is not the case in the Sudan. Custom and import duties account for the vast majority of indirect taxes in the Sudan while excise duties accounted for between 9 and 17 percent of government revenues over the last ten years. Bird concludes "…indirect taxes in most developing countries … impinge on the lives of many poor people in limited, but potentially important, ways … some of these effects are complex and subtle, and hinge on the detailed structure and administration of the tax in question … more attention needs to be paid to collecting and analyzing relevant data … to obtain a better understanding of the extent and nature of variations among those classed as 'the poor'" [Bird, p. 128]

As mentioned earlier, we are not able to conduct an incidence study of individual taxes across income classes in the Sudan. It is likely that some of the indirect taxes collected in the Sudan fall disproportionately on the poor. However, Bird points out that the incidence of any tax will vary sharply from country to country depending on the specifics of the local economy, family consumption patterns and tax administration. He concludes that generalizations about the progressivity or regressivity of particular taxes are misleading and need to be discussed in the context of each specific country. [Bird, p. 125] Therefore, while the central government depends heavily on indirect taxes for its revenues, and it is likely that this tax structure falls disproportionately on the poor, we cannot be more precise in our assessment of the impact of the government's revenue raising practices without more detailed analysis of the situation in the Sudan. In this context, it seems that the U.N. might assist the government of the Sudan develop capacity for more detailed and comprehensive tax policy analysis. For the government to make more informed fiscal policy decisions, which consider explicitly the impact of those decisions on poverty alleviation, more information about tax incidence is needed.

3. Government Expenditures

Many poor people, particularly in rural areas, may be outside the formal economy and affected by the overall tax system only marginally. Thus, while the regressivity of the overall tax structure should be reduced as much as possible in order not to make things worse for the poor, if the main policy concern is the alleviation of poverty as we have defined it above, any fiscal corrective must be exercised primarily through the expenditure side of the budget. [Bird, p. 49]

There are two broad categories of public programs often mentioned in the literature on public finance; exhaustive and non-exhaustive programs. [See Singer, 1976]. The exhaustive programs are those that compensate for an allocation failure of the private market. The provision and production of these programs entail allocation of resources away from the private sector to the public sector. Their production also removes resources from production of private consumption and investment. Some examples of these include national defense, education, the administration of justice, and protection of the environment, just to mention a few. They provide goods and services that benefit consumers directly and are not provided by the market. Also, in this category we include government transfers in kind as exhaustive spending. A transfer in kind engages the government directly in reallocating resources as well as redistributing them. Specific transfer of goods and services may be in the form of food, health care, housing and education.

Non-exhaustive government programs are intended to change the distribution of income or wealth by taking income away from certain groups and transferring it to others. Most of these programs are in the form of cash transfers from one consumer and producer to another. They don't directly reallocate resources, yet they cause changes in the pattern of demand and supply with the private sector. According to Singer [ibid] expenditures on these programs are called non-exhaustive because they don't reduce the amount of resources available to the private markets. Pure income transfers are an example of the non-exhaustive programs. Cash transfers include unemployment compensations, public relief assistance and social security [disability and retirement benefit].

As we will discuss in this section, direct transfers to the states constitute a good proportion of the federal government spending and are allocated through Chapter III of the budget as contributions to the National State Support Fund [NSSF] administered by the Federal Administration Chamber. Government spending on social sectors [education, health, water and sanitation] has been substantially reduced in the 1990s. Expenditures on social and economic services and direct government transfer can be pro poor tools to improve their economic and social conditions. It is important to mention that expenditures on military and police are examples of types of government spending that transfer resources away from the domain of the private sector to that of the public sector. Although they often do not have a distributional effect on the economy, they do have allocation effects on use of resources. A country like Sudan overburdened with the war in its southern region and conflicts and unrest in other parts is expected to allocate substantial resources for financing peace and stability. With the successful signing of peace agreements significant resources should to be released from the war effort to finance resettlement and social and economic development activities.

The data on government expenditures presented in **Table [1]** tell us that there is a general decline of total expenditures as ratio of the GDP from fiscal year 1980/81 to 2002. This has been influenced by the implementation of SAPs in the 1990s and stability programs that focused at reducing government spending – especially after 1996. However, there is another observable feature of the government budget in Sudan -- persistent budget deficits since 1980. Different regimes have been following expansionary fiscal policies as a strategy to finance current and development activities. Faced with their inability to expand the desired amounts of revenues from taxes due to the fact that taxable income bases and levels are low as well as the fact that non-tax revenues are very small, governments, as we argued before, resorted to internal and external borrowing to fund their budget deficits. Revenue generation from internal sources reached its maximum limit and could not be increased easily without opposition by taxpayers. The heavy reliance on indirect taxes to generate revenues [mostly being regressive] has over time overburdened the poor and created disincentives to producers. Good sources of revenue are the Personal Income Tax and the Business Profit Tax, but they are still being underutilized. Investment Encouragement Acts have provided substantial exemptions from the profit tax for periods extendable from five to ten or more years. The lost revenues in terms of tax exemptions, according to Al-Tijani Al-Tayeb [2004] amounted to 5% of GDP nearly reaching 50% of the revenues in the 1990s.

The data in **Table [1]** above also indicate that the period 1980/81-1991/1992 experienced very high ratios of government spending to GDP amounting on average to about 25.8% in fiscal year 1982/83, 27.9% in 1984/85, which then fell to 9.6% in 1990/91. The average ratio of expenditures to GDP for the whole period 1980/81-1991/92 was 18.9% and 9.0% for the period 1991/92-2001/02. On the other hand, government revenues constituted, on average, 10.5% and 9.0% of GDP in the same periods. It is evident from these figures that the period after 1992 has seen a fall in the government expenditures as a ratio of the GDP because of the implementation of the self-imposed SAPs that were further strengthened with strong stabilization programs [implemented in 1996] to fight inflation through control of money supply, curbing the expansion of credit and reduction of government spending on social sectors. The economy was able to grow on average at 5.4% and 5.6% for the periods 1991-1996 and 1997-2001 respectively. The rates of growth of per capita income on average were 3.9% and 2.1% for the same periods. Investment as a ratio of the GDP was 12.4% and 16.2% for the same period; low in relation to averages scored by other countries in Sub-Saharan Africa, 17.7% and 21.6% for the same periods. By the mid 1990s inflation reached three digits and on average was 97.3% in the period 1991-1996 and 22.8% for the period 1997-2001 whereas the money supply as a ratio to GDP amounted to 75.2% and 30.8% for the same periods.

The combination of high inflation, reduced spending on social services and the lack of pro poor programs, reliance on regressive taxation to generate government revenues, and lack of social safety nets to mitigate adverse effects of the aggressive implementation of SAPs and stabilization policies, have all led to further deterioration in economic and social conditions of the poor and the disadvantaged segments of the population. Moreover, persistent budget deficits have also contributed to worsening economic conditions, and continued to become one of the most salient features of the government fiscal reality in the Sudan. The deficit reached nearly 80% and 32.2% of total government revenues for the periods 1980/81-1991/92 and 1992/93-

2000/01 respectively. As a percentage of the GDP the deficit constituted on average 8.2% and 1.8% for the same periods; with a noticeable decline for the period after 1992. [See **Table 1**] As we argued above the reason was the adoption of the SAPs and stabilization programs that have resulted in curbing spending and increasing revenues through broadening of taxes as well as introduction of oil proceeds as an important source of revenues in the last years of the 1990s.

At this juncture we would like to mention that decomposition of government expenditures by functional classification is important to analyze their impacts on the poor. One major problem we encountered in this study is the fact that the Ministry of Finance and National Economy did not systematically classify expenditures by function in the 1990s. We talked to very senior officials of the ministry who confirmed the nonexistence of such classification. The only classification they have is the one that classifies expenditures by chapters. These chapters are aggregate allocations of spending grouped in four chapters as follow:

Chapter One Expenditures: This expenditure category consists of wages and salaries for all federal employees.[5] This chapter also includes central government contributions to the Pension Fund and central government contributions to the Social Security Fund.

In terms of employment the chapter explains the involvement of the federal government in the provision of jobs in the economy. Historically the public sector has been working as the sole provider of steady jobs for many people especially graduates who see in these jobs opportunities to assume important socio-economic and even political roles in society. For instance, in literature there are many competing theories explaining the role of bureaucrats in development in Less Developed Countries [LDCs]. In fact the statist model of development is built round the central role that senior government bureaucrats play when they ally with parties' leaders, military officers as well as with industrialist to achieve specific development goals as a means of legitimacy. Examples are sighted for China, Pakistan and Egypt and Sudan, to name but a few cases [see Lippit 1985 and Ahmed, 1985].

Another point regarding Chapter I is that during the decades of the 1970s and 1980s wages and salaries offered to government employees were high enough to protect them from

[5] Primary and secondary education teachers, medical staff for all health units, except specialized hospitals, and water supply employees are not paid under this chapter of the federal budget since they are states' responsibilities. They are included under Chapter 1 of state spending.

falling under the poverty line. However, in the 1990s, those wages and salaries have been falling steadily in real terms due to the impact of runaway-inflation – a situation that forced most of the employees to seek part time jobs to escape poverty.

Chapter Two: This expenditure category consists of goods and services purchased for governmental units. In addition, this category of spending includes social subsidies, which are mainly directed to subsidizing electricity for those who consume below 500 KWH/ month, free medication in emergencies, free medicines for kidney dialysis and heart disease, and support to poor students in higher education.

These social transfers directly benefit the poor. They should be increased and included in a comprehensive strategy to eradicate poverty in the Sudan. However, the subsidy currently constitutes only a small share of the chapter. We also want to mention that the subsidy on electricity has been provided to support poor people's consumption of electricity up to the amount of 500 meters at subsidized price of SD17 per meter for the first 200 meters and a price of SD22 for the remaining 300 meters. In the beginning of March 2004, the subsidy is retained only on the first 200 meters at the old rate and the rate of the remaining 300 meters is raised to SD26 instead of SD22 per meter adding more financial cost onto the poor people consumption of electricity.

In addition, this expenditure category also includes centralized obligations which include internal debt, external debt, travel abroad, subscription in international organization, custom duties for government units, pipeline fees, training, replacement of equipment and emergency reserves.

This chapter, as we will discuss later in this section, is the major chapter in terms of the amount of money allocated and as a ratio to federal government spending.

Chapter Three: This expenditure category consists of current and development transfers to states, as well as agriculture tax compensation for states through the Federal Rule Chamber [FRC]. These transfers are called Central Grant-in Aid to the States. When the states prepare their budgets [including revenues and expenditures estimates], the federal government finances their deficits through these transfers. They are strictly unconditional transfers and the states are not required by law to report details of their spending to the federal Ministry of Finance and

National Economy. It is important to mention that these transfers are a significant means by which the government redistributes resources and income in favor of the poor people and regions. Benefits accrued from these transfers are much higher in terms of enhancing social, human and economic development compared to their negative effect on resource allocation between private and public sectors. These issues are explored more in the sections on the State Support Fund and state and local expenditures.

Chapter Four: This expenditure category consists of national development expenditures, transfers of development funds to states, capital contributions of government projects financed by foreign loans and financing of agriculture. As we will see from the actual performance of the budget, development expenditures have been affected by the implementation of SAPs as investment on new projects has been reduced to curb budget deficits in order to reduce inflation. Allocations in this chapter for development are directed to maintain and sustain the functioning of existing projects. Contributions in capital in late 1990s became significant as the government started to undertake some serious investments in oil sector projects. A growth and poverty reduction strategy should allocate more resources to facilitate the development of projects that create employment opportunities to the poor and the unemployed labor force and broaden the productive capacities of the economy. Agricultural projects in the irrigated, rain-fed and livestock sub sectors should be prioritized. Adoption of modern technology, know-how and do-how techniques and practices, use of highly productive seed varieties and effective organization and administrative methods should be adapted and generalized in agriculture. Textile and oil seeds industries should be encouraged and investment in them be increased to generate more employment for the unskilled and semi-skilled people. These industries are currently working at very low capacities [some times not exceeding 20% of installed capacity]. They need a live-saving strategy to use resources more efficiently, reduce costs of production and raise productivity of capital to raise profitability.

In what follows our discussion will focus on the behavior of government expenditures in the two periods: 1981-1991 and 1992- 2002. First, analysis is directed at investigating some of the fiscal measures that have affected behavior of expenditures. Second, we also look into classifications of these expenditures to figure out their impacts on the poor, which is very difficult to do given this aggregate level of data.

The government policy for budget management indicates that a move from the current budget classification system to a new Government Financial Statistics (GFS), used by the IMF, budget classification system will take place. An IMF report on Sudan -Public Expenditure Management: The Next Steps – prepared in 2000 – made certain recommendations in this direction. The main constraints highlighted by the report include the need to speed the development of computerization and the need for training, especially the accounting cadre. The GFS classification is not expected to be operational before year 2006.

3.1. Expenditures Allocation: The period 1981/82-1991/92

As mentioned earlier, the government of Sudan, under pressure from the IMF, applied some SAPs in 1978. The programs aimed at managing aggregate demand through control of money supply and credit expansion, reducing government expenditures via cutting of spending on social services and increasing taxes to augment revenues, and liberalizing foreign trade and foreign exchange. The programs continued until mid 1980s when the relation with the IMF started to deteriorate, and was almost severed by the end of 1989 and early 1990s. The Sudan became un-cooperating member and a process of terminating its membership and expulsion has miraculously been escaped. In short as we will argue here that the IMF-led programs have so much affected the behavior of expenditures in the 1980s and in the period after 1992, the self-imposed SAPs were the responsible factors.

The government in fiscal year 1981/82 decided to reduce expenditures on all current spending by 6%, which resulted in reduction of spending on Chapter I and II categories and reduction in spending on foreign embassies. Also, strict measures were applied on uses of pension funds, post office deposits and governments dividends and interest. The result of these measures was the reduction of spending on social services [health and education] and reduction in government transfers to the poor. In addition, development expenditures were cut and the allocated amounts were used to complete existing projects, support agricultural sector and relieve infrastructure bottlenecks. No new projects were undertaken; a situation that does not help the economy expand its productive capacities and raise and sustain GDP rate of growth. The decline in government spending continued unabated for the period 1981-1983.

In the fiscal year 1984/85 government spending increased due to across the board increase in both low and high wage salaries that continued in fiscal year 1985/86.

Fiscal budget 1986/87 also witnessed an increase in spending by more than the budget estimates because defense and security spending went up by 37.4% whereas expenditures on social and economic services increased by 25.1%.

The fiscal budget 1987/88 also experienced increases in all items of ordinary expenditures except for total debt service. For instance, defense and security ratio as % of total expenditures was 16.8% and regional governments ratio in total expenditures reached 22.8% whereas the ratio for development expenditures amounted to 8.8% mostly financed from external sources of finance. [For details about development expenditures see **Table [6]**].

The 1989/90 budget adopted fiscal control measures; namely, strict scrutiny of payrolls, strict observations of government purchases and use of government cars, and reduction of transfers to regional governments

3.1.1. Expenditures decomposed

As we mentioned before, the Ministry of Finance and National Economy does not systematically provide disaggregated data on expenditures by functional classification for the 1990s. The expenditures are classified by chapters, as evident from our discussion in the previous section. The Economic Survey published by the Ministry of Finance and National Economy did have some data on government expenditures classified by function for the period 1978/79-1988/89. **Table [4]** gives information on social, education, health, military and defense expenditures valued in millions of Sudanese pounds and as percentage ratios of total government expenditures. For instance, total debt service as a ratio of total government expenditures on average amounted to 17.8% for the period 1979-1989, followed by military and defense spending with 15.2% and social services scored only 4.0% of total expenditures. On the other hand, spending on education and health was the lowest with average shares of 1.2% and 1.9% of total spending, respectively. As spending on education and health are generally thought to directly benefit the poor as well as generate some externalities to the society and the economy, the data in Table 4 document the small share of government expenditures actually allocated to enhance social and human development in Sudan. This tells clearly that the pro poor spending has been very limited and small since the beginning of the 1980s

Table [4]
Functional allocation of government spending
[Amounts are in million Sudanese pounds]

	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89
Social Services	36.1	36.0	37.5	53.7	59.7	66.7	34.9	33.1	217	264.8	311.6
% Of total	5.4	4.4	3.9	5.2	4.4	3.8	1.8	1.0	5.1	5.1	4.2
Education	9.1	9.4	10.5	14.9	20.7	22.9	15.7	15.6	52.7	69.4	84.9
% Of total	1.4	1.1	1.1	1.4	1.5	1.3	.8	.5	1.2	1.3	1.1
Health	12.1	12.9	13.4	21.2	30.4	34.6	9.6	9.3	144.3	169.3	193.9
% Of total	1.8	1.6	1.4	2.0	2.2	1.9	.5	.3	3.4	3.2	2.6
Military	92.9	122.8	153.1	168	185	226.1	285.8	353.5	680.5	935.6	1623.4
% Of total	14.1	13.0	16.2	16.1	13.5	12.9	14.9	10.9	16	17.9	22.1
Total debt servic	116.3	111.4	112.2	106.3	370.5	393.1	368	1203	545	375	810
% Of Total	17.6	13.6	11.9	10.2	27.1	23.4	19.2	37.2	17.8	7.2	10.9
Total spending	659.1	820.3	942.6	1042	1368.1	1757.2	1912.9	3237	4259.7	5232.2	7385.8

Source: Economic Survey, Ministry of Finance and National Economy, various issues for respective years. Ratios are Medani M Ahmed's own computations.

