



يونيكونز للإستشارات



BUDGET ANALYSIS FOR PRO-POOR SPENDING ¹

Abda Yahia El Mahdi

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ACRONYMS

CBOS — Central Government Bank of Sudan
CPA — Comprehensive Peace Agreement
GDP — Gross Domestic Product
GFS — General Finance Statistics
GNU — Government of National Unity
GONU — Government of National Unity
GOSS — Government of Southern Sudan
HIPC — Heavily Indebted Poor Countries Initiative
IMF — International Monetary Fund
JAM — Joint Assessment Mission
MDG — Millennium Development Goals
MOFNE — Ministry of Finance and National Economy
PEM — Public Expenditure Management
PER — Public Expenditure Review
PRSP — Poverty Reduction Strategy Paper
SDG — Sudanese Pound (new)
UNDP — United Nations Development Programme
WB — World Bank

INTRODUCTION:²

Almost four years after the signing of the Comprehensive Peace Agreement (CPA), the challenges for both the National Government (GONU) and the Government of Southern Sudan (GOSS), remain as ever tremendous. Recovery from conflict in the form of reconstruction and development pose challenges that are further aggravated in light of the lower than expected post-peace donor flows but more so by the ongoing Darfur civil conflict. Under such conditions, it becomes ever more critical to address the high levels of poverty and disparities in human development that characterize Sudan and that are the root cause of all the civil unrest plaguing the country. Focus must be on realizing the long sought after dividends of peace and making progress towards reducing poverty and achieving the Millennium Development Goals.

Moreover, the co-existence of higher poverty levels (both urban and rural) and low human development indicators coupled with the increasing dependence on oil revenues render the issue of sound management of public financial resources an urgent priority that is increasingly becoming a major concern for the general public (the general population and the taxpayers). It is, in fact, a pre-requisite for ensuring efficient utilization of public resources for post conflict recovery and the fight against poverty. It is also a pre-requisite for long term economic, social and political stability in Sudan.

Primary considerations for public expenditure management in Sudan, are to identify and support improvements in budget planning, monitoring and institutional arrangements so as to demonstrate improved outcomes in the medium term. This requires: (1) an understanding of the current baseline in budgetary allocations in order to be able to measure progress and monitor pro-poor spending; (2) Supporting improvements in public financial management capacity in terms of budget preparation, implementation and reporting/monitoring; (3) Improving the status of intergovernmental transfers in the context of fiscal decentralization that has been identified in the country's Interim National Constitution as a major preliminary step towards achieving an equitable distribution of the country's resources.

This paper focuses on the first of these themes by conducting a budgetary review and analysis focusing on government spending. The aim is to first create a baseline understanding of overall allocations with a focus on those for poverty reduction. This will allow for the identification of areas for improved Public Expenditure management in terms of re-allocations, reforms and future monitoring. The analysis will be done at both the Federal and State levels over the period 2000-2007 to obtain a long-term view on spending given that the effect of some programs on dynamic processes are created with long time lags. Moreover, a short-term analysis covering the period 2005-2007 will also be undertaken to reflect the changes arising as a result of the peace process signed in the beginning of 2005. These analyses aim at providing a broad picture of government allocations, which in turn is expected to raise a whole host of issues for discussion in the context of preparations for a poverty reduction strategy and efforts at accelerating a more broad based equitable economic growth.

Accordingly, section (I) will focus on Principles governing the analyses in terms of issues that underlie the work at hand and difficulties/ constraints in reaching the desired outcomes. Section(II) will briefly consider economic performance before mapping public spending, both current and development, over the period 2000-2007. Subsequent sections will give particular attention to three important areas within the context of poverty reduction and equitable growth. These being: Agriculture in section (III); Education and Health in section (IV); and the Delivery of Drinking Water in section (V). Before going on to the final section, we consider, in section (V), the definition of pro-

² The work presented here benefitted from an extensive discussion that followed its presentation in the Public Expenditure Management workshop organized by Unicons in collaboration with the UNDP in Khartoum on 18th June, 2008. The valuable comments and insights emanating from participants in that workshop have been incorporated in this revised version of the paper.

poor spending within the context of results from the Sudan PER (2006). Finally, section (VI) focuses on key issues emanating from the review/analysis for improvements PEM and its monitoring.

