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Wealth Sharing and Intergovernmental Transfers in Sudan*

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Revised

Translated By Professor Ali Mohammed El Hassan

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WEALTH SHARING AND INTERGOVERNMENTAL TRANSFERS IN SUDAN

By

Ibrahim Suleiman

Translation: **Ali Mohammed El Hassan**

Introduction:

After the adoption of the Federal System of Government in Sudan-based as it is on public participation and motivation-the system of allocation of financial resources has gained special significance. In order to ensure an effective federal system of government at all levels, financial resources must be allocated in a manner that enables each level of government to satisfactorily perform the duties and responsibilities entrusted to it.

The need arises, therefore, for adopting fair criteria of financial allocation to ensure that financial resources available to each and every level are commensurate with the duties and responsibilities entrusted to it.

Since independence, and in spite of numerous systems of Government the country has witnessed, financial resources were almost always centralized and lacking any discernable fair and equitable criteria. Such allocation has always remained the prerogative of the top political authorities resulting always in financial shortages at the middle and lower levels and therefore seriously limiting their abilities to provide the necessary services to their citizens.

I. Historical Background on Financial Resource Sharing in Sudan

1. Financial Resources Sharing 1956-1971

A report prepared by Dr. Marshall (who was invited to visit the country by the Sudanese Government in 1949) provided general guidelines that embodied the first attempt to adopt a decentralized financial and administrative system and the revision of the sharing of the country's financial resources. To enable the local councils to meet their obligations the report recommended the allocation of financial resources to these councils. The report also recommended the provision of financial subsidies to the councils in addition to granting them loans to finance major projects.

The 1951 local Government Act incorporated all of Marshall's recommendations. Barring the adoption of some modifications, the Act had been operative for twenty years (1951-1971).However, throughout this period, practical experience indicated that revenue sources transferred to local government fell short of their needs and the budgets of these entities continued to sustain deficits starting from 1959-1971.

Furthermore the subsidies provided by the Federal Government with the intention of bridging local governments' budget deficits were not based on any clear and equitable criteria. In fact, the agreement reached during the early 60's of fixing subsidies to local governments at 30 piastres per person in each province was not adhered to during this period.

On the other hand, budgets of local governments as well as Federal Government departments and corporations used to be based on the actual costing of services that these institutions used to provide in addition to a "growth factor" which was arrived at mainly in light of the policy – guidelines of the government overall budget issued by the Ministry of Finance. This system ultimately lead to the anchoring and solidification of unbalanced economic growth whose origins can be traced back to the Colonial period.

2. Sharing of Financial Revenues(1971-1981)

This period witnessed the centralization of all financial affairs at the provincial level. The transfer of more government services to the Provinces, however, was not accompanied by financial transfers from the centre. This coupled with stagnating local revenues, necessitated further reliance on Federal Government subsidies on the one hand and self-reliance through raising charges on government services on the other- thus exerting further financial pressures on the people in these provinces.

3. Sharing of Financial Revenues (1981-1991)

Subsequent to the inception of the Federal System, the Provinces started to unilaterally prepare, approve and execute their own budgets. The only interference from the Ministry of Finance was in determining the size of subsidy allocated to each of these provinces. The large expansion that accompanied the re-structuring of the political and administrative structures, including the creation of new constitutional posts and the quantitative and qualitative increase in employment, lead to a significant increase in Chapter One allocations. This resulted in further increases in Federal Government subsidies to the provinces.

Based on the recommendation of a Supreme Ministerial Committee entrusted with a study to look into the financial relationship between the Central, Provincial and local levels of government, The Presidential Decree No. 528 was issued in 1983. Furthermore, a "Technical Committee on Provincial Government" was set up with the aim of determining financial allocations for provincial development. This committee arrived at certain weighted indicators for determining financial transfers to the Provinces. These indicators were to replace the arithmetic averages previously applied. The indicators were:

- The area of the province
- Population size
- Contribution to the National Economy
- Stage of Development
- Inherited (previous) commitments.

Although the above Presidential Decree was largely based upon the indicators suggested by the Technical Committee and the 1982-83 budget was considered as the base-year for the application of the indicators, the figures in Table (1) underneath reveal that these indicators were not resorted to in determining budgetary subsidies to the Provinces. The 1982-83 budget, for instance, allocates subsidies to Kordofan and the Northern Provinces amounting to 43.5 and 45.5 million pounds respectively, while the allocation to Darfur Province, with its larger area and population, was only 34.0 million pounds.

Table (1): Details of Federal Government Subsidies to the Provinces (1980-85)
Million Pounds

Province	1980/81	1981/82	1982/83	1983/84	1984/85
Northern	27.9	40.7	45.5	52.0	55.0
Eastern	16.4	27.7	33.5	37.1	40
Central	41	63.2	66	72.0	76.0
Kordofan	24	36.6	43.5	47.5	50.0
Darfur	29.8	29.8	34	38.0	40.0
Khartoum	25.5	36.8	24.5	31.0	62.4
Southern	40	48	52	58.0	65.3
Total	**184.6**	**282.8**	**299**	**335.6**	**388.7**

Source: Sheikh Al Din Minalla-A Century of Local Government, P176

4. Sharing of Financial Resources 1991-2007

Since the adoption of the Federal System and until the Interim Constitution in 2005, no discernable and clear indicators were identified in the sharing of the financial resources between the centre and the Provinces (States). The "National Committee for the Distribution of Revenues", stipulated in Article 14 of the Presidential Decree No. 14 issued in 1997 and with membership including representation of the Coordinating Committee for the Southern Provinces, did not get off the ground.

II. The National States Support Fund for States (Wilayat):

Article (16) of the Presidential Decree No (12) of 1995, stipulates the setting up of a National Fund for subsidizing the States. The objectives of this fund were:

a) Suggest a medium term plan to assist the States which receive subsidies from the centre to stand on their own feet.
b) The introduction of fairness and equity in the sharing of financial resources to ensure balanced growth in the different States in addition to encouraging the re-allocation of such resources from current to development expenditure.
c) Laying the necessary pre-requisites in the States to ensure resort to proper planning and the execution of feasibility studies for enhancing effectiveness and efficiency in the use of development resources.
d) Based on the guidelines set out in the national plans and programs, the States should resort to scientific planning based on sufficient databases and on transparency in resource allocation.
e) Supporting the Fund to act as an independent entity and in accordance with scientific and objective criteria with the aim of further strengthening the Federal System.
f) Strengthening and solidifying the National Fabric through cross subsidization and the promotion of National Unity.