The actual impact of these expenditures on the poor in the Sudan could be even worse than suggested by the low share of government spending going to education and health services. For example, it is not clear what share of these expenditures actually go to frontline workers in education and health care, versus national bureaucrats sitting in Khartoum. Also, even if all these funds were spent on frontline service workers, this says nothing about how often the staff reports to work, how well trained they are, and how responsive they are to client needs. [World Bank, World Development Report, pp. 22-6.]

Table [5]
Allocation of Current Expenditures by Chapters
[1980-2003].[% Distribution]

Item Year	Chapter I [wages & Salaries] As % of Total Expenditures	Chapter II [Centralized Items & Steering Items] as % of Total Expenditures. [2+3]	Chapter III [Support to States] as % of Total Expenditures	Chapter [IV] [Development Expenditure & Capital Contributions] As % of Total Expenditures	Total Expenditures %
1980/81	13.4	86.6	-	-	100.0
1981/82	10.6	89.4	-	-	100.0
1983/84	9.9	90.1	-	-	100.0
1984/85	6.1	93.9		-	100.0
1985/86	9.2	90.8	-	-	100.0
1986/87	29.2	70.8	-	-	100.0
1987/88	28.5	71.5	-	-	100.0
1988/89	25.5	74.5	-	-	100.0
1990/91	1.8	98.2	-	-	100.0
1991/92	1.8	98.2	-	-	100.0
1992/93	2.6	66.3	25.7	5.4	100.0
1993/94	8.6	73.9	15.2	2.3	100.0
1994/95	14.6	72.0	11.6	1.8	100.0
1996	31.8	45.6	14.0	8.6	100.0
1997	36.0	52.0	4.0	8.0	100.0
1998	37.7	46.4	5.6	10.3	100.0
1999	38.8	42.6	5.6	13.0	100.0
2000	31.2	45.6	8.4	14.8	100.0
2001	31.0	45.0	6.0	18.0	100.0
2002	31.8	34.6	6.4	27.2	100.0

Source: Medani M.Ahmed [2004] own calculations ratios based on data obtained from Bank of Sudan: Annul Reports for respective years.

3.2. The period 1992/93-2001/02

According to data in **Table [5],** the allocation of expenditures by chapter for the period 1992-2002 shows that Chapter I on average accounted for 24.2% of total central government expenditures; Chapter II, 56.5%; Chapter III, 9.3%; and Chapter IV 9.9% for the same period. It is clear from these figures that direct transfers to the states was a very small percentage of total government spending, indicating fewer resources that have been transferred to support states to cope with their rising obligations to provide essential social services [education, health, water and sanitation]. The government should allocate more resources to the states in its effort to eradicate poverty in the country.

Chapter IV is for development expenditures and contributions in capital of productive projects. As shown in **Table [6]** development expenditures for the 1980s averaged 3.8% of GDP, whereas the average declined to just 2.7 percent for the 1990s. Development expenditures fell in the 1990s due to reduction in overall spending on new projects and a lack of foreign assistance.

Agricultural sector's share has been the highest scoring on average 27.8%, followed by industry and mining with 24%, transport and communications with 14.8% and services with 10.8% of total development spending for the period 1981/82-2001/02. The same pattern of allocation of development expenditures continued for the 1990s with exception that new items emerged as new sectors; social development with an average ratio of 14.7% for the period 1996-2002, water 2.7%, development reserves 1.6% and peace and resettlement on average reached 3.2% for the period 1998-2002. [See **Table [6]**].

The small share of this chapter in total spending [about 10.3% for the 1990s] highlights the need to increase the share of the chapter for broadening the productive capacities in the economy especially the need for investment in a large number of labor-intensive projects that provide critically needed jobs for the poor. The creation of employment opportunities will reduce numbers of the poor, strengthen aggregate demand and induce investment in productive sectors of the economy and therefore enhance the rate of growth of GDP.

Too often development expenditures are treated as budget-balancing expenditures – they are reduced or eliminated in order to balance the budget on an annual basis. Development expenditures, including infrastructure investments, must compete directly for federal funding. It is generally agreed that infrastructure investments have a positive effect on a nation's private economic activity. Airports, roads, water, and other core infrastructure services are important ingredients to a modern productive economy. Infrastructure investments increase economic output because they provide services that are a direct input into the production process and because they create an environment that makes other private inputs (labor and capital) more productive. Finally, infrastructure investments that provide a high-level of service may attract labor and private capital from other places. [See Bell and McGuire, 1997]. Development expenditures have intrinsic value and should not be treated as a budget-balancing mechanism.

On the other hand, Chapter II continues to have the biggest share of total government expenditures reaching 66.3%, 73.9% and 72% for the fiscal years 1992/93, 1993/94 and 1994/95 respectively, reflecting the significance that the federal government placed on spending on centralized and steering items. Its relative share, however, has declined since 1996 as the relative shares of Chapter 1 and 4 expenditures have increased. On average, Chapter II expenditures accounted for 53.2% for the 1990s [See **Table [5]**].

Furthermore, with the implementation of strong stabilization policies in 1996 to combat runaway inflation, increases in Chapter I expenditures were aggressively controlled and the chapter's share of total government spending on average did not exceed 34% for the period 1996-2002. However, the share of Chapter I in the 1990s is much higher than it was in the 1980s reflecting an expansion of the federal budget and increased government involvement in the economy. In summary the classification of expenditures by chapters indicated clearly that Chapter II accounts for the largest share of government spending followed by Chapter I and then Chapters III and IV respectively.

Table [6]
Development Expenditure*
[1981-2002]

	Development Expenditures As % Of GDP	Agriculture as % Of total	Industry, Energy And Mining as % of total	Water as % of total	Trans -port And Comm. as % of total	Services as % of total	Social Development As % Of total	Peace And Resettlement as % of total	Others [Reserves] as % of total	Total
1981/82	4.5	18.7	30.6	-	15.2	5.2	-	-	30.3	100.0
1982/83	4.2	34.0	22.5	-	24.5	11.2	-	-	7.8	100.0
1983/84		27.8	27.1	-	12.6	11.9	-	-	20.4	100.0
1984/85	4.3	30.7	24.3	-	11.5	12.0	-	-	21.5	100.0
1985/86	2.6	20.2	15.7	-	15.7	8.8	-	-	29.2	100.0
1986/87	5.6	28.7	22.4	-	16.1	9.0	-	-	23.8	100.0
1987/88	3.8	25.0	27.0	-	19.5	12.0	-	-	16.5	100.0
1988/89	3.0	32.7	36.1	-	5.5	13.2	-	-	12.5	100.0
1989/90										100.0
1990/91										
1991/92	2.8	27.0	6.0	-	12.0	14.0	-	-	41	100.0
1992/93	3.2	30.9	6.7	-	21.2	15.2	-	-	26.9	100.0
1993/94	1.3	24.1	-	-	27.3	37.0	-	-	11.5	100.0
1994/95	0.4	20.0	7.0	-	26.0	20.0			27.0	100.0
1995/96	0.6	27.0	32.0	-	8.0	25.0	-	-	8.0	100.0
1996/97	0.05	45.0	26.0	-	6.0	23.0			-	100.0
1997/98	6.7	30.0	31.0		8.0	-	31.0	--	-	100.0
1998/99	6.5	31.7	32.3	1.7	10.0	-	9.8	1.2	1.2	100.0
1999/00	9.3	41.3	32.2	2.0	10.0	-	7.8	0.9	0.9	100.0
2000/01	1.2	35.0	33.0	5.0	13.0	-	7.0	6.0	1.0	100.0
2001/02	1.4	24.3	42.9	3.2	8.4	-	15.4	1.2	4.6	100.0
2002/03	1.4	20.7	61.0	1.8	6.9	-	2.5	6.6	0.5	100.0

Source: Data are obtained from Bank of Sudan: Annual Reports, for respective years.

*It is important to notice that 37.1 % of total federal government development expenditures were financed from foreign sources whereas the internal sources of finance constituted on average 62.9% for the period 1981-2002.

As mentioned earlier, categorizing expenditure by chapter does not provide sufficient information to determine the impact of government spending on poverty alleviation. One effort to move toward a functional classification of spending is provided by the World Bank. In Table A.6.7 of Appendix 6 to the 2003 County Economic Memorandum [Volume II], the World Bank provides economic classification of federal expenditures as a percent of total expenditures for four years 1998-2001 [See Appendix 6, Table A6.7, The World Bank, Country Economic Memorandum, 2003].

The data in that table indicate that the government wage bill [which denotes Chapter I] accounted for 33.8%, 35.4%, 30.6%, and 31.5% of total expenditures for the years 1998, 1999, 2000 and 2001 respectively, with an overall average of 32.8%. On the other hand, operation and maintenance [Chapter II] accounts for the highest ratio of total spending amounting to 39.2%, 34.7%, 34.6% and 31.7% for the year 1998, 1999, 2000, and 2001 respectively, with an overall average of 35.1% of total.

Development expenditures [part of Chapter IV] accounted for 7.8%, 12.1%, 16.7% and 16.8% for the same years, with an overall average of 13.4% for the period 1998-2001, ranking third in importance as a ratio of total spending. In addition, debt service payments [part of Chapter II], rank fourth in importance as a share of total government spending, with ratios of 8.6%, 8.9%, 9.9%, and 7.9% for the years 1998, 1999, 2000 and 2001 respectively, with an overall average of 8.8% for the same period. Furthermore, transfers to states [Chapter III] ranks fifth in significance with ratios of 5.3%, 5.6%, 5.7%, and 8.2% for the same order of years, with an overall average of 6.2% for the four years. Finally, social subsidies [often included in Chapter I] accounted for 5.2%, 3.5%, 2.5% and 3.9% of total government expenditures for the year 1998, 1999, 2000, and 2001 respectively with an average of 3.8% for the four years.

The above figures indicate that the federal government in Sudan has been systematically following a pattern of spending, which is not benefiting poor people. Spending on administration [Chapter II] and debt services payments consume a great proportion of the spending whereas social subsidy that benefit directly the poor people, for example, received very little share of total spending [3.7%] in the period 1998-2001.

Additional insights into the composition of central government spending by function can be taken from data prepared for this project by the Ministry of Finance and National Economy.

Specifically, they provided three years of data on actual expenditures by Chapter 1, 2 and 4 by functional classification. The data are presented in **Table [7]**.

Table [7] Federal Government Expenditures by Function (Actual 2001-2003)						
(Thousands of Sudanese Dinars)						
	2001		2002		2003	
Item	Expenditure	Percent of Total	Expenditure	Percent of Total	Expenditure	Percent of Total
Defense and Security	105,556,368	25.2%	127,615,492	24.6%	157,971,271	21.5%
Wages and salaries	73,447,370	17.5%	93,039,470	18.0%	116,766,571	15.9%
Goods and Services	32,108,998	7.7%	34,576,023	6.7%	41,204,701	5.6%
Administration	26,388,311	6.3%	27,238,275	5.3%	33,611,898	4.6%
Wages and salaries	13,779,114	3.3%	18,309,704	3.5%	18,316,165	2.5%
Goods and services	7,780,618	1.9%	8,793,762	1.7%	11,320,604	1.5%
Development	4,828,579	1.2%	134,809	0.0%	3,975,128	0.5%
Production (Agriculture + Industrial)	25,451,714	6.1%	71,110,216	13.7%	138,609,536	18.8%
Wages and salaries	2,800,075	0.7%	2,680,889	0.5%	2,928,110	0.4%
Goods and services	1,386,876	0.3%	878,625	0.2%	765,956	0.1%
Development	21,264,763	5.1%	67,550,703	13.0%	134,915,469	18.3%
Infrastructure	46,768,780	11.2%	65,916,373	12.7%	41,622,877	5.7%
Wages and salaries	49,459	0.0%	55,738	0.0%	73,549	0.0%
Goods and services	48,750	0.0%	49,695	0.0%	78,631	0.0%
Social subsidies	12,900,000	3.1%	17,000,400	3.3%	15,583,700	2.1%
Development	33,770,571	8.1%	48,810,541	9.4%	25,886,997	3.5%
Social Services (a+b+c)	27,115,140	6.5%	32,959,618	6.4%	44,089,127	6.0%
a) Education	17,275,336	4.1%	23,882,016	4.6%	32,218,239	4.4%
Wages and salaries	10,779,906	2.6%	17,541,575	3.4%	21,873,694	3.0%
Goods and services	4,226,351	1.0%	4,963,272	1.0%	5,859,634	0.8%
Social subsidies	1,539,878	0.4%	1,323,959	0.3%	3,151,588	0.4%
Development	729,200	0.2%	53,210	0.0%	1,333,323	0.2%
b) Health	8,259,862	2.0%	7,969,739	1.5%	10,453,235	1.4%
Wages and salaries	2,726,682	0.7%	3,280,834	0.6%	3,999,124	0.5%
Goods and services	1,967,680	0.5%	2,218,160	0.4%	3,730,031	0.5%
Social subsidies	1,819,849	0.4%	2,371,697	0.5%	2,567,329	0.3%
Development	1,745,650	0.4%	99,048	0.0%	156,751	0.0%
c) Water	1,579,943	0.4%	1,107,863	0.2%	1,417,653	0.2%
Wages and salaries	41,173	0.0%	47,100	0.0%	58,800	0.0%

Goods and services	11,656	0.0%	11,446	0.0%	16,041	0.0%
Development	1,527,114	0.4%	1,049,317	0.2%	1,342,811	0.2%
Miscellaneous	187,314,475	44.7%	193,325,361	37.3%	319,957,365	43.5%
Reserves for wages and salaries	21,438,405	5.1%	20,554,419	4.0%	18,061,384	2.5%
Pensions and social security	6,556,479	1.6%	9,430,351	1.8%	9,031,687	1.2%
External debt	23,142,295	5.5%	19,185,624	3.7%	53,783,289	7.3%
Internal debt	21,143,869	5.1%	9,980,240	1.9%	26,354,222	3.6%
Centralized Obligations	77,896,295	18.6%	77,830,139	15.0%	145,452,253	19.8%
Transfers to states	34,339,935	8.2%	51,371,041	9.9%	61,728,901	8.4%
Others	2,797,196	0.7%	4,973,548	1.0%	5,545,630	0.8%
Total Expenditures	418,594,788	100.0%	518,165,336	100.0%	735,862,073	100.0%
Source: Ministry of Finance and National Economy staff computations.						

The data in **Table [7]** are consistent with the conclusions that the central government has been systematically allocating only limited shares of its budget to social services like education and health. For example, we see that for the most recent three years for which actual spending data are available, the central government allocated an average of 6.3 percent of total expenditures for social services – education (an average of 4.4 percent of total expenditures), health (an average of 1.6 percent of total expenditures) and water (an average of 0.3 percent of total expenditures).

Defense and security activities accounted for an average of 23.8 percent of government spending during this period, while infrastructure expenditures averaged 9.9 percent of government spending. State administration accounted for an average of 5.4 percent of government spending during this period – declining from 6.3 percent of expenditures in 2001 to just 4.6 percent in 2003.

According to the data in **Table [7]**, Miscellaneous expenditures is the largest single expenditure category, accounting for an average of 41.8 percent of government spending over the period included in the table. Included in this category are transfers to states, which account for an average of 8.8 percent of government spending during this period, and external and internal debt service, which account for an average of 9 percent of government spending during this period.