I. Principles governing the Review

This section will focus on major issues that must be taken into account while undertaking the budgetary review.

1. The report focuses on PEM in the National government (GONU) in recognition of the fact that different issues arise for and for the government of Southern Sudan (GOSS). These differences necessitate a different approach to consideration of PEM issues in the two levels of government and as such recommends that a separate project be devoted to PEM in GOSS.
2. As stated in the introduction, the aim of the analyses is to identify areas where government allocations need to be reformed to have any meaningful results for poverty reduction and human development and thereby for attaining the MDGs. However, any serious analysis of expenditure allocations for reducing poverty and inequalities must be based on solid poverty diagnostics based on Household Budget Surveys or related surveys. Governments, and the Sudanese one is no exception, are all faced with a wide range of conflicting demands on the limited resources available to them. If the political will is present then the government must make difficult choices in its poverty reduction effort. Yet, to ensure that such choices are in fact maximizing social welfare, they must be based on strong evidence and guided by quality poverty analyses.
3. It must be made absolutely clear that simply pumping monies into sectors perceived as benefiting the poor will not resolve the problem. This needs to be complemented by in depth sectoral analyses that link inputs (in terms of expenditures on various categories within the sector) with outcomes (in terms of evaluating the extent to which programs are effective in achieving the goals they have been set out to achieve).
4. The budgetary system in Sudan is not in a consolidated form, i.e. budgets are only available separately for the Central/ Federal government and for the states. At the same time, the analysis of fiscal allocations is greatly hampered by the weak status of data. While this is true at the federal level, it is more so at the state and locality levels where it is almost impossible to determine or understand sectoral allocations. What can be determined, however, are broad aggregates and sectoral trends which can be used to guide key questions to be addressed in the context of reviewing public expenditures within the context of a poverty eradication strategy. To this end, Unicons has compiled data from the annual reports of the 15 states in Northern Sudan for the period running from 2000-2006. Although this data is still problematic given the weak capacities for budgetary preparation and execution, the dataset provides valuable insights into the status of allocations for basic services (health, general education and water) which are the major responsibility of these sub-national governments.
5. Focus can only be made on major areas for possible expenditure savings and broad reallocations, because data constraints do not allow for analysis at the disaggregated level. The structure of spending within the budget has been in the form of broad chapters (economic classification) and spending at decentralized levels is not well captured. As such, the structure of public outlays is, not only difficult to understand and analyze but also makes evaluation and monitoring an almost impossible task. It is only recently and within the 2008 budget that the GFS (Government Finance Statistics) system of classifications has been implemented. This system provides a common basis for classifying such expenditures so that cross-country comparisons of expenditure patterns are possible. Moreover, it is only recently that the data from the PER conducted by the World Bank in 2006 became available. This data provides a functional classification of expenditures which is more useful for analysis of sectoral budgets and performance and generally important for poverty analysis. However, it is our view that it

is still problematic given that the budget is highly fragmented and many activities are financed by off-budget arrangements. Nevertheless, the data are suggestive and have been reverted to at several points in this work.

II. Economic Performance & Expenditure Trends

II.A. Economic Performance 2000-2007

With the implementation of successive structural adjustment programs since 1997 and assisted by the onset of oil production in the late nineties, the Sudanese economy has shown great progress. This is shown in the strong growth rates averaging over 8 percent since 2001 (see table 1 below) coupled with macroeconomic stability as seen in the containment of budget deficits, single digit inflation rates (although this has recently changed with the rapid rise in inflation in the first half of 2008) and stable exchange rates. The strong Sudanese economic performance has been commended in successive IMF reports and has augured well for the country in terms of attracting high and rising foreign direct investments.