The Fund commenced its operation by grouping the States into four main categories:

a) A self-reliant category not qualified for subsidies from the centre.
b) The "poor" States that depended on subsidies
c) A category that has resources but is still in need for subsidies to utilize those resources.
d) A category with "specific conditions" e.g. States affected by war.

At a later date the Fund regrouped the States into 2 categories instead of the 4 categories above. The first group is composed of 11 which were still under the subsidies net (Northern, North Darfur, South Kordofan, North Kordofan, Blue Nile, Kassala, White Nile, West Kordofan, Nile, West Darfur, Sennar) and the second group of 5 States which were identified as falling outside the subsidies net (Red Sea, Khartoum, Gazira, South Darfur and Gedarif). Practically, however, none of the States in the above categories remained outside the subsidies net-including those which were initially declared self-reliant.

Fund Resources:

The Financial Resources of the Fund are comprised of:

a) **Federal Government Contributions:**
These are Fund estimates addressed to the Council of Ministries, through the Federal Government Chambers. They are approved by the Council of Ministers as part of the overall annual Budget.

b) **Contributions by the States:**
These are based on recommendations of the Fund that are looked into by the Chambers and the Governments of the States and approved within the annual Budgets of the States. The contribution of the States is estimated at 15% of the tax transfers to the States that receive such transfers and 15% of the revenue of the States that do not receive tax transfers.

c) **Earnings from investment and other revenue-generating activities undertaken by the Fund.**

d) **Donations and loans.**
As the States were not able to make any contributions to the Fund (with the exception of Khartoum and only for a limited period) and since the Fund did not succeed in implementing any revenue generating investments, Government contributions represented the only source of Fund revenue.

Fund Distribution Criteria:

In determining subsidies to the States the Fund identified 9 indicators which were adopted with the aim of achieving fair and equitable system of transfers to the different States. Table (2) below outlines these indicators and the weights attached to each of them.

Table (2): Fund Subsidies indicators and Weights (1997-2005)

Indicator	Weight (%)
Financial Performance	20
Population Size	10
Human Resource	10
Natural Resources	10
Infrastructure	10
Education	10
Health	10
Security	10
Per Capita Income	10
Total	**100**

Source: States subsidies Fund report, June 2006.

At a later stage a specialized committee was to revise the above indicators. The committee's report, released in December 2005, while confirming the above indicators recommended modifications in the weights attached to some of them as outlined in the table underneath.

Table (3): Indicators and Weights approved by the fund in 2005

Indicator	Weight (%)
Financial Performance	10
Population Size	15
Human Resource	10
Natural Resources	15
Infrastructure	10
Education	10
Health	10
Security	15
Per Capita Income	5
Total	**100**

Source: States subsidies Fund Report, June 2006

Applying the above indicators and the modified weights, the Fund arrived at the share of each State from the Federal Government support as outlined in Table (4) below:

Table (4): The States share from Federal Government Support

State	Share (%)
Khartoum	4.7
Red Sea	6.6
Kassala	6.8
Gadarif	6.3
Gazira	5.8
White Nile	6.1
Sinnar	6.3
Blue Nile	7.6
North Kordofan	7.7
South Kordofan	7.1
North Darfur	7.3
South Darfur	7.2
West Darfur	7.9
Nile	6.0
Northern	6.6
Total	**100**

Source: National States Support Fund

It is important to note that the above indicators are only applicable in determining the horizontal distribution of the central subsidies. Hence, they are not applicable when considering other allocations such as development, value added and agricultural taxes compensation allocations.

In the case of "development of allocations", for instance, alternative indicators such as the needs of the different States, their development handicaps and absorptive capacities were considered. Hence, the following indicators were resorted to:

a) The strategic importance of the development project in question and its positive impact on the State's development and stability and its contribution to the country's national income(weight attached to this indicator is 15)

b) The extent of the project's positive impact on man and animal in the State and its contribution in the provision of the basic needs for both. Another important aspect is the project's contribution in raising the level of economic and social development, and thereby in reducing migration rates from the State (weight attached is 15)

c) Projects should be hosted in the relevant State and the effect of non-implementation on outward migration and security should be identified (weight attached-15)

d) Whether a project is part of and in line with the overall developments plan of the State and the extent of the project's contribution in removing it outside the central subsidies net (weight attached is 15)

e) The positive social impact of the project and its ability to promote the local community and reduce poverty (weight attached is 15)

f) Project implementation costs and the technical and financial execution abilities of the State (weight attached is 10)

g) In spite of the need for "geographical balance" when implementing projects, priority should be given to the less developed States and to "Inter-State" projects (weight attached is 10)

The above indicators and the weights attached to each of them determine the extent of the financial support allotted to each State.

However, the fact that the above indicators cut across one another in addition to the practical difficulties in arriving at their accurate weights and the paucity of the required data and information have all militated against the identification of a fair, equitable and practical tool . Hence, the observed significant variation in the implementation of projects between the States.

On the other hand, the indicators pertaining to the sharing of cash subsidies to the States and the weights attached to each of them are easy to calculate compared to those relating to development support.Indicators such as financial performance, population size, and education and health services are relatively easy to identify in most of the States. Not withstanding some difficulties in identifying other indicators (e.g. infrastructure natural and human resources) due to the scarcity of data the Fund managed to arrive at values for the weighed indicators in most of the States, though, as we have already seen, they were never used.

In 2006, for instance, Gadarif received 4.8% of the total Federal Government transfers while according to the weighted indicators criteria approved by the fund it should have received 6.30% of these transfers (i.e. a drop in the transfers to Gadarif of SD 3.4 million-from 14.3 to 10.9 million Dinars).Indicating, once again that the system was not strictly applied. Also the fund used to resort to some deductions from transfers to the States (8% of value added tax share kept as reserves and 1% of current transfers used as running expenses of the fund).Experience has indicated, however, the lack of transparency in the re-allocation of the reserve in spite of their large size. It is evident, therefore, that the Fund's significant deductions and shortfalls and the delays in the transfers were behind the complaints and dissatisfaction of the States.