The largest single line item in the miscellaneous category is something called Centralized Obligations accounting for an average of nearly 18 percent of government spending during this period. This category includes things like government paid customs duties and seaport charges as well as expenditures on emergencies due to floods, food shortages and the civil war. To the extent that these expenditures are related to the war effort, close to 40 percent of the federal government's expenditures during this period could be war related. This massive war effort diverts scarce resources from social sector programs that directly benefit low income citizens.

One final observation from the data in **Table [7]** illustrates the impact of the civil war on central government spending. The data in the table indicate that the government spent nearly 117 billion Sudanese Dinars on wages and salaries for defense and security related activities in 2003. While this amounts to 16 percent of total government spending, it accounts for fully two-thirds of all central government spending on wages and salaries. In a post civil war period there is a critical need to reorient the allocation of these funds for spending on social services that have a direct impact on poverty alleviation.

A final perspective on this issue comes from examining central government employment by ministry. The Civil Service Commission provided these data for 27 ministries and offices. The data indicates there were 43,066 approved positions in the central government with just 28,192 of those positions filled. The data provided by the Civil Service Commission indicate that 40.1 percent of the filled positions are in the Ministry of Health. The Office of Tax Collections within the Ministry of Finance and National Economy accounts for 21.2 percent of filled positions. Of the remaining ministries and offices, only the Ministry of Irrigation (6.7 percent) accounts for more than 5 percent of filled positions.

In general, however, it is impossible to tell from these data how employees in these ministries impact poverty alleviation. There is anecdotal evidence to suggest that these central government ministries may not have a significant impact on poverty alleviation. For example, the data above indicate that the Ministry of Health accounts for more employees than any other department. However, central government health expenditures primarily support hospitals in Khartoum. These expenditures are not providing primary care to the poor, but rather are providing higher levels of care to those who can afford them. Similarly, central government education expenditures focus on higher education, primarily in Khartoum, not primary and secondary education that would be available to the low income. Finally, there are data that indicate that 54 percent of loans from the Agriculture Bank, Commercial Banks and the Bank of Sudan go to irrigated agriculture projects, 45 percent go to mechanized projects, and only 1 percent go to the traditional farming sector. In each of these cases, central government spending is not directed at activities focused on poverty alleviation. There is a critical need to reorient spending toward activities that benefit the poor.

4. Internal Public Debt

Faced with extremely hostile external political environment, boycotting and economic sanctions and small or no flows of foreign resources from abroad in the 1990s, the government resorted to mobilizing internal resources to fund its ever widening spending obligations and responsibilities for current uses as well as financing the devastating war in the southern region of the Sudan. The government depended mainly on deficit financing as a tool to meet its ordinary and development spending obligations. Increasingly, before 1996, the government resorted to borrowing from the Bank of Sudan through its 57-A Act, which allows it to borrow up to 10% of the total amounts of revenues. Under continued pressures to finance expanding spending obligations and an inability to raise adequate revenues due to low per capita income levels and institutional and administrative difficulties, the government opted to change the Bank of Sudan 57-A Act to allow borrowing of 25% of total revenues instead of the specified 10%. The borrowed funds were supposed to be repaid in six months; a failure to do that meant amassing substantial government debts owed to the central bank

More recently, the government has resorted to borrowing from the public through introduction of government securities; namely Shahama certificates which offer nearly 30% rate of return per year. As the rate has been and still is considered the highest compared to those offered by commercial banks, the government generated significant amounts of resources from this activity – accumulated government debt increased by nearly 60 percent in just the first year these instruments were introduced. Being unable to match and or compete with this very high rate of return, the commercial banks themselves preferred to invest in Shahama and, as a result, purchased substantial numbers of these securities worth billions of Sudanese Dinars. The end result of this activity is that the government has continued to shoulder substantial amounts of internal debts that have further worsened the budget deficit and endangered fiscal sustainability in the future. This accumulation of domestic debt payment arrears will have a negative impact on private investment and local banking system.

Table [8] shows that the amount of internal government debt reached 28.8% of GDP in 1980/81 and declined to 9.9% of GDP in fiscal year 1987/ 88, scoring on average 17.9% and 4.2 % for the periods, 1980-1989 and 1991-2002, respectively. These figures are very indicative of the serious problem facing the federal government in conducting its fiscal activities. It is very interesting to observe that while the self-imposed SAPs' main objectives are to manage and reduce government budget deficit in order to control aggregate demand, the results now indicate substantial expansion in the budget deficit and an increase in the internal government debt endangering macroeconomic stability and exerting enormous pressure that would push up the rate of inflation and may cause a decline in the rate of GDP growth. The picture becomes gloomier if one looks at the possible negative effect of substantial net claims of the banking system on the public sector. The Net Claims [NC] on the public sector amounted to 25.9% of the GDP in 1980/81 and steadily declined to 15.7% in 1991/92, with an overall average of 24% for the entire period 1980-1991. The period after 1992 has witnessed very sharp decline in NCs on public sector relative to the period before 1992 amounting to 5.9% of the GDP.

Table[8]
Total Government Internal Debt, 1980-2002.
[Values are in million Sudanese Pounds]

	Total Accumulated Govt Debt	GDP	Debt as Pct of GDP
1980/81	1430.8	4972	28.8
1981/82	1742.6	6063	28.7
1982/83	2000.8	7521	26.6
1983/84	-		
1984/85	2312.5	10822	21.4
1985/86	2877	23070	12.5
1986/87	3386.5	29887	11.3
1987/88	4013.5	40291	9.9
1988/89	5592.5	73563	7.6
1989/90	14394.9	100863	14.3
1990/91	-	190827	-
1991/92	13524.9	401840	3.4
1992/93	31927.8	857477	3.7
1993/94	78998	1753499	4.5
1994/95	110398	2368330	4.7
1995/96	203960	4133912	4.9

1996/97	528260	10215174	5.2
1997/98	607260	15929308	3.3
1998/99	697260	19916126	3.5
1999/00	1105330	24488760	4.5
2000/01	1282330	29694480	4.3
2001/02	1378820	33805550	4.1

Source: Medani M.Ahmed [2004] own computations based on data obtained from Bank of Sudan: Annual Reports, for respective years.

The decline was due to stabilization policy applied in 1996 to curb inflation through control of money supply and credit expansion for both private and public sectors. However, the situation is still precarious if we imagine what would be the possible effect on the economy of a budget deficit, substantial amount of internal debt and equally enormous net claims of the banking system on the public sector. One thing is expected that the accumulation of domestic debt payments arrears will have negative impact on private investment and local banking system.

The uncertainty produced by the internal debt stems from the fact that there is no declared policy of dealing with debt servicing of the internal debt. The high profit rate offered to investors in Shahama (about 30 percent per year) is meant to keep them satisfied as there is not comparably high profit rate offered by any other institution. There is an urgent need for the Bank of the Sudan and the Ministry of Finance and National Economy to design a policy to deal with internal debt repayment (principal and servicing costs). On the other hand, Shahama profits that go directly to the richer segment of the population are exempted from taxes and are paid from the federal budget that belongs to all the citizens of the country. In other words, the poor lose in paying the profits of Shahama. This is not a pro-poor policy. Another point is that the money generated by Shahama is primarily used to finance current expenditures of the central government, which generally are not helping the poor. However, the last fiscal year witnessed the use of 10 billion Sudanese Dinars to purchase supplies for the Ministry of Health for primary health care that is pro-poor.

Before closing this section, we should mention one important question that needs to be answered by fiscal experts: can the government sustain a fiscal policy that continues to add to the national debt annually, albeit the current deficits are running at about 1 percent of GDP? It is beyond the scope of this study to attempt to answer such a question. However, it is important to mention that fiscal sustainability determines whether the government can pursue indefinitely a given set of policies without future policy reversal [Zee, 1998].

In practice, fiscal policy has been deemed sustainable if it stabilizes the debt-to- GDP ratio. [See Blanchard and others [1990] and Buiter [1997]]. As Sudan increasingly becomes more dependent on oil revenues to finance its spending activities the question of fiscal sustainability becomes more pressing. How is the country going to sustain growth and revenue generation from non-oil resources? How is it going to allocate revenues from these nonrenewable resources between present and future generations? Between current and future uses?

According to Joseph Ntamatungiro [2004] fiscal policy should aim at the replacement of oil resources by financial assets [including the public debt] and ensure intergenerational equity in the distribution of oil wealth. There are two ways to safeguard oil wealth, either by not exploiting the resource or by investing income. The decision depends on future prices of oil and interest rates on investment of oil wealth into financial assets.

According to Barnett and Ossowski [2002], oil revenue should not be viewed as income, but rather as financing item, a portfolio transfer that converts oil wealth into financial assets. Fiscal policy should focus at achieving some wealth distributional objectives, namely equitable distribution of wealth between present and future generations through setting aside part of currently earned oil revenues to be shared with future generations when oil resources are falling or depleted. The challenge is to find a sustainable path for non-oil fiscal balance where deficits in later years can be financed by part of oil revenue set aside in early years.

The issues raised by Ntamatungiro, Barnett and Ossowski are controversial issues. Different people have different views on how to utilize oil revenues for the benefit of future generations. For example, it is widely recognized that investments in education, health, sanitation, safe drinking water and other essential social services and infrastructures in a well-prepared strategy of growth and poverty reduction can help generate higher growth in the economy [including non-oil sectors] and adequate non-oil revenues for future generations.

The creation of a Fund for Future Generations [FFG] is one alternative for accomplishing this objective. Such a fund might have three separate windows. First, some portion of annual oil revenues can be used to meet current budgetary obligations, especially those that are directed at activities focused on poverty alleviation. Second, a portion of annual oil revenues can be set aside in a stabilization fund to be used in future years to smooth out annual operating budgets when oil prices or oil production declines. Third, a portion of annual oil revenues can be invested in essential social services (e.g. education and health) and infrastructure necessary to make the economy more productive in the future. Such an explicit policy approach to the allocation of annual oil revenues will help protect these resources from political pressures for more current spending, while insulating the domestic economy from volatility of oil revenues [see Davis and others, 2001].

To be effective, such a FFG will have to be coupled with the implementation of a credible fiscal policy, notably based on clear targets for the non-oil primary balance. In other words the FFG resources should not interfere with the conduct of fiscal policy.

5. National State Support Fund

Article 116, Section 2, of the 1998 Constitution stipulates that "A fund shall be established, under the supervision of the Federal Government Authority, to which the federal government and able state governments shall contribute to assist needy states as determined by criteria fairness, taking into account the number of population and the level of development and in accordance with law."

The purpose of this section is to discuss the activities of the National State Support Fund (NSSF) and possible impacts on poverty alleviation. The National State Support Fund was specifically created in the Federal Chamber to administer the intergovernmental grant system. A Supreme Council that includes representatives from the Minister of Finance and National Economy, the NSSF and state governors selects the specific sharing rate for each year. The rate was 11 percent of federal revenues in 2000, 14 percent in 2001, 15 percent in 2002 and 10 in 2003. The vertical transfer is determined using all federal government revenues (including oil revenues) except for the central government's share of the VAT, privatization and sales of government assets.[6]

The horizontal distribution of NSSF is made through two programs, Current Transfers and Development Transfers.

[6] In addition, 10 percent of gross receipts paid to central government parastatel firms and joint venture companies are included in the base.

Current Transfers: The specific horizontal amount of Current Transfers budgeted for each state is determined by a formula that includes nine factors: financial performance, population density, natural resources, human resources, infrastructure condition, educational attainment, health status, security, and per capita income. All factors in the formula receive a 10 percent weight except for financial performance, which receives a weight of 20 percent. The specific value of each factor for a given state was determined by a group of experts (apparently based mostly on judgment) three years ago. Thus, the data used in the formula are not updated to reflect changing conditions in the states. Each state (except Khartoum) is budgeted to receive a percentage of the total allocation based on its score divided by the sum of all state scores. But the failure to pay the full amount budgeted on a regular basis suggests that this horizontal transfer is determined, at least in part, by discretionary decisions. For example, the Supreme Council can identify states for additional funding. States and localities are expected to use Current Transfers to make wage payments.

The NSSF provided a table titled *Projection of Federal Support to States for the Year 2004*. The first two columns in the table were labeled ***Regular Support***, which we interpret as Current Transfers from the NSSF. Data were provided for 2003 (which we assume reflects actual transfers) and projections for 2004. These data are presented in **Table [9]**.

Table 9
Regular NSSF Support to States
2003 Actual and 2004 Projected
(millions of Sudanese Dinars)

	Regular Support	
State	2003	2004
Khartoum	0	0
Red Sea	0	0
Kassala	1760	3060
Gadaref	1240	2160
Gezira	5860	10180
White Nile	1680	2930
Sennar	1260	2190
Blue Nile	1320	2290
N. Kordofan	1740	3020
S. Kordofan	1490	2590
W. Kordofan	1380	2400
N. Darfur	2390	4150

S. Darfur	1440	2500
W. Darfur	1320	2290
River Nile	2480	4310
Northern State	1660	2890
Upper Nile	1350	2350
Unity	700	1220
Jungli	670	1160
Bahar Elghazal	1770	3080
Eastern Equatoria	720	1250
Western Equatoria	650	1130
Lakes	620	1080
North Bahr Elghazal	650	1130
Western Bahr Elghazal	1070	1860
Warrab	590	1030
Southern State	0	0
TOTAL	35810	62250
Source: National State Support Fund.		

The data in **Table [9]** include the 16 states in the north and 11 states in the south and indicate that NSSF Current Transfers were made to all 27 states in 2003. We have no means of confirming this. On average, in 2004, each state is projected to receive an increase in Current Transfers from NSSF of 74 percent above the actual 2003 amount. We know, however, that actual amounts regularly fall far short of budgeted amounts.

We were not able to obtain detailed data by state for each of the nine factors in the distribution formula. We see that Khartoum and Red Sea states, two relatively wealthy states, did not receive any Current Transfers from the NSSF in 2003 and are projected to receive no Current Transfers in 2004.

Development Transfers: Development transfers are made to finance specific Chapter 4 development projects, and, together with Current Transfers, comprise the NSSF grants. The line of demarcation of what is considered as state development project and national development project is not clear.

We were provided with a list of eight factors used to evaluate state development projects. These criteria included

- Project Economic Response – the project feasibility study shows the economic response which plays an important role in the state's resource development (10 percent weight);

- Project Social Target – the project contributes to promotion and development of social change (10 percent weight);
- Size and Cost – the state is not capable of financing the project on its own (10 percent weight);
- Geographical Concerns – the project represents an addition to an area that suffers from marginalization (10 percent weight);
- Strategic Importance – the project has a direct effect on boosting development in the state (15 percent weight);
- Project Effect on Man and Animal – the project insures basic human needs like food and water (15 percent weight);
- Importance Degree of the Project – the project is vital to life (15 percent weight); and
- Project Coincidence Target – the project is consistent with national development plans (15 percent weight).

The NSSF provided us with two tables containing information about actual development transfers by state and by function for 2002 and 2003. Each table contained information on the 16 states in the north and 4 or 5 states in the south. Data for 2002 are presented in **Table [10]** and for 2003 in **Table [11]**.

Table 10 Actual NSSF Development Support in 2002 by State (Millions of Sudanese Dinnar)						
State	Water	Health	Education	Other	Total	Pct. Total
Khartoum	0	25	12	0	37	2.3%
Red Sea	37	9	7	24	77	4.9%
Kassala	15	14	24		53	3.4%
Gadaref	43	15	10		67	4.3%
Gezira	78	16	12		106	6.8%
White Nile	17	17	5		39	2.5%
Sennar	35	8	15		58	3.7%
Blue Nile	25	14	18	40	97	6.2%
N. Kordofan	14	11	22	45	91	5.8%
S. Kordofan	55	19	18	60	151	9.7%
W. Kordofan	36	13	24	50	122	7.8%
N. Darfur	28	15	20	120	182	11.6%
S. Darfur	26	13	30	75	144	9.2%
W. Darfur	43	11	18	100	172	11.0%
River Nile	27	13	7		47	3.0%
Northern State	14	16	18		47	3.0%
Upper Nile						
Unity	30				30	1.9%
Jungli						
Bahar Elghazal						
Eastern Equatoria						
Western Equatoria						
Lakes	20				20	1.3%
North Bahr Elghazal						
Western Bahr Elghazal	10				10	0.6%
Warrab	16				16	1.0%
Southern State						
TOTAL	566	229	258	514	1,566	100.0%
Percent of Total	36.2%	14.6%	16.4%	32.8%	100.0%	
Source: National State Support Fund						

The data in **Table [10]** indicate that in 2002 development transfers to the states totaled 566 million Sudanese Dinars and that 36.2 percent of NSSF development grants to states were for water projects, 32.8 percent were for projects falling into the Other category, 14.6 percent were for health projects and 16.4 percent were for education projects. While it is not clear what the Other category includes, it seems likely that at least two thirds of the projects funded by the

NSSF development grant in 2002 could potentially impact poor people. Simple correlation coefficients add support to this general view.[7] Specifically, the correlation between 2002 actual NSSF development grants by state and population was –0.042 indicating no systematic relationship between population and the amount of development grants received in 2002. Alternatively, the correlation between the percent of a state's population living in rural areas (a proxy for fiscal capacity) and actual 2002 NSSF development grants was 0.545 indicating a modest equalizing relationship between development grants and our proxy for fiscal capacity – the percent of population living in rural areas. Finally, the correlation coefficient between actual 2002 NSSF development grants and the number of people living in rural areas (a proxy for expenditure needs) was 0.433.