Table 1: Selected Economic Indicators (SDG Millions)

ITEM	2000	2001	2002	2003	2004	2005	2006	2007	2008 Budget
Population (Million)	31.1	31.9	32.7	33.6	34.5	35.4	36.3	37.2	38.2
GDP at Const. Price	28,320	33,760	38,754	48,038	55,920	67,980	81,310	93,800	108,40
GDP per Capita	910.6	1058.3	1,185.1	1,429.7	1,548.7	1,757.1	2,078.2	2,521.5	2,837.7
Real GDP Growth %	6.9	6.0	6.5	6.1	9.1	8.3	9.3	10.5	8.0
Inflation Rate	8	4.9	8.3	7.7	8.5	8.5	7.2	8.0	8.0
Total Revenues	3,263	3,700	4,700	7,430	11,050	14,730	15,790	17,290	21,500
Oil Revenues	1,409	1,500	2,110	4,230	5,790	9,010	8,790	9,200	11,300
Total Public Exp.	3,522	4,185	5,182	7,361	11,037	14,008	18,239	20,682	26,433
Total Current* Exp.	2,928	3,425	3,771	5,508	7,934	10,756	13,760	15,747	19,092
Total Develop.** Exp.	594	760	1,411	1,853	3,103	3,252	4,479	4,935	7,341.2
Develop. % Tot. Public Exp.	17	18	27	25	28	23	25	24	28
Development % GDP	2	2	4	4	6	5	6	5	7
Current % GDP	10.3	10.1	9.7	11.5	14.2	15.8	16.9	16.8	17.6
Overall Deficit	-258.6	-485.4	-481.7	69.0	12.7	396.5	2,449.1	3,454.4	4,933.3
Overall Deficit % GDP	-0.91	-1.44	-1.24	0.14	0.02	0.58	-3.01	-3.68	-4.55

Source: IMF Article IV Consultations & Staff Monitored Program Reports; MOFNE Budgets, CBOS Annual Reports.

N.B. Total Current* expenditure includes Federal current expenditure and current transfers to the states.

Total Develop** Expenditure includes Federal capital expenditures plus Development transfers to the states.

There is no doubt that the stable macroeconomic climate is beneficial to the poor as well as to the rich. High inflation rates are well known to adversely affect the poor more than the rich and the reason for this is two-fold. Firstly, the poor carry any financial assets they might have in the form of cash rather than in any assets carrying a return. Secondly, they are generally less able to protect the real value of their incomes from inflation so that in times of price hikes, real wages are eroded and assets of the poor are more affected than those of better off sections of the population.

Moreover, it is generally agreed that high economic growth rates are an engine of poverty reduction but that has not been the case in Sudan where poverty has been seen to be on the rise and inequalities are growing wider.³ This can mainly be attributed to two aspects of the growth in the Sudanese economy in the last 10 years or so. Firstly, high and growing inequalities in income distribution have

³ Ali, AbdelGadir Ali (2006), "The Challenges of Poverty Reduction in Post-Conflict", Arab Planning Institute.

not allowed the benefits of economic growth to translate into poverty reduction. A number of empirical studies have shown that growth is more effective in reducing poverty when inequality is lowered⁴. Secondly, the sectoral composition of the Sudanese economic growth has not been conducive to poverty reduction in terms of being mostly attributed to high growth rates in the services and oil sectors rather than in the agricultural sector where most of the poor are to be found.

Nevertheless, for the purposes of PEM, we will need to look more closely at expenditure allocations to try to better understand government spending priorities, and then attempt to determine the extent to which they are pro-poor and hence identify areas for reform and re-allocations.

II.B. Central Government Operations

Sudan has been blessed with rising oil prices and thereby rising revenues (oil revenues rose to represent more than 50% of total revenues in 2006 & 2007) that has allowed it to increase total expenditures while maintaining negligible deficits (with a budget surplus recorded in 2003 – 2005) – see Table 1. Budget deficits began to rise after 2005 reaching almost 4% of GDP in 2007 and reflecting the increasing expenditure demands including those related to the CPA and the on-going conflict in the Darfur region. Some explanations for the rising deficits, especially in 2007, have been attributed to shortfalls in oil revenues due to shortfalls in production, however, those were more than compensated for by a depletion of the Oil Stabilization Account (OSA).