Table (5): Details of Federal Government Transfers to the States 2003-2006

No	State	Allotment 2006	% of Total	Allotment 2005	% of Total	Allotment 2004	% of Total	Allotment 2003
1	Khartoum	45324	19.92%	373.8	21.36%	27252	20.55%	14670.2
2	Red Sea	4980	2.19%	4872	2.79%	4048.8	3.05%	1694.5
3	Kassala	9924	4.36%	7962	4.56%	5712	4.31%	4259.7
4	Gedarif	10944	4.81%	8544	4.89%	6572	4.96%	2683.8
5	Al Gazira	43428	19.09%	31920	18.28%	23784	17.93%	13872.5
6	White Nile	12408	5.45%	7980	4.57%	5880	4.43%	3406.3
7	Sennar	8432	4.15%	7272	4.16%	5460	4.12%	2575.9
8	Blue Nile	7884	3.47%	6096	3.49%	4488	3.38%	3022.5
9	North Kordofan	16428	7.22%	6818.4	3.90%	6012	4.53%	3453.7
10	West Kordofan			6144	3.52%	4536	3.42%	2764.6
11	South Kordofan	10752	4.73%	5868	3.36%	4356	3.28%	2588.6
12	North Darfur	13068	5.74%	10236	5.86%	7608	5.74%	4625.7
13	South Darfur	11124	4.89%	7752	4.44%	8304	6.26%	3137.6
14	West Darfur	7020	3.09%	5568	3.19%	4284	3.23%	2355.6
15	Nile	14808	6.51%	11460	6.56%	8544	6.44%	9767
16	Northern	1008	4.40%	7764	4.45%	5772	4.35%	2703.2
	Total	227532	100%	174660	1000.000%	132613	100.000%	77551.6

Source: National States Support Fund

Resources Sharing Act-1991

This Act was initiated by the National Assembly with salient features as stipulated in Articles 113, 114, and 115 of the Constitution as follows:

- The allocation of no less than 10% of the profits accruing to National Projects located in the State as stipulated by the Higher Council for Natural Resources –provided that 10%of this money is transferred to the localities hosting these projects.
- States should transfer 40% of the business profits tax to the localities.
- Localities should transfer 40% of the agricultural and livestock production taxes to the State.
- States should enact laws specifying the transfer of a percentage of the profits of the States-projects to the localities hosting them.

III. The Higher Council for National Resources:

This council was formulated in accordance with Article (8) of the Financial Resources Sharing Act of 1999. The Council was entrusted with the following:

- Identifying National Projects and fixing the share of the States in the profits of these projects at no less than 10%.
- Fixing the share accruing to the National Fund from the overall budgetary revenues.
- Making recommendations to the appropriate authorities on banking and credit policies and on the basis and criteria relating to the use of loans and grants.
- Submitting periodic reports on its activities to the National Assembly.

In spite of the fact that this council was established in 1999, growth in Federal Government financial transfers to the States was rather slow. Table (6) below shows that in the year 2000 Federal Government transfers to the States constituted only 5.3% of the total national commitments. Furthermore, during the period 2000-2006 the average of these transfers was only 13.5%.

Table (6): Size of the Central Transfers to the States (%) 2000-2006

	2000	2001	2002	2003	2004	2005	2006
% Share of Northern States from Central Transfers	5.3	14.0	13.4	12.6	12.1	16.3	20.9
% Share of States from total Central Expenditure	5.1	12.3	12.4	12.9	11.9	12.8	23.1
% Share of States in Gross Domestic Product	0.6	1.5	1.6	4.0	2.4	30	6.6

Source: “Synthesis Report” prepared by Unicons Consultants- September 2007

The timely and efficient transfer of financial resources from the centre to the lower levels of government is of critical importance for the success of the federal system which is considered the most suitable system of Government for Sudan.

IV. The Roots of the Disparities in Development and provision of Services between the States.

Although it is rather difficult to clearly identify the reasons behind the observed disparities between the Sudanese States in their development levels and the provision of services, it is certainly true that the lack of appropriate criteria for the sharing of financial resources is regarded as the major culprit. The following comparisons regarding distribution of investments, per capita share of GDP and per capita share in central financial transfers in Northern Sudan's 6 major regions support the above conclusion.

<u>Distribution of Investments, Per Capita Share and Financial Transfers:</u>

a) Distribution of Investment:

Since the Colonial era development projects were purposely clustered in the middle of the country which included the areas around the Nile, North and South of Khartoum, Southern Blue Nile, South Kassala and Central Kordofan. The aim of the colonial government was to make maximum use of the country's natural resources and to ensure the supply of raw materials to foreign industries. This policy was pursued even after the Country's independence- with further concentration on irrigated agriculture in the heartland of the country. Pursuance of this policy further aggravated the already existing disparities between the different regions of the country.

Table (7): The Regional distribution of Public and Private Investment. L.S. thousands. 1955-1956

Region	% of Total Investment	% of population
Khartoum, Northern and Kassala Provinces	56	22.5
Blue Nile Province	20	20.0
Kordofan and Darfur Province	17	30.5
Southern Province	**7**	**27.0**

Source: a) National Income Accounts 1955/56
b) Tim Niblock-The struggle for political Authority and Wealth in Sudan, P154

Table (7) above indicates that while the population of Khartoum, Kassala and the Northern Provinces constituted only 22.5% of Sudan's total population in 1955/56, these regions hosted 56.0% of total public and private investment. Kordofan and Darfur Provinces, on the other hand, where more than 30% of the country's population lived, contained only 17.0%of total investment.

b) **<u>Per Capita Share of the Gross Nation Production</u>**:

The concentration of investment in selected areas of the country gave rise to extreme disparities in GDP per capita. Table (8) shows the regional distribution of the country's GDP, population and GDP per capita in 1955/56 Thus while GDP per capita in the Blue Nile Province was LS. 42.0, it was only LS 14.0 in the southern Province.

Table (8): The Regional Distribution of GDP (1955/56)

Province	GDP LS.(Thousands)	Population (Thousands)	Per Capita GDP
Khartoum, Northern and Kassla Provinces	75.788	2,319	33
Blue Nile Province	86,036	2,070	42
Kordofan and Darfur Provinces	83,777	3,091	27
Southern Province	3,861	2,783	14

Source: Tim Niblock –The struggle for Political Authority and Wealth in Sudan –P. 155

Another facet of this concentration of investment can be detected in the extreme variation in the average personal annual income in the different Provinces. Table (9) shows that while the 1982/83 average individual income in Khartoum was Ls. 283, it was only Ls. 102 in Darfur Province.