Data for 2003 actual NSSF development grants are presented in **Table [11]**. The data in **Table [11]** indicate that 60 percent of the 10.5 billion Sudanese Dinars of development grants to the states in 2003 were for water projects. The next highest category was for basic infrastructure accounting for 26 percent of project funding, but 93 percent of these funds went to the state of Khartoum. The remaining categories – health, education, energy and other – together accounted for only 13.5 percent of project funding.

It is difficult to determine the extent to which development grants in 2003 impacted the poor, in part because 37 percent of total development grant funds went to Khartoum and Red Sea states – two relatively wealthy states, both of which, however, had significant populations of low income families living in urban areas. It is difficult to know who the primary beneficiaries were of the water projects in the Red Sea state and the infrastructure projects in Khartoum state. This uncertainty is reflected in simple correlation coefficients as well. Specifically, when total NSSF development grants in 2003 are correlated with the percent of a state's population living in rural areas (a proxy for fiscal capacity) the correlation coefficient is –0.881 indicating a strong inverse relationship between the amount of development grants received in 2003 and our measure of fiscal capacity – the percent of population living in rural areas. Alternatively, the correlation between NSSF development grants received and population is 0.642 indicating a rather strong relationship between these two variables. The correlation between NSSF development grants in 2003 and the number of people living in rural areas (a proxy for expenditure needs) was –0.269.

[7] Correlation coefficients are calculated using data from the 16 northern states only.

There is insufficient information, however, to determine the extent to which NSSF funded development projects in 2003 benefited the low income.

Table 11
Actual NSSF Development Support 2003
(Millions of Sudanese Dinars)

State	Water	Health	Education	Infrastructure	Energy	Other	Total	Pct Total
Khartoum	96	21	16	2,562		20	2,714	25.9%
Red Sea	1,075	34	15			7	1,131	10.8%
Kassala	323	47	50				420	4.0%
Gadaref	398	42	39	193		1	674	6.4%
Gezira	258	34	41				333	3.2%
White Nile	318	30	38		10	20	416	4.0%
Sennar	363	59	58		40	7	526	5.0%
Blue Nile	192	30	20			3	245	2.3%
N. Kordofan	522	45	75				642	6.1%
S. Kordofan	460	32	28				520	5.0%
W. Kordofan	378	41	68				487	4.7%
N. Darfur	723	43	48				814	7.8%
S. Darfur	288	45	68				401	3.8%
W. Darfur	211	55	53				319	3.0%
River Nile	363	31	39			3	435	4.2%
Northern State	336	21	15			5	377	3.6%
Upper Nile		2	2				4	0.0%
Unity								
Jungli								
Bahar Elghazal		2	1				3	0.0%
Eastern Equatoria								
Western Equatoria								
Lakes						4	4	0.0%
North Bahr Elghazal								
Western Bahr Elghazal		2	1				3	0.0%
Warrab								
Southern State								
TOTAL	6,304	614	675	2,755	50	69	10,468	100.0%
Percent of Total	60.2%	5.9%	6.4%	26.3%	0.5%	0.7%	100.0%	

Source: National State Support Fund

In addition to Current and Development Transfers, the State Support Fund also distributes VAT and Agricultural Compensation transfers to the states. The NSSF provided two sets of tables that contained data on actual VAT and Ag Comp transfers to individual states in 2002 and 2003.[8] These data are presented in **Table [12]**.

The Value Added Tax (VAT) was introduced in Sudan in 2000 to replace the state sales tax and other similar excise taxes. The VAT rate is 10 percent on all goods and services with some exemptions. It is collected through the customs office as well as the VAT office in different parts of the country. The proceeds of the tax are deposited in the VAT account at the Bank of Sudan.

Because the taxes that were abolished when the VAT was introduced included a number of state taxes, the central government agreed that the VAT should be shared between the central government and the states on an agreed share – initially 35 percent of VAT collections were allocated to the states and 65 percent to the central government, but more recently the state share has increased to 43 percent of VAT collections. This sharing ratio can change annually after consultation with state ministries of finance. The tax chamber distributes the central government share of the VAT to the central government and that is the only portion of VAT revenues that are reflected in the central government's budget. The National State Support Fund distributes the state share of the VAT to each state based on the origin of the tax and that is the amount reflected in the state budget. Because a state's VAT distribution reflects, in part, foregone revenues from the taxes abolished when the VAT was created, it is considered a transfer, not a grant.

Data in **Table [12]** include the VAT distribution for the 16 states in the north and the Ag Comp distributions for the 16 states in the north plus the Upper Nile state in the south. The VAT distribution to each state is essentially based on its share of total taxes collected – i.e., the horizontal distribution of VAT collections to individual states is roughly based on point of origin of tax collections. As a result, three wealthier states – e.g., Khartoum, Gezira and Red Sea – received 78 percent of state VAT distributions in 2002. The VAT data for 2003 indicate that all states experienced an increase in their VAT distribution – increases ranged from 29.4 percent in West Kordofan to 32.5 percent in South Kordofan, North Darfur, and the Northern State. Khartoum, Gezira and Red Sea states received 77 percent of state VAT distributions in 2003.

[8] The table titled *Projection of Federal Support to the States for the Year 2004* mentioned earlier also had data on VAT and Ag Comp grants for 2003 and 2004. The VAT and Ag Comp transfer numbers for 2003 had no relationship to the VAT and Ag Comp numbers from the other sources. Therefore, the data in Table 12 above reflect the numbers from the second set of tables provided by NSSF, not the table titled *Projection of Federal Support to the States for the Year 2004*. These two sets of numbers could not be reconciled, albeit the later numbers were confirmed by going back to the original source documents.

Similarly, the Ag Comp transfers are intended to replace the agriculture product tax, which was abolished in 1999. Prior to that time, farmers paid 15 percent of the value of their crops to the state in the form of an agriculture product tax. The federal government took action in 1999 to abolish the agricultural production tax and replace it with a transfer to each state intended to hold them harmless for revenues lost when the agricultural production tax was abolished. The trading sectors and the individual farmers benefited from the abolition of the agriculture production tax. To a large extent, this tax change can be thought of as benefiting the poor to the extent it reduced their tax burden, allowed them to keep more of the proceeds from the sale of their crop, promoted trade and lowered prices.

Table 12

VAT and Ag. Comp Grants by State, 2002 and 2003

(Millions of Sudanese Dinars)

State	Value Added Tax		Ag. Compensation	
	2002	2003	2002	2003
Khartoum	14,563	18,957	70	75
Red Sea	1,595	2,078	3	3
Kassala	394	510	337	365
Gadaref	729	948	1,568	1,695
Gezira	4,843	6,307	1,766	1,910
White Nile	729	948	427	461
Sennar	503	656	566	1,052
Blue Nile	221	292	973	612
N. Kordofan	840	1,094	328	354
S. Kordofan	330	437	447	483
W. Kordofan	282	365	536	579
N. Darfur	330	437	288	311
S. Darfur	503	656	853	923
W. Darfur	330	437	298	322
River Nile	554	729	1,191	1,287
Northern State	330	437	744	805
Upper Nile			357	386
Unity				
Jungli				
Bahar Elghazal				
Eastern Equatoria				
Western Equatoria				
Lakes				
North Bahr Elghazal				
Western Bahr Elghazal				

Warrab				
Southern State				
TOTAL	27,076	35,288	10,750	11,623
Source: National State Support Fund				

National State Support Fund Grants and Transfers and Their Impact on Poverty Alleviation:

The National State Support Fund distributed more than 93 billion Sudanese Dinars to states in 2003 under four programs – current and development transfers, as well as the VAT and Ag Comp allocations which were originally intended to compensate states for foregone revenues when various sales and excise taxes and agriculture production taxes were eliminated. See **Table [13]**.

Table 13 National State Support Fund Grants and Transfers, 2003 (Millions of Sudanese Dinars)		
	Amount	Share
Current Transfers	35,810	38.4%
Development Transfers	10,468	11.2%
VAT Distributions	35,288	37.9%
Ag Comp Allocations	11,623	12.5%
TOTAL	93,189	100.0%

The largest single program is current transfers, which account for more than 38 percent of total grants and transfers. The second largest program is the VAT allocation, which accounts for nearly 38 percent of total grants and transfers. Thus, current transfers and VAT allocations account for more than three-fourths of NSSF allocations in 2003.

Determining the impact of these grants and transfers on poverty alleviation involves two steps: first, we want to see the extent to which the horizontal distribution of grants and transfers is equalizing; and second, we want to understand how these funds are actually spent by state governments and the impact of these expenditures on poverty alleviation. To the extent possible, the second issue is addressed in the next section.

When examining the equalizing nature of grants and transfers to individual states, we must remember that the VAT and Ag Comp programs were initially intended to compensate state government for foregone revenues because of actions by the federal government to eliminate certain taxes. As a result, they were not initially intended to be redistributive to the same extent that current and development transfers were.

To investigate the equalizing impact of the horizontal distribution of NSSF grants and transfers we want to relate a state's actual transfers received to measures of its capacity to raise own-source revenues (fiscal capacity) and measures of expenditure needs. Given the time and resource constraints of this project, we were not able to develop comprehensive measures of fiscal capacity and expenditure needs. For this analysis we rely on existing data sources. Specifically, as a proxy for fiscal capacity we use the percent of a state's population living in rural areas and for a proxy of expenditure needs we use the number of people in a state living in rural areas.[9]

Table 14 presents a series of correlation coefficients that represent an initial effort to understand the equalizing impact of NSSF grants and transfers, given our measures of fiscal capacity and expenditure needs.[10] The correlation coefficients in Table 14

Table 14
Correlation Coefficients Between State Support Fund Grants and Transfers
And Selected State Characteristics

	State Population	Percent Pop. Rural	Rural Population
Current Transfer, 2003	0.159	0.463	0.692
Development Transfer, 2002	-0.042	0.545	0.443
Development Transfer, 2003	0.642	-0.881	-0.269
Ag Comp, 2002	0.049	0.399	0.477
Ag Comp, 2003	0.074	0.390	0.508
VAT, 2002	0.853	-0.780	0.028
VAT, 2003	0.853	-0.780	0.028

indicate that the 2003 allocation of current transfers across states was somewhat equalizing when compared to a state's fiscal capacity and somewhat more equalizing when compared to a state's

[9] We want to thank Bill Fox for this suggestion. In Sudan, however, these measures are not perfect proxies for fiscal capacity and expenditure need because of the large number of people living in urban centers like Khartoum and Port Sudan that are living in poverty.
[10] The correlation coefficients are computed using data for the 16 northern states of Sudan.

expenditure needs. The correlation coefficient between current transfers and percent of a state's population living in rural areas (a proxy of fiscal capacity) was 0.463 and the correlation coefficient between current transfers and the number of people living in rural areas (a proxy for expenditure need) was 0.692 – a relatively strong relationship indicating that the more people living in rural areas of a state, the larger the current transfer to that state.

A similar, albeit somewhat weaker, pattern was found for development transfers in 2002, although they were somewhat more equalizing when compared to our proxy for fiscal capacity and somewhat less equalizing when compared to our proxy for expenditure needs. The case is much different for the pattern of development transfers in 2003, however. Specifically, these development transfers are inversely related to measures of fiscal capacity indicating that the smaller the share of population living in rural areas the larger the development transfer. Similarly, these development transfers tend to be greater for states with smaller numbers of people living in rural areas. These results reflect the fact that more than one-third of total development transfers in 2003 went to Khartoum and Red Sea states which are relatively urbanized and relatively wealth states.

As mentioned above, the Ag Comp allocations were initially intended to compensate a state for revenues lost when the federal government eliminated the agricultural production taxes. As such, they were not explicated intended to be redistributive. However, it is not surprising that the more important the agriculture sector is in a state the more the state will receive under the Ag Comp program. As a result, these allocations tend to be somewhat equalizing given our proxies for fiscal capacity and expenditure needs – percent of population living in rural areas and the number of people living in rural areas, respectively. For both 2002 and 2003, the correlation coefficients are both close to 0.4 when comparing Ag Comp allocations to our proxy for fiscal capacity, and close to 0.5 when comparing Ag Comp allocations to our proxy for expenditure need.

Finally, VAT distributions are intended to compensate states for revenues lost when the federal government eliminated the sales tax and certain excise taxes. Again, these distributions are not intended to be redistributive. This is confirmed by the correlation coefficients that indicate larger states tend to receive larger VAT allocations and states with higher fiscal capacities (reflected by a lower percent of population living in rural areas) tend to get higher allocations. In fact, three states – Khartoum, Red Sea and Gizera – received 78 percent of VAT allocations in both 2002 and 2003.

Somewhat surprisingly, approximately 50 percent of NSSF grants and transfers in 2003 had a modest equalizing impact by channeling somewhat larger current grants and Ag Comp allocations to states with relatively less fiscal capacity (higher percentages of population living in rural areas) and greater expenditure needs (larger numbers of people living in rural areas). There is a feeling on the part of many that these intergovernmental grant programs need to be revamped so they are more targeted on those most in need. Also, even if these resources are distributed across states in a manner that seems to be somewhat equalizing, given our rather imperfect proxies for fiscal capacity and expenditure needs, it is impossible to determine what impact these funds have on poverty alleviation until we understand better how states utilize these resources.

According to the peace agreement between the Government and the SPLM –wealth-sharing protocol – a Fiscal and Financial Allocation and Monitoring Commission (FFAMC) will replace the NSSF. The purpose of the FFAMC is to ensure transparency and fairness both in regard to the allocation of nationally collected funds to the states/regions and the Government of Southern Sudan.

This body will be comprised of experts nominated by the various states/regions, the Government of Southern Sudan and the National Government. Decision making arrangements of the FFAMC shall be as agreed to by the parties.

The FFAMC will undertake the following duties and responsibilities:

- Monitor and ensure that equalization grants from the National Revenue Fund are promptly transferred to respective levels of government;
- Ensure appropriate utilization and sharing of financial resources;
- Ensure that resources allocated to war affected areas are transferred in accordance with agreed upon formula; and
- Ensure transparency and fairness in the allocation of funds to the GOSS and states/regions according to established ratios or percentages stipulated in the agreement.

The FFAMC will be composed of representatives from the National Government, the Government of Southern Sudan and the States/ Regions as follows:

- Three Representative of the National Government;
- Three Representative of the Government of Southern Sudan (GOSS); and

- All Finance Ministers in all states/regions of the Sudan.

The Chairperson of the FFAMC will be appointed by the presidency. The FFAMC will work out its own rules and procedures, which will be approved by the presidency. The intent is to provide more equalization in the intergovernmental grant system. In order to do that, however, more and better data need to be developed that reflect differences in fiscal capacity and effort across states as well as differences in expenditure needs. These data then need to be incorporated into the grant allocation mechanisms to target intergovernmental grants on those most in need.

6. Off-Budget Activities – Zakat

In order to obtain a complete picture of the impact of government activity on poverty alleviation, we need to take a comprehensive look at government activities. This means that we need to explore activities that are undertaken by government agencies, but are technically off-budget. For example, individual ministries sometimes collect revenues for services that are not fully reflected in official budget figures. In addition, ministries may receive donations from international sources, like food aid from the WFP, which are not reflected fully in official budget figures. Also, the Ministry of Defense collects a "Wounded Tax" which is used to offset some of the costs of war, especially the medical costs, but which is not included in the revenue figures in the government's annual budget. It is imperative to put together a consolidated budget document for the central government that includes all revenues and expenditures for all governmental activities. All such off-budget items should, at a minimum, be reported on a regular basis to the Ministry of Finance and National Economy so that they can be reflected in official budget numbers.