While the generally strong economic performance is commendable in a country that was to have ended its civil war and about to reap the benefits of the peace dividend, such a seemingly positive outlook must be considered more carefully. A comparison of growth rates in budget allocations before and after 2004 reveals that *total public expenditures continued its steady rise* accounted for by *an acceleration in current spending* from 22 percent average growth before 2004 to 25percent afterwards and *a deceleration in development spending*⁵ from average growth of 53percent before 2004 to 15percent in 2004-2007.⁶ This indicates that the large increase in intergovernmental transfers was financed by increases in public expenditures with development taking a relatively smaller share of that increase. Fig.1 below shows this clearly.

As a percentage of GDP, total public expenditures rose from 12 percent of GDP in 2000 to 22 percent in 2007 yet development expenditure, starting from a very low base of 2 percent of GDP in 2000 rose to reach only 5 percent of GDP in 2007. By international standards and compared to other countries in similar levels of development and/or GDP, this is at the lowest end of the spectrum. Two examples at different levels of GDP and development elucidate this: In 2006, Malaysia was reported to have spent 9 percent of its GDP on development whereas Ethiopia with a much smaller GDP and lower level of development spent 15 percent. Given the under-developed state of the country and the low human development indicators, increasing public investments is a pre-requisite for equitable growth and poverty reduction.

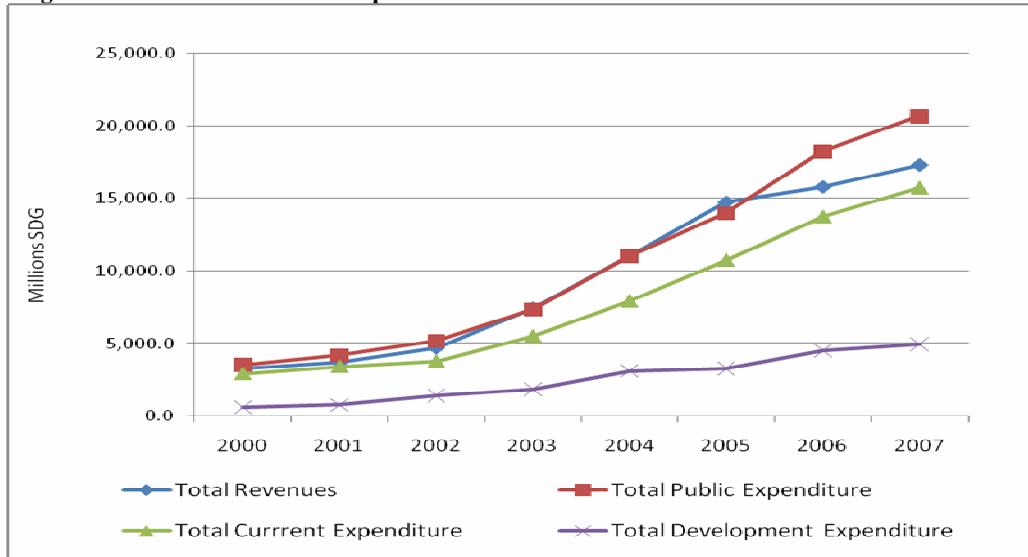
Development Expenditure includes both federal level development as well as development transfers to Northern States (2005 onwards). In order to obtain an overall estimate of development expenditure at the national level, it would have been pertinent to include development expenditures in the South from 2006 onwards. However, the Sudan PER for GOSS revealed that negligible amounts were allocated to development in 2005 and 2006 with oil transfers from the Central government having been almost totally absorbed by current expenditures.

⁴ Ravallion (1997): “Can high-inequality Developing Countries Escape absolute poverty?” Policy Research Working Papers 1775. World Bank, Washington D.C.

⁵ Total development spending includes federal projects, capital contributions & development transfers to the states

⁶ Total Current Expenditure, after the CPA in 2005, includes Federal current expenditure, current transfers to Northern states and transfers to GOSS.