Table (9): Average individual Annual Income and Average Individual share from Federal Government Support to Provinces-Selected years

Province	**Individual Share from C.G Support (Ls. Pounds)**		**Average annual Personal Income (Ls. Pounds)**		**% increase**
	1977/78	**1983/84**	**1967/68**	**1982/83**	
Khartoum	12.1	17.3	236	283	19.9
Central	8.6	17.9	183	206	9.8
Northern	15.6	48	124	130	4.8
Eastern	7.1	16.8	180	156	8.9
Kordofan	6.9	15.4	153	169	7.2
Darfur	3.9	12.3	98	102	4.1

Source: Ministry of Planning –Regional Development Department-Economic Survey

c) **Per Capita share in Federal Government Transfers**

Table (10) below depicts the significant variation in Federal Government financial transfers to the Northern States on the one hand and the equally significant variation in the per capita share in these transfers emphasizing, once again , the lack of appropriate criteria in arriving at these transfers(Table No.11).

Table (10): Per Capita Share in Federal Government Transfers to the Northern States(2000-2006) - (Thousand Dinars)

State	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Khartoum	237	2,006	2,847	4,064	4,766	6,356	6127
Red Sea	402	1,835	2,456	4,429	4,078	6,745	10701
Kassala	642	1,437	1,517	2,233	3,120	4,679	9,869
Gadarif	230	1,347	2,242	2,889	3,859	5,101	6868
Al Gazira	1197	1,347	3,167	4,009	5,873	7,995	10,305
White Nile	557	2,403	1,760	2,530	3,458	4,916	8939
Sennar	659	1692	2095	2,775	3,790	5,363	9019
Blue Nile	1255	1,354	3,139	3,709	6,483	8,179	18289
N. Kordofan	757	2,921	1,790	2,518	3,510	5884	7254
W. Kordofan	1116	1802	2055	3,219	3,767	5,805	6,721
S.Kordofan	799	2086	1737	2,649	3,604	-	-
N. Darfur	771	1,699	2067	2,931	4116	5854	7656
S.Darfur	338	2125	872	1326	1904	2301	3636
W.Darfur	524	801	1070	1509	2150	3000	4034
Nile	1535	3941	4219	5774	8636	11358	17633
Northern	1708	4,930	4220	5729	8985	12462	19723
Total							

Source: World Bank Report-Revision of Public Expenditure-Sudan-Vol. 2, July 2007, P.204

Table (11): The Share of the States in the actual Federal Government Transfers (2000-2006) (Million Dinars)

State	2000	2001	2002	2003	2004	2005	2006
Khartoum	6.4%	19.4%	23.5%	24.4%	21.5%	21.6%	14.8%
Red Sea	1.6%	2.6%	2.9%	3.6%	2.4%	2.9%	3.2%
Kassala	5.5%	4.3%	3.87%	4%	4.1%	4.6%	6.8%
Gadarif	1.8%	4%	5.7%	5.3%	5.2%	5.2%	4.9%
Al Gazira	22.9%	16.4%	18.3%	16.6%	18%	18.4%	16.6%
White Nile	4.7%	5%	4.4%	4.5%	4.6%	4.9%	6.2%
Sennar	4.4%	3.2%	4.2%	3.9%	4%	4.2%	5%
Blue Nile	4.5%	3.8%	3.4%	2.9%	3.8%	3.6%	5.6%
N. Kordofan	6.4%	5.3%	4.4%	4.4%	4.5%	5.6%	6.5%
W. Kordofan	7%	4.6%	3.8%	4.2%	3.6%	4%	4.9%
S.Kordofan	5%	3.8%	3.3%	3.5%	3.5%	-	-
N. Darfur	6.4%	6.3%	5.2%	5.5%	5.5%	5.9%	5.4%
S.Darfur	5.3%	4.5%	4.2%	4.9%	4.9%	4.5%	5%
W.Darfur	4.7%	4%	2.8%	3%	3%	3.3%	3%
Nile	7.8%	7.1%	6.4%	6.8%	6.8%	6.6%	7.1%
Northern	5.6%	5.7%	4.1%	4.5%	4.5%	4.7%	5.1%
Total	100%	100%	100%	100%	100%	100%	100%

Source: World Bank Report-Revision of Sudan Public Expenditure- Volume 2, June 2007, P.204

V. The Impact of Investment Allocations and Financial Transfers on Health and Education Services in the States

We have already noted that the concentration of Government investment in particular regions resulted in noticeable variations in per capita GDP in different parts of the country. These variations were aggravated by the lack of suitable criteria in determining financial transfers to the different States of the country. The negative impact of this state of affairs on economic development and on the provision of services in the States can be particularly detected in the fields of education and health services.

Table (12): Per Capita Share in Financial Transfers and General Education Enrollment Roles

Region	Per Capital Share in Transfers - 1983/84(L.S)	Average Per Capita income 1982/93(L.S)	Education Enrollment Rates (%)		
			a)Elementary (1984/85)	b)Intermediate (1984/85)	c)Secondary (1984/85)
Khartoum	17.3	283	76.3	61.7	38.8
Central	17.9	206	72.5	36.1	21.1
Northern	16.8	130	96.8	66.4	40.0
Eastern	14.8	196	116.7	22.5	14.2
Kordofan	15.4	164	43.6	22.1	12.8
Darfur	12.3	102	37.3	15.4	7.4

Source: Tables (9) and (13)

Since the nineties of the last century, Sudan witnessed a large forward leap in educational services. The significant rise in educational institutions and in enrollment rates, however, was accompanied by a large drop in the percentage of the overall public expenditure allocated to education. The resulting deterioration in the educational environment lead to the flourishing of private education. Since only the urban rich can afford to meet the relatively high expenses of private education there are increasing fears that this may ultimately lead to more disparities between the urban and rural areas of the country and between the rich and poor segments of the population constituting a threat to social security.