One other critically important off-budget government activity is the collection and distribution of funds according to the Islamic tradition of Zakat. While in many other countries the Zakat (Zakaat) may be paid directly to individuals or non-profit organizations that help the poor, in Sudan the central government collects and distributes Zakat.

The 1998 Constitution of Sudan says, "Zakat is a financial obligations [sic] collected by the State and its collection, expenditure and administration shall be in accordance with law." [Article 10] A board of trustees appointed by the President and headed by the Ministry of Welfare and Development supervises the Zakat Chamber. The Chamber, however, is not accountable to any executive body. The purpose of this section is to better understand how Zakat activities affect the poor. It is important to note that Zakat generally, and in the Sudan in particularly, is considered one of the most important strategies in reducing poverty.

One of the most important principles of Islam is that all things belong to God, and human beings hold that wealth in trust. The word Zakat means both 'purification' and 'growth.' One's possessions are purified by setting aside a proportion for those in need, and, like the pruning of plants, this cutting back balances and encourages new growth.

Zakat is the amount of money that every adult, mentally stable, free, and financially able Muslim, male and female, has to pay to support specific categories of people. Zakat is obligatory when a certain amount of money, called the Nisaab is reached or exceeded -- excluding his or her personal needs (clothing, household furniture, utensils, cars etc. are termed article of personal needs).

Zakat is not obligatory if the amount owned is less than this Nisaab. The Nisaab (or minimum amount) of gold and golden currency is approximately 85 grams of pure gold.[11] The Nisaab of silver and silver currency is approximately 595 grams of pure silver.[12] The Nisaab of other kinds of money and currency is to be scaled to that of gold, 85 grams of pure gold. This means that the Nisaab of money is the price of 85 grams of 999-type (pure) gold, on the day in which Zakat is paid.[13] Finally, Zakat is imposed on cash, bank notes, stocks, bonds etc.; merchandise for business, equal to the value of Nisaab; livestock; and on income derived from rental business.[14]

According to tradition, Zakat is obligatory after a time span of one lunar year passes with the money in the control of it's owner. Then the owner needs to pay 2.5% (or 1/40) of the money as Zakat. The owner should deduct any amount of money he or she borrowed from others; then

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[11] This is equivalent to approximately 3 ounces of gold. At current prices this would be valued at approximately $1,200 USD, or 312,000 Sudanese Dinars.

[12] This is equivalent to approximately 21 ounces of silver. At current prices this would be valued at approximately $150 USD, or 39,000 Sudanese Dinars.

[13] At current prices this would be equivalent to approximately $1200 USD, or 312,000 Sudanese Dinars.

[14] No Zakat is due on any metals other than gold or silver; fixtures and fittings of a shop, car, trucks or any delivery vehicle etc., which is used in running business; diamonds, pearls, other precious or semi precious stones which are for personal use; on personal residence, household furniture, pots and pan, personal clothing, whether they are in use or not; and there is no Zakat on a person whose liabilities exceed or equal his assets.

check if the rest reaches the necessary Nisaab (exclusive of items for personal needs), then pay Zakat for it.

Zakat, in the Sudan, is applied a number of ways. For example,

- Those informal poor living in urban areas are not required to pay Zakat;
- For urban commercial and industrial activities, Zakat is assessed at 2.5 percent of ***net*** income;
- For urban households, Zakat is assessed at 2.5 percent of salary ***above*** 30,000 Dinars per month
- For irrigated agriculture Zakat is assessed at 2.5 percent of total production at harvest time as the farmer incurs the cost of irrigating his produce.
- For rain feed agriculture, Zakat is assessed at 5 percent of total production when it reaches Nissab at harvest time, as the farmer incurs no cost for irrigating his produce.

Table [15] summarizes Zakat revenues in the Sudan for 2001 and 2002. The data indicate that total Zakat income in 2002 was 14.4 billion Sudanese Dinars, down about 7 percent from 15.6 billion Sudanese Dinars in 2001.

TABLE 15
ZAKAT REVENUES
(Sudanese Dinars)

Item	2001		2002	
	Amount	Percentage	Amount	Percentage
INCOME				
Agriculture	5,701,202,150	36.6%	5,343,530,330	37.0%
Animal	1,161,744,477	7.5%	1,181,942,890	8.2%
Trade	3,491,943,301	22.4%	2,917,656,371	20.2%
Profit Generated Claim	447,592,483	2.9%	362,988,815	2.5%
Proficiencies	90,814,692	0.6%	61,339,170	0.4%
Mobilized Capital	1,836,240,610	11.8%	1,784,323,208	12.4%
Others	207,853,026	1.3%	737,269,763	5.1%
Subtotal	12,937,390,739	83.1%	12,389,050,547	85.8%
Expenditure	71,024,074		549,488,032	
Refund	63,130,421		25,274,473	
Net Income	12,803,236,244		11,814,288,042	
Donations	5,995,030	0.0%	15,322,694	0.1%
Reserves	2,759,611,405	17.7%	2,606,340,697	18.1%
Total Income	15,568,842,679	100.0%	14,435,951,433	100.0%

Source: Ministry of Finance and National Economy, staff compilations.

The Qur'an identifies eight groups of people that are eligible to receive Zakat payments:

1. **FUQARA:** people who are poor and who possess more than their basic needs but do not possess wealth equal to Nisaab.

2. **MASAKEEN:** people who are destitute and extremely needy to the extent they are forced to beg for their daily food rations.

3. **AL-AMILEEN 'ALIYHA:** people appointed by Islamic Government to collect Zakat.

4. **MU-ALLAFATU-QULUBUHUM:** persons who have recently accepted Islam and are in need of basic necessities who would benefit from encouragement by Muslims which would help strengthen their faith.

5.**FI- ARRIQAAB:** slaves who are permitted to work for remuneration and have an agreement from their masters to purchase their freedom on payment of fixed amounts.[15]

6. **AL-GHAARIMEEN:** persons who have a debt and do not possess any other wealth or goods with which they could repay that which they owe. It is conditional that this debt was not created for any un-Islamic purpose.

7. **FI-SABILIALLAH:** persons who have to carry out an obligatory deed that has become obligatory on them and subsequently (due to loss of wealth) are unable to complete that obligation.

8. **IBN-US-SABEEL:** persons who are travelers and during the course of their journey do not possess basic necessities, though they are well to do at home. They could be given Zakat in order to fulfill travel needs to return home.

Table [16] provides data on Zakat expenditures in Sudan for 2001 and 2002. The eight spending categories listed here are those presented in the annual report from the Zakat Chamber in the Sudan. They do not correspond directly to the traditional list of beneficiaries above due to improper translation. However, in this table we use the traditional terms outlined above for the purpose of clarity and also because they are generally covered in these data.

Specifically, the data in **Table [16]** indicate that the poor and vulnerable received 5.7 billion Sudanese Dinars from Zakat, or 47.8 percent of Zakat expenditures in 2002, down slightly from 6.7 billion Sudanese Dinars, or 51.3 percent of Zakat expenditures in 2001. Expenditures on this category are the largest expenditures on any category by a significant

[15] This category is not relevant in modern times because slavery is forbidden by law and is not followed as an allowable spending category.

amount. These expenditures should directly benefit low-income people. The Zakat Chamber should rely more on these two categories to eradicate poverty in Sudan.

Category 2 in the Sudan Zakat report refers to AL-Amileen ‘Aliyha: those working for the Zakat Chamber responsible for collecting Zakat. This category accounts for approximately 17 percent of Zakat expenditures in each year.

Category 3 in the Sudan Zakat report is termed D’awa that refers to the activity that is carried out by the Zakat Chamber to disseminate knowledge on Zakat and to explain the importance of Zakat to Muslim people as well as to show the way it would be collected and from whom; the ways of its distribution and for whom. That is how the revenues are distributed to various categories mentioned above. Since Zakat is one of the five fundamental pillars of Islam Muslim preachers go on tour to explain to people the religious significance of Zakat in relation to other duties and to identify its role in the Islamic strategy of poverty reduction. While this activity was very modest in 2001, it accounted for nearly 20 percent of Zakat expenditures in 2002 – the second largest expenditure category that year.

TABLE 16
ZAKAT EXPENDITURES
(Sudanese Dinars)

	2001		2002	
	Amount	Percentage	Amount	Percentage
FUQARA and MASAKEEN	6,737,645,477	51.3%	5,668,709,925	47.8%
AL-AMILEEN ‘ALIYHA	2,268,310,139	17.3%	2,008,365,363	16.9%
D’AWA	208,080,926	1.6%	2,285,553,522	19.3%
FI-SABILIALLAH	1,835,649,951	14.0%		0.0%
IBN-US-SABEEL	140,814,839	1.1%	145,609,671	1.2%
AL-GHAARIMEEN	462,865,199	3.5%	123,331,086	1.0%
RUNNING COSTS AND REPARATIONS	1,155,408,898	8.8%	1,142,041,662	9.6%
FIXED ASSETS	317,476,612	2.4%	479,663,724	4.0%
TOTAL EXPENDITURES	13,126,252,041	100.0%	11,853,274,953	100.0%
SURPLUS	2,442,590,638		2,582,676,480	
ACCOUNTABLE REP	192,416,839		176,888,822	
BALANCE	2,635,007,477		2,759,565,302	

The next category in the Sudan Zakat report is the expenditure for FI-SABILIALLAH. This category accounted for 14 percent of spending in 2001, but fell to zero in 2002.

The next category in the Sudan Zakat report is the expenditures to help indebted citizens, Al-Ghaarimeen in the traditional classification. This category accounted for a relatively modest share of spending in both 2001 and 2002.

The final two categories in the Sudan Zakat report refer to other activities associated with the administration of the Zakat program -- collecting revenues and aiding the poor. These two categories account for a combined 11.2 and 13.6 percent of Zakat expenditures in 2001 and 2002, respectively. It is important to mention that according to the Zakat law expenses on Zakat are deducted first before distribution on the eight categories is carried out.

Impact of Zakat on Poverty Alleviation in Sudan

Determining the impact of Zakat on poverty alleviation in Sudan has two dimensions – first, we need to determine what share of family income is paid in Zakat across families; and second, we want to see how Zakat revenues are spent.

Ideally, in assessing the impact of Zakat on families across income classes we would need some sort of household survey so we can compute effective "tax rates" for Zakat for different families. Such a household survey does not exist, so we cannot determine the incidence of Zakat payments across households. However, the data presented above indicates that in 2001, 44.1 percent of Zakat income was attributable to agriculture and animals. This increased to 45.2 percent in 2002. There is no indication how this is allocated across the various segments of the agriculture sector – traditional, rain feed, commercial, and irrigated. If these funds come primarily from commercial and irrigated farming activities, rather than traditional and rain feed farming activities, the Zakat could be proportional or progressive source of revenues. However, if traditional and rain feed agriculture pays a significant portion of these revenues, the Zakat could be a regressive source of revenue which would hurt poor households.

These data also indicate that in 2001, 34.2 percent of Zakat income was attributable to trade and mobilized capital. This share declined slightly to 32.6 percent in 2002. Again, it is difficult to determine exactly how these liabilities are allocated across various activities. For example, commercial and industrial activity pay Zakat based on ***net*** income while traditional and rain feed agriculture pay Zakat based on total production at harvest time. This suggests that lower income families in traditional farming may pay a higher share of their income in Zakat than families in urban areas working in commercial or industrial activities where the base of Zakat is net income.

Zakat in the Sudan is essentially a religious activity for the payer before it is considered as tax on wealth. Efforts are made to collect the tax from families in all parts of the country and in all walks of life. Zakat must be paid by all those who attain the Nisaab. It is a mandatory payment to the government. As such, it is likely that some people may try to avoid paying their full Zakat by concealing certain properties. Those who attempt to conceal information on wealth and income to avoid or reduce payment of Zakat are considered committing two crimes. First, a religious crime of not adhering to the duty of fulfilling the Zakat as a fundamental Pillar of Islam and second a legal problem of not complying with government law and or avoiding performing duty. Thus, those entrusted with collecting the Zakat have a difficult time in determining each person's liability.

On another matter, many scholars and experts on Zakat are inclined to think that the Zakat Chamber should work very hard to deal with the mounting problem of poverty in Sudan with allocating more of the Zakat revenues to the first two categories as they directly solve the problem of the poor. The challenge for the Zakat Chamber is to work as a strategic institution of poverty reduction by allocating increasingly more resources to the categories of FUQARA and MASAKEEN, as they constitute most of the poor in Sudan. As a result increasingly less resources should be consumed by administrative activities associated with running the Zakat program in the Sudan. For instance, international experience indicates that in many countries the cost of administering an individual income tax, or a corporate income tax, or even a local property tax is often less than five percent of revenues collected. The Zakat Chamber should learn from these experiences to minimize administration cost.

7. State and Local Revenues and Expenditures

Article 2 of the 1998 Constitution of the Republic of Sudan states that "Sudan is a Federal Republic governed at its highest level of authority in accordance with a federal system of government based on the Constitution and at the local level it is governed by local councils acting in accordance with the law." Part VI of the Constitution spells out the details of the federal system in the Sudan, including Article 108 which identifies 25 states and their capitals, Article 114 which identifies State Financial Resources, and Article 115 which identifies Local Councils Financial Resources, albeit this has been replaced by the Local Government Act of 2003. Specifically, Article 114 of the Constitution enumerates state revenue sources to include:

a) Business profits tax, provided that there shall be a percentage allocated to localities by a federal law.
b) An industry excise duty.
c) Licenses fees.
d) Other state taxes and fees.
e) Profits from state activities.
f) Internal grants, loans and credit facilities.

Similarly, the Local Government Act of 2003 enumerates revenue sources of local governments to include:

a) The estate tax.
b) Agriculture and animal production tax, provided that there shall be allocated thereof a percentage of 40 percent to the state.
c) The fees of road, river and local means of transport.
d) The share of the locality out of the value added tax of the state, as the federal law may specify.
e) Such grants, loans and internal credit facilities, as the State's Government may approve.
f) Such percentage of the profits of the state's projects, to existing localities, or to which the project may extend, as the state's law may specify.
g) Trade and local licenses.
h) Cattle tax.
i) Local rates.
j) Lands tax.
k) Any other local financial resources.

In order to obtain a comprehensive understanding of the impact of government taxing and spending decisions on poverty alleviation we need to examine state and local government fiscal decisions in addition to central government fiscal decisions. The purpose of this section is to examine state and local revenue raising and spending in four states – North Darfur, Red Sea, River Nile and Sinnar.

While such an effort should be relatively straight forward, in the Sudan this proved to be a daunting task. The major problem we confronted was the lack of uniform data on state and local government revenue raising and spending practices. For example, there are no consolidated budgets or accounts and, as a result, the economic activity of government is not adequately reflected. The federal government cannot require state and local governments to provide it data, and, as a result, the data provided by state and local government are in different formats with different degrees of detail. In addition, the activities of the southern states are not reported to the central government at all.

The only data available at the national level are a series of annual reports submitted by state governments to the Ministry of Finance and National Economy. These reports are the basis of annual audits of state and local activity by the Auditor General. The problem is that these reports

- do not appear to follow a standard reporting format;
- appear to differ in the level of detail provided;
- contain tables where columns may not sum to the total shown in the report or totals may not tie to other tables where the numbers should be the same; and
- do not have a detailed sectoral breakdown of spending by ministry.

In an effort to overcome some of these deficiencies, the Ministry of Finance and National Economy, at the request of the UNDP, initiated field work in four states – North Darfur, Red Sea, River Nile and Sinnar – to develop more detailed information about state and local revenue raising and spending practices. This section discusses the data generated from this effort. However, not all of the deficiencies of reporting state and local spending have been overcome so these data should be interpreted with caution and considered illustrative only.

Case Study States

Four states were selected for this project – North Darfur, Red Sea**,** River Nile and Sinnar. Descriptive information for each state is provided in **Table [17]**. From the table we see that North Darfur is the largest of our sample states with an estimated population of 1.5 million in 2000 – but well below the populations of Khartoum, Algezira and South Darfur states. It is the most rural state in our sample, and the third most rural state in the north with an estimated 80.6 percent of its population living in rural areas – only the Northern state (84.8 percent) and West Darfur (87.4 percent) are more rural.

The Red Sea state is the smallest state in our sample, and the third smallest state in the north, with an estimated population of just 724,000 in 2000 – only the Blue Nile state (655,000) and the Northern state (593,000) have smaller populations. The Red Sea state is the most urbanized state in our sample, and the second most urbanized state in the north, with 60.5 percent of the population living in urban areas – second only to Khartoum state which has 86.7 percent of its population living in urban areas. In fact, the Red Sea state is the only other state with a majority of its population living in urban areas.