Figure 1: Central Government Operations

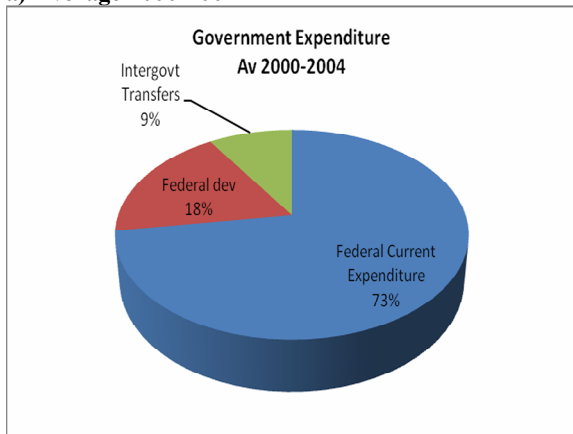


Source: IMF Article IV Consultations & Staff Monitored Program Reports; MOFNE Budgets, CBOS Annual Reports. N.B. Total Development Expenditure includes Federal capital expenditures plus Development transfers to the states.

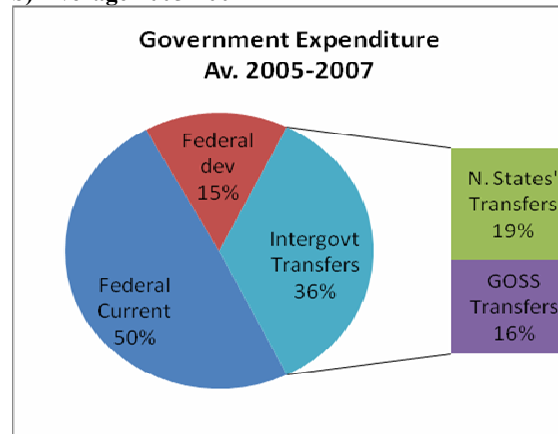
Any analysis of the Sudanese Government Budget during the period 2000-2007 must take into consideration the tremendous change arising from the large increase in intergovernmental transfers following the signing of the CPA in the beginning of 2005. This in itself has important consequences for the direction of government spending towards poverty reduction given that the states' major responsibility, in this regard, is in the delivery of basic social services – health, education and drinking water.

Figure 2: Total Government Expenditure Economic Classification-

a) Average 2000-2004



b) Average 2005-2007



Source: Compiled using data from "Sudan PER Report" with Updates from MOFNE.

Intergovernmental transfers jumped from 930 million (SDG 930 million) in 2004 to 3.7 billion (SDG 3,724 million) new Sudanese pounds in 2005 (see table 6). This represents a 300 percent increase in one year. To further clarify the big increase in intergovernmental transfer, we consider the average for the period 2000-2004 versus the period 2005-2007. The share of transfers increased from 8.6 percent of total Central government expenditures in the period 2000-2004 to 36 percent in the 2005-2007 period. In this latter period, transfers to GOSS represented almost 16 percent of total Central government expenditures (almost 46 percent of intergovernmental transfers). As mentioned

previously, this substantial part of public expenditures will not be considered and focus will be on Federal government expenditure and intergovernmental transfers to Northern States.

In considering government expenditure patterns, we will first review the Current budget and within that the pay-roll versus non payroll spending before giving due consideration to development spending at the sectoral level. These will be analyzed to identify patterns of over spending or under spending and their possible impact on allocations for poverty reduction.

II.B.1. Federal Current Expenditures

At the Federal level, current expenditure during the period 2000-2007 (see table 2), maintained its share in the threshold of 70-75 percent of the total. In terms of composition, Centralized items, being the second largest category of spending after wages and salaries (except for period 2003-2005 when they were at a maximum), stood, on average, at 39 percent of current federal government expenditures in the period 2005-2007. Wages and salaries showed a steady rise in the period 2000-2007 (average annual growth of 43 percent) to account for 47 percent of federal current spending in 2005-2007.