Table (14): Expenditure on Education compared to Public Expenditure (1997/2000)

Year	Public Expenditure (Million Dinars)	Public Expenditure on Education (Million Dinars)	% Expenditure Education
1997/1998	3,525	297	8,4
1994/1995	4,698	361	7,7
1999/2000	6,262	438	6.0
2000/2001	3,348	532	6.4

Source: Development is the key to Peace-(Peace and Development Centre-University of Juba, P.252)

The Distribution of Educational Services:

Education is regarded as one of the major indicators in assessing a country's degree of progress. Table (12) underscores the positive relationship between the provision of educational services and financial transfers to the different regions of the country. Table (13) shows the extreme disparities in the educational opportunities available to children reaching the schooling age. Thus while such opportunities are comparable to acceptable international standards in the Northern and Equatorial Provinces (97 and 84 per unit respectively) and marginally less than that in Khartoum and the Central Provinces (76 and 73 percent), this percentage drops to less than 50% and in some cases to less than 10% in other provinces. These disparities become wider in the case of intermediate education and widen even more at the secondary level of education.

Table (13) Enrollment Rates in the General Education Institution 1984/85

Province	Primary		Intermediate	Secondary
	(6-7 years)	(7-12 years)	(13-15 years)	(16-18 years)
Khartoum	76.3	61.7	61.7	38.8
Central	72.5	66.9	36.1	21.1
Northern	96.8	93.6	66.4	40.0
Eastern	46.7	42.8	22.5	14.2
Kordofan	43.6	44.6	22.1	12.8
Darfur	37.3	35.6	15.4	7.4
Equatorial	84.0	45.3	16.0	10.0
Upper Nile	27.6	15.9	5.8	3.3
Bahrel Gazal	9	6.3	3.4	3.1
Total	52.7	48.7	27.1	16.1

Source: Educational Statistics-1984/85-Ministry of Education-Sudan

The Distribution of Health Services:

According to the World Health Organization the general yardstick for the availability of an acceptable level of health services in a country is the provision of a hospital bed per 200 persons and a doctor per 1000 persons. According to this yardstick health services in Sudan are rated below average. Furthermore, Table (15) below shows the disparities in the availability of health services in the different parts of the country. The table reveals that while there were 236 hospital beds per one hundred thousand of the population in the Northern Province, this number drops to137 beds in the Nile province, 134 beds in the Red Sea and only to 22 and 20 beds in South Darfur and West Darfur respectively.

Table (15): Distribution of Health Services (2004)

States	No. of Government Hospitals	No. of Doctors	X-Ray Unit	Hospital Beds	Beds/100 Thousand People	Medical Insurance For Poor Families
Khartoum	25	888	17	2013	103.6	32.5
Gezira	52	521	17	3096	81.4	None
W. Nile	28	162	5	1260	77	15
B. Nile	12	50	1	440	61.5	2
Sennar	13	110	2	1037	79.7	67.1
Nile	28	138	9	1528	157.2	2.1
Northern	26	112	6	1474	236.2	83
Kassala	10	104	4	930	57.2	14.1
Gadarif	16	139	4	1031	61.6	91.2
Red Sea	19	101	6	985	134.2	6
N. Kordofan	16	125	5	1326	84	3.3
S. Kordofan	10	49	5	625	53.2	None
W. Kordofan	4	46	3	521	43.3	None
N. Darfur	12	74	1	634	38.3	0.1
S. Darfur	10	57	2	697	22	None
W. Darfur	18	28	2	353	2004	None
Total	**203**					

Source: Annual Book of Statistics-2004

Furthermore MDG 2006 indicators show the extreme variations in the availability of health services in the country's States. This is again largely attributed to the lack of proper and equitable criteria in determining financial transfers to the States. Table (16) below , for instance , shows that in spite of the rather significant differences in their population sizes, population densities and the availability of such services, six of the Northern States received equal share of Federal Government financial transfers during the years 2000-2006 (Northern, Kassala, Sennar , South Darfur, South Kordofan and White Nile).

Table (16): MDG 2006 Family Survey Results and average Share of Central Financial Transfers (2000-2006)

State	Children Vaccination (%)	Trained Midwife (%)	Availability of Sanitary Water (%)	Environmental Protection & Improved Lavatories (%)	Share in Financial Transfers (%)
Northern	78.2	98.2	80.3	79.7	4.8
Nile	81.7	91.9	73.8	83.2	6.9
Red Sea	59.3	69.8	33.1	51.3	2.7
Kassala	78.9	64.5	38.7	38.9	4.7
Gadarif	78.9	65.6	37.3	14.6	4.6
Khartoum	83.6	89.0	79.4	78.0	18.8
Gazira	87.3	85.0	77.9	31.9	18.2
Sennar	80.0	68.2	80.7	26.1	4.1
B. Nile	69.2	49.7	41.3	11.6	3.9
W. Nile	72.2	88.1	44.4	29.2	4.9
N. Kordofan	70.3	69.1	47.0	28.3	5.3
S. Kordofan	64.9	60.6	60.0	14.2	4.4
N. Darfur	79.3	67.6	48.2	32.2	5.7
S. Darfur	48.8	50.0	20.1	43.9	4.7
W. Darfur	57.3	31.9	39.6	29.8	3.4

Source: MDG's in Sudan, Current Status and achievements.
Sudan Household Health Survey, 2006.
Sudan Public Expenditure Review Vol. 2-2007-Pages 184/185.

VI. The Negative Effects of Disparities:

The unbalanced distribution of development projects and services in Sudan lead to numerous negative consequences notable among which is migration. The low level of available services, low productivity, and limited incomes also resulted in further waves of migration towards the more attractive parts of the country. Table(17) below shows that while Khartoum population increased from 7.8% to 19.1% of Sudan's total population in 1973 and 2004 respectively , with an annual growth rate of 9.8%,Kordofan population share fell from 15% in 1983 to 12% in 2000.

Table (17): The Effect of Unequal Development on Population Movement

Year	% of Khartoum Population to total Population (%)	% of Greater Kordofan Population to total Population (%)
1973	7.8	-
1983	8.8	15.0
1993	13.7	13.0
2000	15.0	12.0
2004	19.1	-

Source: M.I Abdu (Kabaj), Ingaz Economy and total Poverty, Second Edition, 2006, Pages 60-61

In addition to certain political, social and historic reasons, the disparities in economic development and in the availability of social services lead to the emergence of regional pressure groups seeking economic and social development in the regions, they represent and the ‘‘sharing of power’’. Ultimately, these groups became militarized leading the country into civil wars that extended for half a century with no end in sight.