The River Nile state had an estimated population of 918,000 in 2000. It is primarily a rural state with approximately two-thirds of the population living in rural areas, albeit, it is one of the least rural states in the northern part of the Sudan.

Table 17
Descriptive Statistics of Case Study States

	Population	Percent Rural	Rural Population	Percent Population Under 15	Percent Population Over 60	Literacy Rates (Pct) (1993)	Under Five Mortality Rate (per 1,000)	Percent Population w/ Pit Latrine	Primary School Enrollment Rates
State									
North Darfur	1,503,000	80.6%	1,211,418	46.0%	4.7%	49.8%	101	47.7%	85.4%
Red Sea	724,000	39.5%	285,980	38.5%	4.3%	47.9%	165	26.1%	44.9%
River Nile	918,000	66.3%	608,634	41.0%	5.3%	64.5%	81	72.6%	78.9%
Sinnar	1,204,000	71.7%	863,268	44.5%	4.0%	52.0%	98	46.6%	54.6%

Finally, Sinnar state, with an estimated population of 1.2 million people, is somewhat larger than River Nile state. It is also more rural than the River Nile state with an estimated 71.7 percent of the population living in rural areas.

State and Local Revenues

Each state administration is divided into six state ministries – Agriculture, Culture, Education, Finance, Health, and Infrastructure. Each ministry collects revenues for services provided and from other sources. State revenues by ministry are presented in **Table [18]**.

The amount of revenues collected by these ministries varies substantially across states. The Red Sea state, the wealthiest of our case study states, raised 5.7 billion Sudanese Dinars in 2003 – approximately 7,900 Sudanese Dinars per capita. This compares to Sinnar, which raised 751 million Sudanese Dinars – approximately 624 Sudanese Dinar per capita; North Darfur which raised 934 million Sudanese Dinars – approximately 621 Sudanese Dinars per capita; and the River Nile which raised 1.3 billion Sudanese Dinars – approximately 1,409 Sudanese Dinars per capita.

In all of the case study states, except River Nile, the Ministry of Finance raised a majority of revenues – ranging from 59 percent in Sinnar to 90 percent in Red Sea. In North Darfur and Sinnar the Ministry of Health raised the second most revenues, albeit in both cases it was substantially less than raised by the Ministry of Finance. The Ministry of Building and Planning (Infrastructure) raised the second most revenues in the Red Sea and River Nile states.

Generally, revenues raised by each ministry seem to be basically user fees or charges, which come from various activities conducted by that ministry. For example, the Ministry of Health collects fees for hospital services; the Ministry of Culture collects tourism fees and fees paid by those going to undertake a pilgrimage to Mecca; and the Ministry of Education collects fees for examinations.

The exception generally is the Ministry of Finance, which collects state taxes. The only detailed breakdown of revenues collected by the Ministry of Finance comes from the River Nile state. These data are reported in Table RN-2 in the Appendix. The data indicate that the Ministry of Finance collected nearly 29 percent of its revenues from petrol fees and another 28 percent from cement fees. More than three-fourths of the revenues from the Ministry of Building and Planning came from land sales with more than one-fifth of its revenues coming from surveys. Over 50 percent of the revenues for the Ministry of Agriculture come from investment land and another 23 percent from animal vaccinations and other services. No information was provided on other own-source state revenues.

Table 18 State Revenues by Ministry and State, 2003 (Millions of Sudanese Dinars)								
	North Darfur		Red Sea		River Nile		Sinnar	
Ministry	Revenues Collected	Percent of Total	Revenues Collected	Percent of Total	Revenues Collected	Percent of Total	Revenues Collected	Percent of Total
Government Offices			5.7	0.1			2.3	0.3
Finance and Manpower	699.7	75.0	5166.1	90.3	563.4	43.6	441.2	58.8
Building and Planning	72.8	7.8	248.0	4.3	399.9	30.9	30.5	4.1
Agriculture	0.09	0.0	43.2	0.8	101.4	7.8	89.4	11.9
Health	95.0	10.2	184.8	3.2	197.0	15.2	147.5	19.6
Social and Cultural Affairs	0.4	0.0	51.4	0.9	2.2	0.2	0.5	0.1
Education	44.3	4.7	21.9	0.4	0.03	0.0	35.2	4.7
Parliament and Council								
Locality Support Fund							4.4	0.6
Education Support Fund	21.2	2.3						
TOTAL	933.5	100.0	5721.1	100.0	1293.2	100.0	750.9	100.0
Source: Ministry of Finance and National Economy, staff compilations.								

The revenues reported by ministry in **Table [18]** reflect own-source revenues collected by each ministry. A comprehensive view of state revenues would also include intergovernmental revenues and other revenues. A more comprehensive list of revenues was provided by Sinnar state (see Table S-1 in the Appendix). The data provided by Sinnar state indicate that own-source revenues were increased by reserves held from previous years and by grants from the central government. Total revenue, including reserves and grants from the central government, was 3.7 billion Sudanese Dinar in Sinnar state – or approximately 14.3 million USD. Reserves and grants account for nearly 80 percent of total revenues.[16] For individual ministries, the relative importance of reserves and grants varies significantly. While the Ministry of Education received no additional funds from reserves and grants, the Ministry of Health received 23.4 percent of its total revenues from reserves and grants while the Ministry of Finance received nearly 87 percent of its revenues from reserves and grants. It is essential that we get a comprehensive picture of total state and local revenues from all sources.

No detailed information on revenues was provided for local governments. When information on local revenues was provided, it was total revenue figures only with no breakdown between own-source and intergovernmental or tax and non-tax revenues. See the Appendix.

[16] While North Darfur did not provide the same level of detail regarding total revenues, it did provide information on own-source revenues versus central support grants (which we interpret to be total grants from the federal government). Central support accounted for more than three-fourths of total revenues in North Darfur.

State and Local Expenditures

As mentioned earlier, government expenditures in the Sudan are classified by chapter – Chapter 1 is salaries, Chapter 2 is supplies, and Chapter 4 is development expenditures.

Table [19] presents Chapter 1 expenditures by ministry and by state. Per capita spending on Chapter 1 expenditures ranged from a high of 1,512 Sudanese Dinar in the River Nile state to 630 Sudanese Dinar in the North Darfur state.

The Ministry of Health accounted for the largest share of Chapter 1 expenditures in the Red Sea and Sinnar states while the Ministry of Education accounted for the largest share of Chapter 1 expenditures in North Darfur and River Nile. Combined, the Ministries of Health and Education accounted for between 68 and 79 percent of Chapter 1 expenditures in our case study states.

Nobel Laureate Amartya Sen argues that what people can accomplish is influenced not just by economic opportunities, but also by the enabling conditions of good health and basic education.[17] In other words, services that contribute to health and education – water, sanitation, energy, transport, health and education – must work for poor people.[18] According to the data in the Table 17, it seems that state governments are making a concerted effort to strengthen education and health opportunities for their citizens, which should help alleviate poverty. However, while the priority for wages and salaries is clearly on health and education, without further detail it is difficult to say how these expenditures impact poverty alleviation. There is no way to determine how much of these funds are spent on the poor, how much are spent on administrative positions versus frontline service providers like teachers, and no way of determining how effective frontline service providers are.

[17] Amartya Sen, ***Development as Freedom***, Anchor Books, New York, 1999, p. 5.
[18] The World Bank, ***World Development Report 2004: Making Services Work for Poor People***, 2003, p. 3.

Table 19
Chapter 1 Expenditures by State and Ministry, 2003
(Millions of Sudanese Dinars)

	North Darfur		Red Sea		River Nile		Sinnar	
Ministry	Actual Expenditures	Percent Total	Actual Expenditures	Percent Total	Actual Expenditures	Percent Total	Actual Expenditures	Percent Total
Government Offices	60.5	6.4	39.9	4.0			33.6	4.1
Finance and Manpower	66.6	7.0	79.0	8.0	108.1	7.8	54.4	6.6
Building and Planning	34.5	3.6	52.8	5.3	81.0	5.8	18.9	2.3
Agriculture	62.5	6.6	46.8	4.7	93.8	6.8	46.5	5.7
Health	303.8	32.1	464.7	46.9	431.9	31.1	360.2	43.9
Social and Cultural Affairs	38.9	4.1	43.8	4.4	37.2	2.7	17.6	2.1
Education	342.0	36.1	264.7	26.7	545.3	39.3	287.7	35.0
Parliament and Council	37.5	4.0			17.1	1.2	1.9	0.2
Reserves					73.5	5.3		
TOTAL	946.3	100.0	991.7	100.0	1388.0	100.0	820.8	100.0

Source: Ministry of Finance and National Economy, staff compilations.

North Darfur provided information on both state and local spending by chapter. State and local Chapter 1 expenditures in North Darfur totaled nearly 2.9 billion Sudanese Dinar. Two-thirds of these expenditures were made by local governments – with half of those being made by just one local government – Elfashir. In fact, Chapter 1 expenditures by Elfashir were greater than the total of Chapter 1 expenditures by state ministries. Since local expenditures are not broken down by function there it is impossible to determine their impact on poverty alleviation. See Table ND-3 in the Appendix.

Table [20] provides information on Chapter 2 expenditures by state and by ministry. Actual Chapter 2 expenditures ranged from 875 Sudanese Dinar per capita in Sinnar to 4,776 Sudanese Dinar per capita in the Red Sea state. North Darfur (907 Sudanese Dinar per capita) and River Nile (1,342 Sudanese Dinar per capita) states have Chapter 2 spending closer to Sinnar than the Red Sea state. All the states except River Nile have greater spending on Chapter 2 expenditures than on Chapter 1 expenditures.

The pattern of spending for Chapter 2 expenditures across ministries is much different than the distribution of spending for Chapter 1 expenditures across ministries. In two states the Ministry of Finance accounted for the largest share of Chapter 2 expenditures – North Darfur

(62.1 percent) and Red Sea (59.1 percent). In River Nile state Government Offices accounted for the largest share of Chapter 2 expenditures (24.5 percent) followed closely by health (19.9 percent). In Sinnar the Health Ministry accounted for the largest share of Chapter 2 expenditures (28.8 percent). The Ministries of Education generally did much more poorly in competing for Chapter 2 funding. While health and education accounted for between 68 and 80 percent of Chapter 1 expenditures, they combined to account for 35.6 percent of Chapter 2 expenditures in River Nile, 33.0 percent in Sinnar, 13.4 percent in North Darfur and just 11.7 percent in the Red Sea state. The limited amount of spending by the Ministries of Health and Education on Chapter 2 expenditures seems to undermine the potential effectiveness of the personnel hired by these ministries as reflected by their shares of Chapter 1 expenditures. Even if all the Chapter 1 expenditures went for frontline teachers, they are not going to be effective if they do not have the supplies they need to do their jobs.

Finally, we saw that in North Darfur, local governments accounted for two-thirds of Chapter 1 spending. Exactly the reverse is true in North Darfur in the case of Chapter 2 expenditures. State and local Chapter 2 expenditures amounted to 1.8 billion Sudanese Dinar in North Darfur state. Three-fourths of total state and local Chapter 2 expenditures were made by state level ministries. The Ministry of Finance accounted for 62.4 percent of state Chapter 2 expenditures. The Ministry of Health (9.5 percent) and the Ministry of Education (3.9 percent) accounted for combined share of 13.4 percent of state Chapter 2 expenditures. Again we see the Ministries of Health and Education dominating state level Chapter 1 expenditures, but accounting for a very modest share of state Chapter 2 expenditures.

Table 20 Chapter 2 Expenditures by State and Ministry, 2003 (Millions of Sudanese Dinars)								
	North Darfur		Red Sea		River Nile		Sinnar	
Ministry	Actual Expenditures	Percent Total	Actual Expenditures	Percent Total	Actual Expenditures	Percent Total	Actual Expenditures	Percent Total
Government Offices			309.9	9.0	301.9	24.5	182.5	17.3
Finance and Manpower	847.0	62.1	2044.1	59.1	40.2	3.3	117.3	11.1
Building and Planning	42.3	3.1	51.1	1.5	76.4	6.2	84.2	8.0
Agriculture	17.6	1.3	87.3	2.5	95.6	7.8	70.7	6.7
Health	128.8	9.5	330.0	9.5	245.6	19.9	303.0	28.8
Social and Cultural Affairs	20.8	1.5	560.2	16.2	89.6	7.3	29.3	2.8
Education	52.8	3.9	75.5	2.2	193.2	15.7	44.3	4.2
Parliament and Council	13.4	1.0			31.2	2.5	49.5	4.7
Education Support Fund	5.9	0.4						
Locality Support Fund	178.1	13.1					2.1	0.2
Other Programs							170.2	16.2
Judiciary Chamber					4.4	0.4		
War Effort					153.7	12.5		
TOTAL	1363.1	100.0	3458.0	100.0	1231.8	100.0	1053.1	100.0
Source: Ministry of Finance and National Economy, staff compilations.								

Table [21] provides data on Chapter 4 development spending by state and by ministry. Unlike Chapter 1 and 2 expenditures, no clear patterns emerge for Chapter 4 expenditures. The Red Sea state had the lowest per capita Chapter 4 expenditures of our case study states at just 242 Sudanese Dinar per capita. These development expenditures were divided almost evenly between the Ministry of Education (33.3 percent), the Ministry of Building and Planning (34.9 percent) and the Ministry of Finance (31.7 percent). However, without more detailed information it is impossible to determine what impact these expenditures have on poverty alleviation.

Table 21 Chapter 4 Expenditures by State and Ministry, 2003 (Millions of Sudanese Dinars)								
	North Darfur		Red Sea		River Nile		Sinnar	
Ministry	Actual Expenditures	Percent Total	Actual Expenditures	Percent Total	Actual Expenditures	Percent Total	Actual Expenditures	Percent Total
Government Offices					84.8	8.4	N.A.	
Finance and Manpower	744.4	97.3	55.6	31.7	58.0	5.8	N.A.	
Building and Planning	7.1	0.9	61.2	34.9	517.2	51.5	N.A.	
Agriculture					31.2	3.1	N.A.	
Health					219.2	21.8	N.A.	
Social and Cultural Affairs					83.1	8.3	N.A.	
Education			58.4	33.3	10.3	1.0	N.A.	
Parliament and Council								
Education Support Fund	13.6	1.8						
Locality Support Fund								
Other Programs								
Judiciary Chamber								
War Effort								
TOTAL	765.1	100.0	175.1	100.0	1003.9	100.0	N.A.	
Source: Ministry of Finance and National Economy, staff compilations.								

North Darfur state spent 765 million Sudanese Dinar on Chapter 4 development projects – approximately 509 Sudanese Dinar per capita. The Ministry of Finance accounted for 97.3 percent of development funding. Table ND-5 in the Appendix provides a more detailed breakdown of those development expenditures. Nearly 86 percent of these development funds were allocated for water projects in the state. Another 11.4 percent of development funding went for health and education projects. In general, these spending priorities are consistent with a strategy of poverty alleviation, albeit we cannot determine who the beneficiaries of these specific projects are.

The River Nile state spent over a billion Sudanese Dinar on Chapter 4 development projects – approximately 1,094 Sudanese Dinar per capita. Table RN-6 in the Appendix provides project specific information of development spending by ministry for the River Nile state. The Ministry of Building and Planning (Infrastructure) accounted for 35 percent of total spending summarized in Table RN-6 and the data indicate that one-third of this spending was for rural water and another 15 percent was for rural electricity projects – both of which are expenditures with a direct impact on the poor. Similarly, nearly 45 percent of development spending by the Ministry of Agriculture went for poverty reduction projects. Nearly 40 percent of development spending by the Ministry of Health was directed at primary health care and nearly 47 percent was directed at environmental health projects – again, it is likely that the poor are principle beneficiaries from these programs.

Finally, Table RN-7 in the Appendix provides information on development spending by local governments in the River Nile state by sector. For example, in Matama, 61 percent of Chapter 4 development expenditures went for primary education projects and the remainder went for water projects. In all the local governments the vast majority of Chapter 4 development expenditures were for projects dealing with primary education, sanitation, internal roads, electricity and water projects; all of which potentially benefit to poor.

8. Findings and Recommendations

The purpose of this paper is to examine the impact of fiscal policy in the Sudan on poverty alleviation. Because of data limitations we could not conduct traditional tax and budget benefit incident analysis. As an alternative, we adopted a non-income concept of poverty. In this context, poverty alleviation is seen in terms of expanding opportunities of the poor through better education, improved health care, better nutrition, clean water and improved sanitation, greater economic opportunities, political liberties, access to product markets, improved public facilities, and the encouragement and cultivation of initiatives.