Table 2: Actual Federal Current Expenditure by Economic & Functional Classification (in million SDG) 2000 - 2008

ITEM	2000	2001	2002	2003	2004	2005	2006	2007
Federal Gov. Exp.	3,225.1	3,935.6	4,852.2	6,862.7	10,195.4	10,283.1	11,687.8	13,006.5
Tot. Fed. Current Exp.	2,703.5	3,175.4	3,441.2	5,010.1	7,092.0	7,514.1	8,147.3	9,438.6
Economic Classification								
Wages & Salaries & Benefits	1,099.5	1,316.2	1,649.4	1,911.1	2,732.1	2,801.3	3,957.2	4,901.4
Goods & Services	562.3	474.8	514.9	629.8	706.7	620.7	768.9	810.4
Centralized Items	953.8	1,221.8	1,070.0	2,256.2	3,382.4	3,745.7	3,049.2	3,057.9
General Social Subsidy	87.8	162.6	207.0	213.0	270.8	346.5	372.0	668.9
Functional Classification- Current* Federal Current Expenditure (SDG Mn)								
Current* Federal Current Exp.	1,410.2	1,502.5	1,855.0	2,266.0	2,547.9	2,716.3	4,223.8	5,338.4
Defense, Security & Police	999.6	1,055.6	1,276.2	1,579.7	1,640.6	1,619.4	3,174.1	4,051.0
The Sovereignty Sector	143.4	141.1	185.0	226.7	286.8	213.2	376.7	461.3
Agriculture Sector	40.7	40.5	34.8	35.9	50.3	45.6	71.3	79.6
Other Economic Sector	50.2	60.1	67.4	53.9	75.5	90.6	110.3	160.2
Social Sector	176.3	205.3	291.6	369.8	494.7	747.6	491.4	586.3
<i>Health Sector</i>	33.3	46.9	55.0	77.3	125.6	103.3	187.1	217.4
<i>Education Sector</i>	135.3	150.1	225.0	277.3	343.7	175.4	265.6	324.6
<i>Admin. & Social Sector</i>	7.7	8.3	11.6	15.2	25.4	468.8	38.7	44.3

Source: Compiled using data from "Sudan PER Report" with Updates from MOFNE.

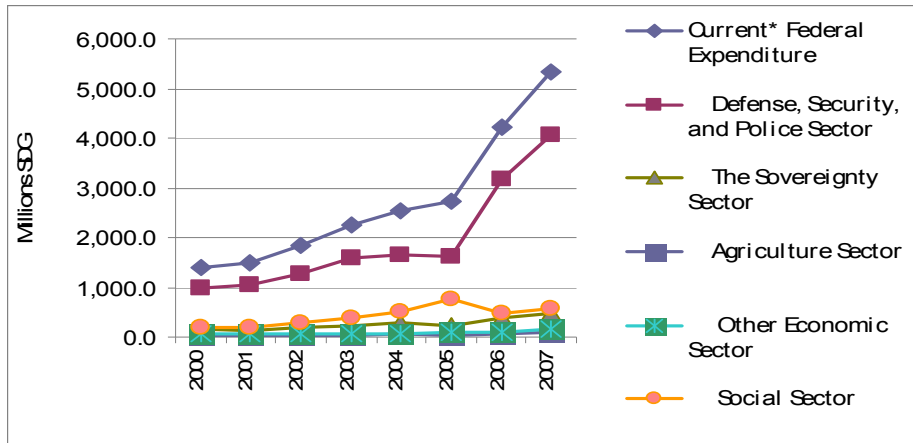
Although by international standards, the share of pay-roll in the country's current expenditures is relatively high, it is only a reflection of the vicious circle of overstaffing with poor pay and poor performance which the Sudanese public service finds itself caught in. Significant savings can be made in this area but must be carefully considered within an overall public sector civil service reform that will ensure adequate pay based on performance.

The category of "Goods & Services", reflecting the operations and maintenance costs (O&M) of the various ministries, grew at slower pace than the other categories within current federal expenditure (average annual growth 6 percent) and so stood at an average of 9 percent in the period 2005-2007 as compared to 14% in the earlier period. This category consistently suffers from both severe cuts at the

stage of budgetary preparation and subsequently in budget execution. Spending on this category directly affects the efficiency and effectiveness of the ministries under consideration and hence affects the programs they operate. Under-funding of O&M results in inadequate provision for the materials and services needed to sustain service delivery and maintain capital infrastructure⁷. Signs of under-funding in this category are clearly exemplified in the deteriorating status of public school infrastructures as well as in the lack of basic teaching materials and especially the school textbook.