Table (18) underneath shows the effect of the country’s civil wars on the distribution of public expenditure on to different sectors of the economy.

Table (18): Effect of Civil Wars on the Sectoral of Distribution of Public Expenditure

Sector	Chapter one (%)	Chapter Two (%)
Defense and Interior	**72**	**65**
Education	**10**	**10**
Agriculture	**2.2**	**4**
Health	**1.2**	**4**
Industry	**5.8**	**-**
Energy and Mining	**0.001**	**-**

Source: M.I Abdu (Kabaj), Ingaz Economy and Total Poverty, 51/52

VII. The Fiscal & Financial Allocations & Monitoring Commission:

In line with the requirements of the Nifasha Comprehensive Peace Agreement, the Presidential Act No. (41), issued in 2005, launched the Commission for the Allocation and follow-up of public revenues. In 2006, and in order to accommodate the Abuja Darfur Peace Agreement, Presidential Act No. (35) of 2006 introduced some amendments on this Act .

Duties and Responsibilities of the Commission:

The major terms of the reference of the Commission are:

a) Ensure transparency and equity in the allocation of Central revenues to the Government of Southern Sudan and to the States.
b) Follow-up the financial support provided by the National Revenues Fund to ensure its equitable sharing and smooth remittance to the concerned government units.
c) Suggest systems and criteria concerning the sharing of revenues.
d) Updating the basis, ratios and criteria for revenues sharing at least once every three years.
e) Submission of quarterly reports to the Presidency office containing its activities and analysis of the system of sharing of national revenues.
f) Submission of annual reports on its activities to the National Legislation Assembly.

The Commission Board

The board of the commission is comprised of a Chairman (to be appointed by the president and approved by the First Vice President) plus 3 members representing the national government and an equal number from the Southern Government plus the States Finance Ministers, and one representative from each of the Development Funds and entities as observers. The commission is to convene at least three times per year and may call for emergency meetings on the invitation of its chairman or on the submission of two-thirds of its membership.

The commission appointed a Technical Secretariat composed of highly qualified personnel and entrusted to it the gathering of data and information and the execution of studies for consideration by the Technical Council and the Board. In collaboration with the Federal Ministry of Finance, the Technical Secretariat follows up the revenues that constitute the National Revenues Fund.In addition, the secretariat ensures that financial transfers to the Government of Southern Sudan and to the States are effected according to the approved ratios and that expenditure from these transfers is in line the approved purposes.

Experts Team:

On the recommendation of the Commission, the President approved the appointment of 20 experts drawn from Universities and Public sector entities. This team of experts was entrusted with the task of undertaking relevant studies and research in areas composed of, but not limited to, the following:

a) Evaluate systems of revenue collection and pooling in the National Revenues Fund (in collaboration with the Ministry of Finance).

b) Suggestion of systems, indicators and weights concerning to vertical and horizontal allocation of revenues (in collaboration with concerned bodies)

The Team of expert's suggestions of equitable and practical vertical and horizontal sharing of public revenues were accepted and applied in the 2007 central budget. The team's suggestion on vertical distribution was based on the duties and responsibilities entrusted to each government level. Accordingly, the Federal Government was entitled to 55.2 % of total revenues while the entitlement of the States and the Government of Southern Sudan was 44.8%. The horizontal distribution of revenues among the States was based on four major weighted criteria as follows:

Population size	40%
The lowest level of government40%	
Social Development (Health and Education)	15%
States abilities to collect revenues	5%
Total	100%

National Revenues Fund:

This Fund was launched in accordance with Article (197) of the 2005 Interim Constitution. All National Revenues are pooled in the Fund's independent account in the Ministry of Finance. Thereafter, these revenues are allocated vertically and horizontally in accordance with the criteria and indicators set up by the Commission for the Allocation and Follow-up of revenues.

The 2007 Budget and the application of the Commission Criteria:

The 2007 approved budget applied the criteria and indicators suggested by the Commission for the sharing of revenues between the Federal Government, the Government of Southern Sudan and the States. Table (19) compares the 2006 budgeted transfers to the States and the transfers of the 2007 budget which were arrived at in accordance with the criteria suggested by the Commission.

In 2007 total transfer commitments were 16.7 higher than those in 2006. Also, transfers commitments increased appreciably to most of the States (47% for South Darfur, 43%for West Darfur, 30% for Kassala) and only marginally to Khartoum and Gezira (6% each).

In addition to the Development support transfers to the States, other transfers include current, value added and agricultural taxes compensation transfers. Also, irrespective of States abilities to collect revenues, the Commission suggested the application of the following unified criterion:

$$\text{Transfers to State (X)} = \frac{\text{Total Transfers}}{\text{Total Percentages of State Transfers}} \times \text{State(X)percentage of total transfers}$$

It is important to note here that the agricultural taxes compensation transfers were introduced following a Presidential Order suspending the imposition of taxes on agricultural production with the intention of promoting exports. In practice, however, this compensation used to be deducted from the transfer commitments to the States. Although revenues of the States decreased as a result, the desired effect on agricultural exports was only marginal.

Table (19): Budgeted Financial Transfes to States (2006-2007) (Million Dinars)

State	2006 Commitments	2007 Budget	%increase	Monthly commitments
Khartoum	45324	48223	6	3616
Red Sea	4986	6110	23	458
Kassala	9924	12955	30	972
Gadarif	10944	13363	22	1002
Gezira	43428	46060	6	3454
W.Nile	12408	15424	24	1156
Sennar	9432	12133	29	910
B. Nile	7884	9288	18	697
N. Kordofan	16428	18141	10	1360
S. Kordofan	10752	12214	14	916
N. Darfur	13068	16072	23	1205
S. Darfur	11124	16351	47	1226
W. Darfur	7020	10070	43	735
Nile	14808	16665	13	1249
Northern	10008	12639	26	948
Total	227532	265708	1651	19928

Source: Revenue Allocation and Follow-up Commission. First Quarterly Report-2007

In an effort to seek the views of the States on the criteria prepared by the Commission, a questionnaire study was conducted in July 2007. Though some States suggested some modifications in the Weights attached to some of the indicators, the majority of them expressed satisfaction with the Commission Criteria. Also, three States suggested the inclusion of new indicators such as distance between the States and the Port and States infrastructure. While the Commission was preparing to convene a workshop to present the findings and results of the questionnaire and exchange views with the concerned parties, it was dissolved. It is worth noting here that the Commission engaged some twenty local experts, a consulting firm (Unicons) in addition to experts with relevant experience from the US, Canada, India and South Africa.