Based on the information available, we have the following findings and recommendations:

Revenues:

- The central government in the Sudan mainly relies on indirect taxes to generate revenues, especially from foreign trade duties [both import and export duties]. The heavy reliance on indirect taxes to generate revenues [mostly being regressive] has over time overburdened the poor and created a disincentive to producers.
- Indirect taxes tend to have low elasticity because their tax bases increase less rapidly than income and are considered regressive and their incidence falls on consumers and as well

they discriminate against consumption in favor of savings. Since most people in Sudan have a relatively low per capita income that is mostly consumed and have no way to escapee from these taxes [have little or no choice to shift to other non-taxed goods] the impact of these taxes have been regressive and further deteriorated the consumption level of the poor.

- The combination of inflation, reduction in spending on social services and lack of pro poor programs, reliance on regressive taxation to generate government revenues, and lack of social safety nets to mitigate adverse effects of the aggressive implementation of SAPs and stabilization policies, have all contributed to the deterioration in economic and social conditions of the poor and the disadvantaged segments of the population throughout the 1990s.
- One challenge facing the Sudan is to broaden the tax base and have a higher tax level to enable the government to provide essential services [education, health care, protection of the environment, reliable sanitation services, efficient infrastructure projects, etc].
- A comprehensive tax reform strategy is highly needed if a viable fiscal policy is to play a fundamental role in enhancing macroeconomic stability and economic growth. One possible alternative for the government is to depend more on personal income tax but without producing economic disincentives to income earners and cause flight of financial capital.
- Sudan, like most LDCs, uses incentives to promote investment. There is serious doubt about the effectiveness of incentives in attracting additional investments. Many old investors can abuse them and pretend to be new investors through reorganization. Another reason for reconsidering of incentives is that investor no longer base their decision to invest on incentives alone, but they take in mind many factors, namely macroeconomic stability, political stability, natural resources, skilled labor, efficient infrastructure, transparent and accountable legal, administrative and regulatory systems. Finally, the tax incentives may not benefit foreign investor directly as they do for the treasury of his home country [Vito Tanzi, 2001]. The incentives are probably justifiable in cases of investments that generate externalities to the economy at large, such as in technology-intensive industries, skill-intensive industries, advanced research and - educational projects and targeting regional development needs of the country.

Expenditures:

- On the expenditure side, the central government in Sudan has been systematically following patterns of spending which have not been benefiting the poor people. Spending on administration [chapter II] and debt services payments and financing the war in the southern Sudan, have been consuming great proportions of total government spending whereas social subsidy that benefit directly the poor people, for example, received very little share of total spending [3.7%] in the period 1998-2001.
- This pattern is in contrast to the spending patterns in states where 70 or 80 percent of Chapter 1 expenditures go to health and education and the vast majority of development expenditures seem to be for projects that directly benefit the poor, albeit available data from state and local governments is not as complete and consistent as one would desire.
- Anecdotal evidence suggests that central government ministries may not have a significant impact on poverty alleviation because what expenditures they do make seem to benefit higher income families in Khartoum. The expenditure of these scarce resources needs to be shifted to programs that benefit low income families – e.g., shift resources in the Ministry of Health from funding tertiary care hospitals in Khartoum to primary health care in rural areas.
- The war effort could be consuming as much as 40 percent of total government spending and two-thirds of Chapter 1 spending on wages and salaries. This war effort is diverting scarce resources from critical social sector programs that are essential for a strategy of poverty alleviation – e.g. primary health care, sanitation, infrastructure, water, etc.
- The direct transfers to states as a ratio of total government spending has been very small indicating that fewer resources have been transferred to help states cope with their rising obligations to provide essential social services [education, health, water and sanitation, etc.]. The government should allocate more resources to the States in its effort to eradicate poverty in the country as that could also redistribute resources in favor of the poor regions and enable them to spend more on the pro poor projects and services.
- Zakat raised over 14 billion Sudanese Dinars in 2002. One needs to look closely at the equity of how those funds are raised from various sectors of the country. For example, nearly half of Zakat revenues come from agriculture and animals, while urban dwellers pay Zakat on salaries ***above*** 30,000 Sudanese Dinars per month and commercial and

industrial activities only pay Zakat on ***net*** income. While the informal poor living in urban areas do not pay Zakat at all, rain feed agriculture pays Zakat on total production at time of harvest.

- The poor and vulnerable populations of Sudan were the beneficiaries of nearly half of all spending by Zakat. The challenge for the Zakat Chamber is to work as a strategic institution of poverty alleviation by allocating more resources to the benefit of the poor and fewer resources on administrative activities associated with running the Zakat program in the Sudan.
- We have seen that the share of chapter [1] expenditures in total federal government expenditures has also constituted a small ratio in total government expenditures. Although some argue that the rising share of this chapter points to a negative involvement of the government in the economy, in situations where poverty is widespread, the government must develop and implement strategies and policies to promote employment generation in various sectors of the economy. The increase of the shares of these chapters [one, three and four] is critical for broadening the productive capacities in the economy through undertaking new investments in labor-intensive projects that provide critically needed jobs for the poor. The creation of employment opportunities will reduce unemployment rate among the poor, strengthen aggregate demand and induce investment in productive sectors of the economy and therefore enhance the rate of growth of GDP.
- Pro- poor spending should target specific areas and activities whose spending incidences are in favor of the poor people. As poverty is caused [among other things] by lack of opportunities, creation of jobs, targeting credits for small producers, building of roads, provision of affordable electricity, building of schools, availing clean and healthy water, supplying sanitation services, and securing essential health and education services, become extremely critical for eradicating poverty in the Sudan.
- Government should allocate adequate funds to reduce vulnerability of the poor people arising from difficult circumstances; namely sickness, unemployment, natural disasters, economic crisis, harvest failures, disability, child and maternity premature death. Reducing the risk of epidemics or diseases [HIV/AIDS and malaria, etc] via public health programs should be top priorities in spending for the poor. Reduction of risk of floods can be achieved by building dams.

- New investments in employment-generating projects in agriculture and industry should become a priority for the entire country. For instance, investing in irrigated farming projects to produce food and exportable goods can help Sudan achieve food security and maximize earnings from foreign trade. Sudan has been losing about four cubic milliard of its share in 1958 Nile Water Agreement due to limitedness of absorptive development capacity of the agricultural sector. Investment in agriculture is one sure way to use its resource and to expand productive capacity of the economy and to generate employment for the unskilled rural poor**.**
- Another way to help the poor is through increasing direct government spending on social sector programs that benefit the poor, as well as increasing transfers to the poor to enable them to invest in education generally and education of girls in particular, skills, produce new products and raise their technical and entrepreneurial capacities and activities.
- Reforming and upgrading efficiency of institutions is urgently needed to sustain economic growth and allow the poor to have more chance to participate in and benefit from these institutions. For example, the poor people often lack information to have access to the legal system, the market and the financial institutions as well as other supreme institutions to promote or lobby for their interests.
- There is an urgent need to undertake an institutional reform and capacity building program in the Ministry of Finance and National Economy. For instance, the ministry does not have expertise and technical capacity to carry out functional classification of the federal expenditures. As a result, the existing data on government spending are in aggregate forms and cannot possibly give help to researchers and policy makers to conduct a thorough and useful analysis of the possible impacts of the pattern of government spending on growth and poverty reduction. This is an area where some institutional reforms should be undertaken to improve quality of data, and have a detailed functional and economic classification of expenditures. On the other hand, more emphasis on improving public resource management is needed. The development of effective mechanisms to monitor and control revenue generation and government spending at all levels and with greater public accountability is important for poverty reduction strategy in Sudan. The proposed reform should make the ministry of Finance and National Economy more able to control and manage resource in the country. For

example, most government ministries and units render services to the public and collect certain charges against those services. Similarly, parastatals buy and sell goods and services. Financial rules and regulations set out clearly the procedures of collecting and receiving these fees together with the rates collected against each service and financial forms to be used by these units for collection. These financial forms should be posted in subsidiary ledgers after being revised and analyzed on a monthly basis. All funds so collected by central government ministries, units and parastatals should be posted with the Ministry of Finance and National Economy. Efforts to minimize off-budget revenue generation [that takes place via levy of taxes or rates and duties] and prohibition of off-budget spending at levels of government will all become critical in the campaign of conserving scarce resource and eliminating potential sources of resources' waste and misuse. The central government is responsible for all expenditures within the central government units, which is composed of Chapter 1 (wages and salaries), Chapter 2 (administration and running expenditure), Chapter 3 (transfer to states) and Chapter 4 (development expenditure). Chapter 1 has the first priority in the allocation of available resources. The central government should disburse Chapter 1, Chapter 2 and development expenditures directly into those unit's accounts, which follow the financial rules and regulations in disbursing these funds. Finally, the Ministry of Finance and National Economy needs to strengthen its policy analysis capability.

Debt:

- The Sudan is in critical need to solve its formidable problem of external indebtedness. The huge external debts incurred by the Sudan [over $23 billion by 2002] is accentuating financial and fiscal problems and depriving the country form critically needed resources to provide essential social services and to undertake productive pro poor investments in many sectors of the economy. The external debt is multiplying the magnitude and extent of the problem of public debt in Sudan. It is going to create a debt-overhang that would discourage private foreign investment in non-oil sectors by reducing the expected after tax rate of return on capital. The Sudan is waiting impatiently to benefit from the HIPC strategy to reduce substantially or write off its external debt after signing peace agreement with SPLA/SPLM. The HIPC strategy offers the country a window of hope to remove the heavy burden of external debt and to target available resources to help the poor and enhance economic growth.

Decentralization:

- Our case study state governments spent the vast majority of their Chapter 1 expenditures on health and education. Unfortunately, there was not a commensurate expenditure of Chapter 2 expenditures on health and education. It is difficult to provide the level and quality of health and education services needed without adequate supplies. More needs to be done to expand Chapter 2 expenditures on health and education needs.
- From the data provided, it seems that the vast majority of Chapter 4 expenditures by state governments goes toward projects that directly benefit the poor – e.g., sanitation, water, rural roads, rural electricity, etc. More resources need to be channeled through state governments which seem to target programs on those most in need.
- Finally, the real challenge facing the economy is to sustain growth and enhance macroeconomic stability, control inflation, budget deficit and contain public debt, create attractive enabling environment characterized by stable fiscal and monetary policies, well defined and stable investment programs and sound and modern financial systems, enhancing the efficiency of the existing federal system through more decentralization coupled with adequate financial and technical resources and participatory mechanisms, attaining a just income and wealth distribution , become important parts of a comprehensive growth and poverty reduction strategy. Decentralization is a key theme that runs throughout the peace protocols signed in May 2004. In addition to providing an explicit enabling environment, a successful strategy of fiscal decentralization involves,
    - reviewing the revenue and expenditure assignments explicitly spelled out in the peace protocols;
    - designing intergovernmental grant programs to address issues of vertical and horizontal imbalance;
    - providing incentives (e.g., in the design of intergovernmental grant formulae)1 for subnational governments to mobilize their own resources to the greatest extent possible;
    - developing local own source revenues, especially a local property tax of some form; and

  - empowering individual citizens in every community to participate proactively in local affairs and hold government institutions accountable.

- Approximately 50 percent of NSSF grants and transfers in 2003 had a modest equalizing impact by channeling somewhat larger current grants and Ag Comp allocations to states with relatively less fiscal capacity (higher percentages of population living in rural areas) and greater expenditure needs (larger numbers of people living in rural areas). More targeted equalization needs to be achieved through the Fiscal and Financial Allocation and Monitoring Commission with adjustments for both revenue capacity and effort.

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STATE DATA ANNEX

The only data on state and local revenue raising and spending available at the national level are a series of annual reports submitted by state governments to the Ministry of Finance and National Economy. These reports are the basis of annual audits of state and local activity by the Auditor General. The problem is that these reports

- do not appear to follow a standard reporting format;
- differ in the level of detail provided;
- contain tables where columns may not sum to the total shown in the report or totals may not tie to other tables where the numbers should be the same; and
- do not have a detailed breakdown of spending by ministry.

In an effort to overcome some of these deficiencies, the Ministry of Finance and National Economy, at the request of the UNDP, initiated field work in four states – River Nile, Sinnar, Red Sea and North Darfur – to develop more detailed information about state and local revenue raising and spending practices. This section presents the data generated from this effort. However, not all of the deficiencies of reporting state and local spending have been overcome so these data should be interpreted with caution and considered illustrative only. The Ministry of Finance and National Economy provided the data for all of the following tables based on staff compilations made by staff from the Ministries of Finance from the individual states.

North Darfur State

Table ND-1 North Darfur State Summary of State Revenues and Expenditures, 2003 (Sudanese Dinar)		
	Amount	Percent Total
Revenues		
Own Revenues	1,379,864,082	23.8%
Central Support	4,424,488,587	76.2%
Subtotal	5,804,352,669	100.0%
Expenditures		
Chapter 1	2,881,216,242	52.4%
Chapter 2	1,842,461,491	33.5%
Chapter 3	7,252,373	0.1%
Chapter 4	765,118,546	13.9%
Subtotal	5,496,048,652	100.0%
SURPLUS (DEFICIT)	308,304,017	

Table ND-2 North Darfur State State Revenues by Ministry, 2003 (Sudanese Dinar)		
Ministry	Amount	Percent Total
Ministry of Finance	699,711,268	75.0%
Ministry of Education	44,310,927	4.7%
Ministry of Health	95,013,207	10.2%
Ministry of Social Affairs	399,250	0.0%
Ministry of Engineering	72,785,918	7.8%
Ministry of Agriculture	88,300	0.0%
Education Support Fund	21,211,769	2.3%
TOTAL	933,520,639	100.0%
Localities		
Waha	2,093,010	0.5%
Eltina	8,577,477	1.9%
Elfashir	213,760,191	47.9%
Kabkabia	87,516,248	19.6%
Kutum	23,666,422	5.3%
Maleit	75,039,414	16.8%
Ummkadada	35,672,681	8.0%
TOTAL	446,325,443	100.0%

Table ND-3 North Darfur State Chapter 1 and Chapter 2 State Expenditures by Ministry and Local Government, 2003 (Sudanese Dinar)				
	Chapter 1	Percent Total	Chapter 2	Percent Total
Ministry				
Ministry of Finance	66,607,129	7.0%	846,996,737	62.1%
Ministry of Education	342,043,794	36.1%	52,783,097	3.9%
Ministry of Health	303,754,566	32.1%	128,814,548	9.5%
Ministry of Social Affairs	38,902,002	4.1%	20,784,145	1.5%
Ministry of Engineering	34,504,260	3.6%	42,301,778	3.1%
Ministry of Agriculture	62,472,276	6.6%	17,585,878	1.3%
Ministry of Governor's Office	60,518,357	6.4%	56,453,040	4.1%
State Parliament Council	37,528,639	4.0%	13,365,065	1.0%
Local Support			178,127,762	13.1%
Education Fund			5,898,326	0.4%
TOTAL	946,331,023	100.0%	1,363,110,376	100.0%
Localities				
Waha	32,769,760	1.7%	2,027,364	0.4%
Eltina	73,418,885	3.8%	7,107,664	1.5%
Elfashir	979,291,909	50.6%	242,202,886	50.7%
Kabkabia	239,449,373	12.4%	69,706,099	14.6%
Kutum	221,971,724	11.5%	56,402,780	11.8%
Maleit	299,673,055	15.5%	62,614,451	13.1%
Ummkadada	88,310,513	4.6%	37,542,067	7.9%
TOTAL	1,934,885,219	100.0%	477,603,311	100.0%
TOTAL STATE AND LOCAL	2,881,216,242		1,840,713,687	

Table ND-4 North Darfur State Chapter 4 State Expenditures by Ministry and Local Government, 2003 (Sudanese Dinar)		
	Chapter 4	Percent Total
Ministry		
Ministry of Finance	744,420,061	97.3%
Ministry of Education		
Ministry of Health		
Ministry of Social Affairs		
Ministry of Engineering	7,128,250	0.9%
Ministry of Agriculture		
Ministry of Governor's Office		
State Parliament Council		
Local Support		
Education Fund	13,570,235	1.8%
TOTAL	765,118,546	100.0%