Figure 3: Federal Current Expenditure by Functional Classification

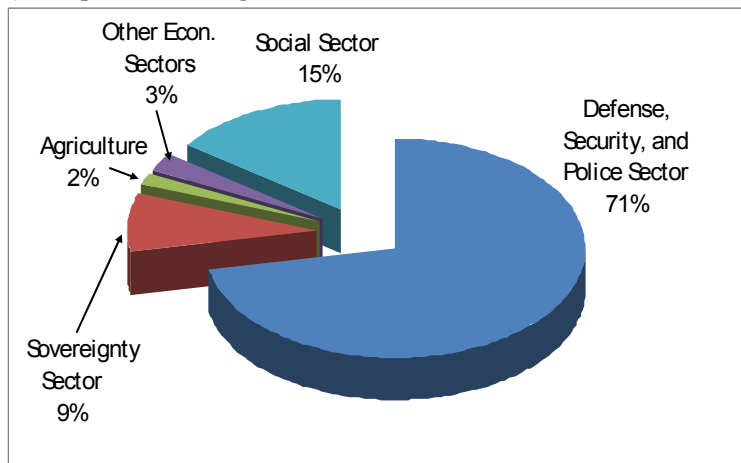
a) 2000-2007 (Millions SDG)



Note: Current*Federal Expenditure includes ‘Wages & Salaries’ and ‘Goods & Services’

Source: Compiled using data from Sudan PER & MOFNE.

b) Composition Average 2005-2007



Source: Compiled using data from “Sudan PER” & MOFNE.

The impact of the composition of current expenditure on poverty reduction can be gleaned from a closer look at each of the two largest categories (‘wages & salaries’ and ‘centralized items’) separately. In doing so, it is more clarifying to combine “Goods & Services” and “Wages & Salaries”

⁷ WB Source book for PRSP preparation

together in one subcategory which represented an average of 55 percent of total federal current expenditure in the post peace period.⁸

It is clear (table 2 and figure 3a) that the growth in current expenditures was fueled by the increase in expenditure on defense, security and police which grew at an average of 37 percent in post-peace compared to 15 percent in pre-peace. ***Spending on defense and security rose from 1.6 billion in 2004 to 4 billion Sudanese pounds in 2007 and represented a total of 72 percent of combined Federal “Wages & Salaries” and “Goods and Services” in the post-peace period (2005-2007). In 2007, current expenditure on security amounted to 4.3 percent of GDP and 31 percent of the total federal government budget in 2007.*** A quick comparison reveals that as much spending goes into Defense and security as that going into transfers to all Northern States- each received about 19% of all government outlays in 2007.

Defense and security together with the sovereignty sectors took up 80 percent of combined ‘wages & salaries’ and ‘goods & services’ leaving only 20 percent for all of the economic and social sectors. Both defense and the sovereignty sector cannot be considered as directly benefiting the poor although it might be argued that the poor cannot survive in an insecure environment. While this is correct, it ***highlights the tremendous cost of political instability and civil conflicts and the ultimate importance of a peaceful co-existence for any meaningful poverty reduction.***

Current spending on other sectors continued to rise after 2005 but at a smaller pace than the growth in defense and security so that agriculture grew at an annual average of 15 percent, other economic sectors at 28 percent and social sector 5 percent. As shown in Figure 3, agriculture (the largest economic sector and the biggest employer of poor people), received less than 2 percent of wages, salaries and goods & services. On the other hand, the social sector, having substantially risen in absolute terms, barely maintained its share in total current expenditure throughout the period (6.5 percent in 2000 and 6.2 percent in 2007). The relatively small amounts allocated to this sector reflect the responsibility assignment of its major components - education and health to the sub-national level. These two sub-categories will be considered in greater depth in section IV which attempts to take a consolidated (Federal and state level) view of such expenditures. However, it is worth noting that, when social subsidies are added, the share of the social sector in total federal current expenditure (12.3 percent) almost doubles on average over the period under consideration. These subsidies represent the electricity, the student fund and health subsidies.⁹ There is much debate as to the poverty reducing impact of these social subsidies and calls for an evaluation of their impact and whether the amounts allocated can be more efficiently used for the greater benefit the poor.