The 2007 budget allocated 25 billion Dinars to meet the States development needs. As of the 2008 budget, however, transfers to the States were to be inclusive of commitments to development projects in addition to current commitments. In this regard the Commission submitted two proposals to the Presidency with the options of choosing either of them or a combination of both.

The Commission's proposal No. One:
The allocation of the entire fund (S.D 25 billion) to the poverty reduction programs (Water, education, basic health …) and in accordance with priorities set up by the States subject to the following two equitable and distinct criteria:

- Identifying essential development requirements
- Population size

To ensure equity, the Commission suggested the allocation of 45% of the S.D 25 billion to be equally shared by the Northern States (SD 750 million each) to meet States basic needs in the water, education and health sectors. As for the population size criterion, the Commission proposed the allocation of 47% of the SD 25 billion to the States depending on the population size in each of them.

Table (20) shows that these population-based allocations amount-to SD. 11,750 billion – leaving SD. 2 billion as reserves.

The Commission's Proposal No. Two:
The limited funds available in relation to the huge development financing requirements prompted the Commission to suggest the creation of a partnership with the Central Bank of Sudan to establish an investment bank to provide the finance to the micro-financing scheme recently promoted by the Central Bank as part of the country's overall poverty reduction strategy.

Table (20): Uncommitted States Development Proposals

State	Essential development needs	Development transfers according to the population size	Total Development Financing transfers
Northern	750	251	1,001
Nile	750	391	1,141
Red Sea	750	295	1,045
Kassala	750	655	1,005
Gadarif	750	674	1,4211
Khartoum	750	2,238	2,988
Gezira	750	1,530	2,280
Sennar	750	524	1,274
W.Nile	750	659	1,409
B.Nile	750	28	103
N.Kordofan	750	927	1,677
W.Kordofan	750	699	1,447
S. Kordofan	750	667	1,417
N.Darfur	750	667	1,417
S.Darfur	750	1,278	2,028
Reserves		2,000	25,000
Northern States	11,250	13,750	25,000

Source: Revenue Allocation and Follow-up Commission. First Quarterly Report.2007

Neither of the above two proposals was applied, however, and the whole fund of SD.25 billion was treated in the same manner the States Support Fund used to treat financial reserves.

The monitoring and Follow-up Systems:

In order to ensure proper monitoring of national revenues and closely follow-up the transfer of funds to the different beneficiaries, the Commission set up a tight monitoring and follow-up system (see Annex 1-2-3). This system consisted of:

a) Follow-up of the transfer of allocations to the Revenue Fund and hence to the beneficiaries.
b) Identifying and curtailing of deductions made by some revenue earning government agencies prior to transferring their revenues to the National Fund.
c) Follow-up the activities in the States and in the relevant Funds to ensure that financial transfers are used in line with approved budgets.
d) In collaboration with other concerned parties, launching field visits to the States and to projects financed by the relevant funds and institutions.
e) Co-ordination with the Auditor General, the Internal Auditor Department and the States Councils to ensure that transfers are used as specified in approved budgets.
f) Preparing monthly, quarterly and annual reports to States Councils, the Presidency and the National Council respectively.

Constraints faced by the Commission:

a) Lack of approval of the Commission Act:

Upon its inception, the Commission produced a draft Act that legalizes and regulates its relationship with relevant entities and allows it certain powers to perform its duties as stipulated in its establishment Act. This draft, however, was not accepted.

The Role of the States Council in Supporting the Commission:

Being the second arm of the legislature, the States Council is authorized to initiate laws and to make administrative decisions on all matters relating to the States and to the Federal System in general. As such, the States Council constantly expressed interested in the activities of the Commission and made efforts to promote relations with it. The Council, therefore, passed a number of administrative orders all of which represented support to the Commission. These administrative orders were:

- Declaration of the National Revenue Act
- Declaration of the Commission Act
- Liquidation of the National Fund for States Support

The general aim of these declarations was to streamline the confused relationship between the Commission and the Fund, particularly on the issue concerning the reserves which, though deducted from the States share, were unilaterally dispensed of by the Fund. The States Council however, failed to enforce its administrative orders thus leaving the Commission in a legal vacuum.

2/The Federal Ministry of Finance:

The Ministry of Finance and the Commission jointly agreed to combat the revenue deductions made by some government agencies before transferring their revenues to the National Revenue Fund. In spite of the serious efforts made in this regard, however, these deductions continued resulting in an appreciable negative impact on national revenues, and consequently, on transfers to the States.

The Finance Ministry did not abide by its agreement with the Commission to transfer allocations directly to the States. The Ministry continued the channeling of the allocations through the National Fund which, in turn continued to make certain deductions before transferring.

Furthermore, from its follow-up of the 2007 budget, the Commission discovered that the Ministry of Finance did not stick to the vertical sharing of revenues agreement which allocates 44.8% of revenues to the States and the Government of Southern Sudan and 55.2% to the Federal Government. Table (21) shows that during the first quarter of the 2007 budget actual transfers to the Federal Government in January were 63% of revenues, registering and increase of 7.8% above the approved percentage of 55.2%. On the other hand, the actual January transfers to the Northern Provinces were 19% lower than stipulated. This, no doubt, had serious negative consequences on the financial abilities and performances of the States.

The Expenditure priorities adopted by the Ministry of Finance also negatively affected the States financing. On top of these priorities were Federal Government commitments, followed by commitments to the Government of Southern Sudan and finally Northern Sudan States commitments. And since most of the States meet their Chapter one commitment from central transfers, delays in the transfers were behind the repeated concern in and complaints by the States.

Furthermore, while undertaking its follow-up activities, the Commission identified a number of weaknesses that lead to shortfalls in total revenues and, hence, shortfalls in allocations to the States. Underneath are some examples:

- Exemption from taxes and custom duties, especially to public companies.
- Issuing of the letters of guarantees against the Revenues Fund.
- Repayment of some loans, unrelated to the States, from the proceeds of the Revenues Fund.