Table ND-5 North Darfur State Ministry of Finance Development Expenditures, 2003 (Sudanese Dinar)		
Ministry	Actual Expenditures	Percent Total
Ministry of Finance		
Special Public Works Program	2,506,714	0.3%
Sanitation	8,517,859	1.1%
Villages Support	1,200,000	0.2%
Ummkadada Rural Corporation	8,240,000	1.1%
Wadi Padi Sugar	297,000	0.0%
Water Project	636,125,239	85.9%
Health Project	41,993,666	5.7%
Education Project	41,857,583	5.7%
TOTAL	740,738,061	100.0%

Red Sea State

Table RS-1 Red Sea State State Revenues by Ministry, 2003 (Sudanese Dinar)				
Item	Est. Rev	Actual Rev	Pct Realized	Pct of Total
Government Offices	7,000,000	5,725,600	81.8%	0.1%
Ministry of Finance	6,750,836,616	5,166,149,980	76.5%	90.3%
Ministry of Health	329,070,000	184,830,968	56.2%	3.2%
Ministry of Social And Cultural Affairs	45,060,000	51,368,220	114.0%	0.9%
Ministry of Engineering	306,507,500	247,987,886	80.9%	4.3%
Ministry of Agriculture	57,150,000	43,158,000	75.5%	0.8%
Ministry of Education	26,070,000	21,893,000	84.0%	0.4%
TOTAL	7,521,694,116	5,721,113,654	76.1%	100.0%

Table RS-2 Red Sea State Chapter 1 Expenditures by Ministry, 2003 (Sudanese Dinar)				
	Chapter One			
Item	Approved Exp.	Actual Exp.	Pct Realized	Pct of Total
Government Offices	43,052,620	39,895,595	92.7%	4.0%
Ministry of Finance	121,720,440	78,966,008	64.9%	8.0%
Ministry of Health	517,138,580	464,666,087	89.9%	46.9%
Ministry of Social And Cultural Affairs	53,322,240	43,814,524	82.2%	4.4%
Ministry of Engineering	78,127,780	52,785,601	67.6%	5.3%
Ministry of Agriculture	69,693,940	46,840,990	67.2%	4.7%
Ministry of Education	332,535,880	264,709,067	79.6%	26.7%
TOTAL	1,215,591,480	991,677,872	81.6%	100.0%

Table RS-3 Red Sea State Chapter 2 Expenditures by Ministry, 2003 (Sudanese Dinars)		
Item	Actual Exp.	Pct of Total
Government Offices	309,862,151	9.0%
Ministry of Finance	2,044,094,500	59.1%
Ministry of Health	330,040,644	9.5%
Ministry of Social And Cultural Affairs	560,228,029	16.2%
Ministry of Engineering	51,052,743	1.5%
Ministry of Agriculture	87,254,038	2.5%
Ministry of Education	75,500,800	2.2%
TOTAL	3,458,032,905	100.0%

Table RS-4 Red Sea State Chapter 4 Expenditures b Ministry, 2003 (Sudanes Dinar)		
	Chapter Four	
Item	Expenditures	Pct of Total
Government Offices	0	0.0%
Ministry of Finance	55,550,750	31.7%
Ministry of Health	0	0.0%
Ministry of Social And Cultural Affairs	0	0.0%
Ministry of Engineering	61,180,100	34.9%
Ministry of Agriculture	0	0.0%
Ministry of Education	58,401,115	33.3%
TOTAL	175,131,965	100.0%

River Nile State

TABLE RN-1 River Nile State State Revenues by Ministry, 2003 (Sudanese Dinar)			
Ministy	Proposed Revenues	Actual Revenues	Percent Collected
Ministry of Finance and Manpower	889,000,000	563,381,858	63.4%
Ministry of Building and Planning	335,000,000	399,864,019	119.4%
Ministry of Agriculture and Animal Resources	243,150,000	101,404,396	41.7%
Ministry of Health	163,626,000	197,025,286	120.4%
Ministry of Social and Cultural Affairs	34,289,000	2,160,483	6.3%
Ministry of Education	29,000,000	29,318,500	101.1%
TOTAL	1,694,065,000	1,293,154,542	76.3%

TABLE RN-2 River Nile State Detailed State Revenues by Ministry, 2003 (Sudanese Dinar)		
Ministry	Revenues	Percent
Ministry of Finance		
Petrol Fees	160,850,613	28.6%
Wheat Flour	0	0.0%
Investment Benefits	29,398,030	5.2%
Cement Fees	154,779,655	27.5%
Storage Sales	10,506,933	1.9%
Surpluses Sales	27,932,900	5.0%
Commercial	98,594,475	17.5%
Others	81,319,251	14.4%
TOTAL	563,381,857	100.0%
Ministry of Building and Planning		
Land Sales	309,864,019	77.5%
Area Surveys Coverage	84,500,000	21.1%
Irrigation and Digging Company	1,000,000	0.3%
State Water Corporation	4,500,000	1.1%
TOTAL	399,864,019	100.0%
Ministry of Agriculture and Animal Resources		
Animal Resource Revenue	23,474,331	23.1%
Land Endorsements	7,275,405	7.2%
Garden	8,516,450	8.4%
Contract Re Validity	12,500	0.0%
Plant Protection	5,221,345	5.1%
Adarama Company	850,000	0.8%
Investment Land	51,833,095	51.1%
Agriculture Development Fund	850,000	0.8%
Property Adjustment	2,623,250	2.6%
Others	748,020	0.7%
TOTAL	101,404,396	100.0%
Ministry of Health		
The Ministry	50,297,375	25.5%
Attbara Hospital	50,297,375	25.5%
Damer Hospital	17,682,918	9.0%
Shandi Hospital	70,476,783	35.8%
Parpar Hospital	2,818,975	1.4%
Matama Hospital	2,145,425	1.1%
Abuhamad Hospital	3,306,435	1.7%
TOTAL	197,025,286	100.0%

Ministry of Social and Cultural Affairs		
Tourism Revenues	100,000	4.6%
Elhag and Omra	2,060,483	95.4%
TOTAL	2,160,483	100.0%
Ministry of Education		
Exam Fees	29,318,500	100.0%
TOTAL	29,318,500	

Table RN-3
River Nile State
Chapter 1 Expenditures by Ministry, 2003
(Sudanese Dinars)

Unit	Approved	Actual	Percent Actual	Percent Total
Ministry of Finance and Manpower	94,089,000	90,048,496	95.7%	6.5%
G.D. of Internal Auditing	20,960,000	18,093,182	86.3%	1.3%
Ministry of Building and Planning	86,129,000	81,025,725	94.1%	5.8%
Ministry of Agriculture and Animal Resources	84,032,000	73,373,540	87.3%	5.3%
G.D. of Animal Resources	21,860,000	20,415,513	93.4%	1.5%
Ministry of Health	474,589,403	431,949,905	91.0%	31.1%
Ministry of Social and Cultural Affairs	40,379,000	37,174,506	92.1%	2.7%
Ministry of Education	562,181,000	545,340,804	97.0%	39.3%
State Government Offices	20,000,000	17,122,203	85.6%	1.2%
State Parliament Reserve	0	73,460,012	N.A.	5.3%
TOTAL	1,404,219,403	1,388,003,886	98.8%	100.0%

Table RN-4 River Nile State Chapter 2 Expenditures by Ministry, 2003 (Sudanese Dinars)				
Unit	Approved	Actual	Percent Actual	Percent Total
Ministry of Finance and Manpower	71,188,000	31,584,029	44.4%	2.6%
G.D. of Internal Auditing	15,305,000	8,640,091	56.5%	0.7%
Ministry of Building and Planning	80,009,000	76,414,967	95.5%	6.2%
Ministry of Agriculture and Animal Resources	116,375,000	71,311,972	61.3%	5.8%
G.D. of Animal Resources	26,740,000	24,248,909	90.7%	2.0%
Ministry of Health	165,815,000	245,630,791	148.1%	19.9%
Ministry of Social and Cultural Affairs	128,815,000	89,569,811	69.5%	7.3%
Ministry of Education	288,507,000	193,235,013	67.0%	15.7%
State Government Offices	202,461,000	180,406,086	89.1%	14.6%
State Parliament Reserve	111,000,000	31,151,582	28.1%	2.5%
State Coordination Office	7,350,000	7,301,826	99.3%	0.6%
G.D. for Investment	21,800,000	17,455,416	80.1%	1.4%
G.D. for Economic Affairs	49,419,000	47,079,402	95.3%	3.8%
G.D. for Storage and Purchasing	32,500,000	41,232,887	126.9%	3.3%
Internal Training	60,000,000	8,423,000	14.0%	0.7%
Judiciary Chamber	9,970,000	4,367,183	43.8%	0.4%
War Effort	150,000,000	153,714,155	102.5%	12.5%
TOTAL	1,537,254,000	1,231,767,120	80.1%	100.0%

Table RN-5 River Nile State Chapter 4 Development Expenditures by Ministry, 2003 (Sudanese Dinars)				
Unit	Approved	Actual	Percent Actual	Percent Total
Ministry of Finance and Manpower	252,000,000	57,978,625	23.0%	5.8%
Ministry of Building and Planning	899,000,000	517,245,494	57.5%	51.5%
Ministry of Agriculture and Animal Resources	274,000,000	31,236,342	11.4%	3.1%
Ministry of Health	254,000,000	219,171,584	86.3%	21.8%
Ministry of Social and Cultural Affairs	441,000,000	83,128,200	18.8%	8.3%
Ministry of Education	451,000,000	10,300,375	2.3%	1.0%
State Government Offices	200,000,000	84,801,029	42.4%	8.4%
TOTAL	2,771,000,000	1,003,861,649	36.2%	100.0%

Table RN-6 River Nile State Detailed Development Expenditures by Ministry, 2003 (Sudanese Dinars)			
Ministry	Amount	Percent	Percent of Total
Ministry of Finance, Economics and Manpower*			
Institutional Support	12,500,000	38.3%	
Crops Market	10,470,000	32.1%	
Lower Attbara Project	531,000	1.6%	
Studies and Research	830,000	2.5%	
Dagta Center	7,331,631	22.4%	
Commercial	1,000,000	3.1%	
TOTAL	32,662,631	100.0%	4.4%
Ministry of Agriculture and Animal Resources*			
Promotion of Agriculture Services	3,398,272	11.1%	
Standardized Projects	176,750	0.6%	
Nature Resource Projects	5,730,000	18.6%	
Poverty Reduction Projects	13,665,000	44.5%	
Investment Projects and Studies	7,771,320	25.3%	
TOTAL	30,741,342	100.0%	4.1%
Ministry of Building and Planning*			
Urban Roads	44,676,736	17.1%	
Urban Water	256,400	0.1%	
Rural Electricity	39,758,000	15.2%	
Land Projects	21,431,500	8.2%	
Haffirs	120,457	0.0%	
Areas Projects	18,957,913	7.3%	
Re Planning and Organization	13,724,807	5.3%	
Roads (Attbara, Parpar and Elebidia)	12,287,600	4.7%	
Rural Water	86,352,454	33.1%	
Department of Development	1,014,000	0.4%	
Feed Raining	2,296,702	0.9%	
Floods Protection	20,225,325	7.7%	
TOTAL	261,101,894	100.0%	34.9%
Ministry of Social and Cultural Affairs			
Rehabilitation of Advocacy Tools	49,972,700	60.1%	
Awareness Sector Project	20,953,300	25.2%	
Communal Marriage	10,500,000	12.6%	
Youth and Sports Projects	1,702,200	2.0%	
TOTAL	83,128,200	100.0%	11.1%

Government Office	84,801,029	100.0%	11.4%
Ministry of Health			
Hospital Concentrated	29,617,337	13.5%	
Institutional Support	2,350,990	1.1%	
Primary Health Care	85,000,000	38.8%	
Environmental Health Projects	101,903,257	46.5%	
Drugs Storage	300,000	0.1%	
TOTAL	219,171,584	100.0%	29.3%
Ministry of Education			
Secondary School Concentration	3,700,000	35.9%	
Institutional Support	6,600,000	64.1%	
TOTAL	10,300,000	100.0%	1.4%
Project Reserves	25,215,995	100.0%	3.4%
TOTAL DEVELOPMENT EXPENDITURES	747,122,675		100.0%
* Total here does not square with total in Expenditure table.			

Table RN-7 Detailed Development Expenditures by Locality, 2003 (Sudanese Dinars)		
Locality	Actual	Percent of Total
Matama		
Water	5,500,000	39.3%
Primary Ed.	8,500,000	60.7%
Total	14,000,000	100.0%
Shandi		
Primary Ed.	17,500,000	30.8%
Sanitation	15,000,000	26.4%
Electricity Proj.	24,277,252	42.8%
Total	56,777,252	100.0%
Attbara		
Sanitation	10,000,000	18.6%
Internal Roads	33,620,500	62.7%
Animal Preparation	10,000,000	18.6%
Total	53,620,500	100.0%
Eldamar		
Primary Ed.	34,000,000	73.9%
Internal Roads	10,000,000	21.7%
Floods	2,000,000	4.3%
Total	46,000,000	100.0%
Parpar		
Primary Ed.	8,000,000	25.5%
Water Services	13,000,000	41.4%
Industrial Area	2,000,000	6.4%
Pauga Ferry	8,400,000	26.8%
Total	31,400,000	100.0%
Abuhamad		
Town Electricity	5,000,000	23.6%
Internal Roads	5,000,000	23.6%
Sanitation	1,000,000	4.7%
Central Market	1,000,000	4.7%
School Rehabilitation	9,150,000	43.3%
Total	21,150,000	100.0%

Sinnar State

TABLE S-1 Sinnar State State Revenues by Ministry, 2003 (Sudanese Dinar)					
Ministry	Approved Revenues	Actual Revenues	Reserved	Central Support	Total Revenues
Government Offices	0	2,248,572	40,528,708	0	42,777,280
Ministry of Finance and Manpower	3,290,880,000	441,235,992	37,970,667	2,809,501,097	3,288,707,756
Ministry of Social and Cultural Affairs	7,800,000	461,560	0	0	461,560
Ministry of Agriculture	205,000,000	89,354,594	0	0	89,354,594
Ministry of Education	36,200,000	35,174,100	0	0	35,174,100
Ministry of Health	98,800,000	147,518,464	28,962,093	16,223,100	192,703,657
Ministry of Engineering Affairs	176,400,000	30,539,154	9,865,723	25,000,000	65,404,877
Parliament and Council	0	0	0	0	0
Locality Support Fund	0	4,414,486	0	0	4,414,486
TOTAL	3,815,080,000	750,946,922	117,327,191	2,850,724,197	3,718,998,310

Table S-2 Sinnar State Chapter 1 Expenditures by Ministry, 2003 (Sudanese Dinar)				
	Chapter 1			
Ministry	Approved	Actual	Percent Approved	Percent Total
Government Offices	49,744,827	33,577,787	67.5%	4.1%
Ministry of Finance and Manpower	73,686,034	54,428,554	73.9%	6.6%
Ministry of Social and Cultural Affairs	42,396,134	17,599,083	41.5%	2.1%
Ministry of Agriculture	89,508,444	46,484,950	51.9%	5.7%
Ministry of Education	497,860,756	287,677,898	57.8%	35.0%
Ministry of Health	412,489,439	360,234,269	87.3%	43.9%
Ministry of Engineering Affairs	44,622,096	18,890,682	42.3%	2.3%
Parliament and Council	0	1,928,961		0.2%
Locality Support Fund				
Organizations and Different Programs				
TOTAL	1,210,307,730	820,822,184	67.8%	100.0%

Table S-3
Sinnar State
Chapter 2 Expenditures by Ministry, 2003
(Sudanese Dinar)

Ministry	Chapter 2 Approved	Actual	Percent Approved	Percent Total
Government Offices	299,345,400	182,479,946	61.0%	17.3%
Ministry of Finance and Manpower	155,621,600	117,308,514	75.4%	11.1%
Ministry of Social and Cultural Affairs	218,200,000	29,339,062	13.4%	2.8%
Ministry of Agriculture	458,500,000	70,704,820	15.4%	6.7%
Ministry of Education	185,100,000	44,274,524	23.9%	4.2%
Ministry of Health	268,400,000	302,982,678	112.9%	28.8%
Ministry of Engineering Affairs	1,245,328,000	84,204,921	6.8%	8.0%
Parliament and Council	139,350,000	49,459,839	35.5%	4.7%
Locality Support Fund	0	2,131,611	N.A.	0.2%
Organizations and Different Programs	856,293,000	170,236,648	19.9%	16.2%
TOTAL	3,826,138,000	1,053,122,563	27.5%	100.0%