3/ States Support Fund:

Although the High Council on Resources was liquidated when the Commission was launched in 2005, the National Fund for the States support was not, especially that the responsibilities of the latter were automatically shifted to the former institution. This resulted in duplication of responsibilities with negative consequences on the performance of both institutions. As we noted earlier, the fund used to deduct 8% of the States share of the value added tax (kept as reserves) and 1% of States current support (to meet the Fund's running expenses). Since the Ministry of Finance continued to channel transfers to the States through the fund, these deductions constituted a burden on the States finances. The commission suggested a compromise solution calling for the reduction of these deductions to 5% in addition to designing a system for the re-allocation of the reserves. Although the suggestion was approved by the Commission Board, it was not implemented until May i.e. 4 months from the start of the 2007 financial year.

Table (22) shows the actual current transfers to the States during the first half of the 2007 financial year compared with the allocations arrived at by the Commission. Actual transfers (including reserves) were around 87% of the Commission figure. It is important to note here that the Commission allocated only 90% of the States share-leaving aside the remaining 10% as reserves with the Ministry of Finance to be settled towards the end of the year.

It is clear from the above analysis that the Ministry of Finance did not abide by the agreement on the vertical sharing of revenues which allocates 55.2% to the centre and 44.8% the Government of Southern Sudan and the States. This, in addition to the deductions made at the Fund level (8% from the States share of the Value added Tax and 1% from the current support) raises the percentage of total deductions to over 16%. No doubt, therefore, that these considerable deductions lead to negative consequences on the States finance.

Table (22): Actual current Transfers to the States during the First half of 2007 and the Transfers approved by the Commission

.	State	Commission Figures	January	February	March	April	May	June	Total	Performance
1.	Khartoum	3616	2559	3242	5688	3104.0	2957.5	3250.2	20800.7	95%
2.	Red Sea	458.2	283	487	341	394.0	375.5	412.4	2292.9	83%
3.	Kassala	971.6	736	881	751	916.6	817.8	889.9	4918	84%
4.	Gadarif	1002	769	891	847	2899.5	900.3	959.0	5282.9	78%
5.	Gazira	3454	2942	3157	2668	1009.4	2904.9	3126.5	17733.9	85%
6.	W. Nile	1156	903	1055	895	814.5	973.9	1059.9	5896.2	85%
7.	Sinnar	910	681	809	744	607.8	797.9	856.8	4703.2	86%
8.	B. Nile	696.6	566	562	551	1187.1	595.7	645.0	3527.5	84%
9.	N. Kordofan	1360	1160	1226	1049	794.3	1142.9	1244.6	7009.6	85%
10.	S. Kordofan	916	767	736	718	1033.4	778.6	844.6	46338.6	84%
11.	N. Darfur	1205	954	1010	912	1068.3	998.2	1092.3	5999.9	82%
12.	S. Darfur	1226	788	1079	960	1028.3	1041.9	1130.4	6077.6	82%
13.	W. Darfur	755.2	500	688	578	649.5	630.8	688.3	3734.6	82%
14.	Nile	1249	1054	1137	998	112.8	1076.9	1126.9	6541.6	87%
15.	Northern	948	737	776	757	837.9	817.7	688.3	4613.9	81%
		-	674	1033	855	992.5	353.1	432.3	4339.9	-
	Total	19928	16073	18779	16312	18263.9	17163.6	18519.5	105111.0	87%

Source: Mid-Year Report of the Commission, June 2007

VIII. Recommendations & Conclusion:

1) There is a need to prepare and approve the Commission Act that specifies the jurisdiction and powers of the Commission and identifies and clarifies its vertical and horizontal relations with relevant institutions.
2) The Commission responsibilities should be extended to include the allocation of all national financial resources, including grants and loans and development commitments.
3) Tax and import duties deduction should be born by the beneficiaries from these deductions or by the approving authority. The lower levels of Government should in no way be affected by these deductions.
4) Revitalization of the National Revenues Fund to enable it to handle all national revenues. Also it is important to issue an Act to clearly define the Fund's vertical and horizontal relations with relevant entities.
5) Efforts must be made to solve the outstanding problems of revenue retentions pursued by some government agencies and profits of public companies.
6) In order to ensure the independence of the Commission, it is imperative to allow it to have an independent budget to be transferred at the beginning of each year to its account with the Central Bank of Sudan.
7) The commission must enhance its abilities in the areas of data and information collection, collation and analysis. It must also improve its monitoring and follow-up systems and procedures with the aim of arriving at transparent and equitable systems of financial transfers.
8) The commission must spread its communication net to gain added experience and learn more lessons from the relevant experience of other countries.
9) The commission must enhance its internal abilities through engaging fully qualified personnel and acquiring the necessary technology and equipment that enable it to satisfactorily perform its duties.
10) The commission should annually revise and improve upon its criteria for the vertical and horizontal distribution of revenues.
11) To enable it to prepare alternative scenarios of financial transfers , the Commission should build and improve its internal capacities to arrive at general indicators on per capital incomes, human resources development etc. at the States level.
12) The Commission should initiate a forum for communicating with the relevant institutions and with civil society with the aim of turning its activities into a social- culture.
13) The Commission should energize its role and revise its human and technical capabilities in Southern Sudan to enable itself to make recommendations on the vertical and horizontal sharing of financial resources.
14) Encouraging capacity building-both technical and human in the States especially at the levels of the Ministries of Finance and the localities to enable them to properly manage their financial affairs.
15) Convening a constitutional conference to be attended by the Federal Government Chambers, the States, and States Councils, the Auditor General and the Constitutional Court with the aim of clearly defining the powers and responsibilities of the different levels of Government and avoiding cross-interference and duplication.
16) The identification of specific criteria to regulate the distribution of the financial resources available at the States level to ensure that the localities receive their fair shares.
17) Strengthening the abilities of localities in the collection and analysis of data and information thereby improving their financial management capabilities.

Conclusion:

In order to ensure stability of the state, the society and the economy and narrow the disparities in economic development and in the availability of social services, it is imperative to adopt just and equitable criteria for the distribution of wealth in the Sudan. It is also equally important to launch comprehensive rural development programs especially in the traditional sector of the economy where more than 60% of the country's populations live. This sector has witnessed serious deterioration in its agricultural, services and commercial activities. Only through the adoption of such program can we effect a qualitative change in people's livelihood and hence gradually move towards a market economy.

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