Centralized Items & The Debt Problem

Standing at 39 percent, as a share of total current expenditure in 2003 – 2007, centralized items are the second largest category after wages and salaries. Table 3 gives a breakdown of the components of this category. The single largest component is that related to local debt repayments and Musharaka certificate payments – standing, on average, at 22.2 percent over the period 2003-2007 and in absolute terms at SDG1.1 billion in 2007. The sharp rise in local debt repayments as evidenced in figure 4 below is a reflection of the increasing resort by the government to finance its expenditures through Musharaka certificates and other forms of non-traditional forms of public finance including the issuance of promissory notes.

Given the high return rates on Musharaka certificates, this represents a great burden on the budget and shows that the government is increasingly financing its spending at a very high cost. Moreover, the government’s resort to non-traditional forms of public finance – including issuance of promissory notes and the accumulation of arrears in 2006 and 2007 reflects its inability to prioritize

⁸ It is to be noted that “Wages & Salaries” here do NOT include “Improvements & Privileges” which form an essential component representing 16 percent of Wages & Salaries with benefits and more than 7 percent of total federal expenditures. Yet, a functional classification of this category was not available to include in the analysis.

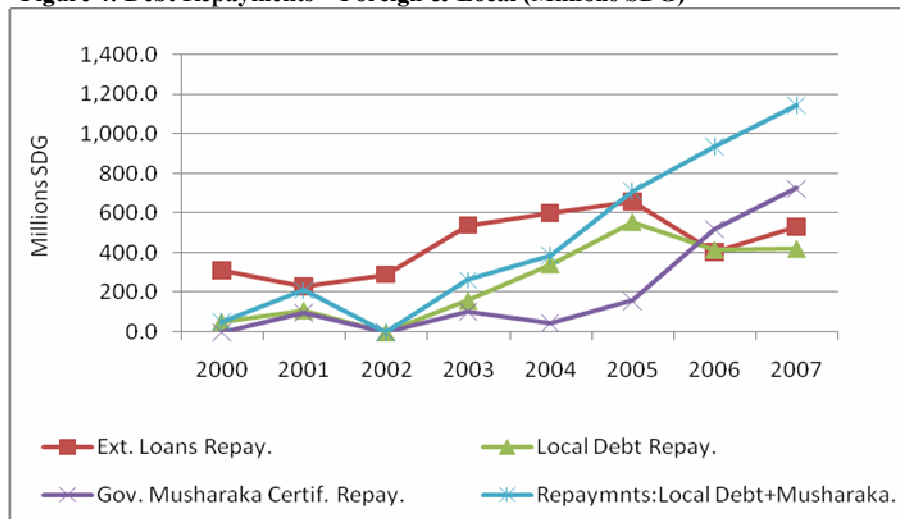
⁹ It is only recently that the fuel subsidy was explicitly shown in the budget and is not included here.

the ever expanding public expenditures inspite of the windfall revenues arising from the higher oil price. This weakness in PEM has resulted in the recent financial stress and has had dire consequences for the investment environment and the economy in general.¹⁰

Table 3: Centralized Items- classification of categories for spending

Centralized Items	General Social Subsidy
External Loans Repayment	Electricity consumption Subsidy
Local Dept Repayment	National Fund For Students Care
Government Musharaka Certificates Repayment	Civil Society Organization
Delegations and Conferences	Productive Activities Subsidy
Subscription in Regional and International Organizations	Public Health Subsidy
Custom Duties	
Government Hospitality	Public Health Subsidy
Cash Compensation For Constitutionals And Diplomats	Medical treatment abroad
Vacations' Travel Tickets	Life saving medicines
Sea Ports Corporation Fees	Hospital operations
Civil Aviation Authority Services' Fees	Emergency medical treatment
National Blights Campaign	Local medical Program
Petrol Transport Cost	

Figure 4: Debt Repayments – Foreign & Local (Millions SDG)



Source: Compiled using data from MOFNE.

Repayments for external loans is the second largest category within ‘centralized items’ standing at SDG 531 million in 2007 and representing 17 percent of spending within this category. External loan repayments currently stand at a relatively low level but are expected to rise in the future as repayments of loans contracted for the large projects currently being implemented start to fall due. While resort to external loans is well justified for financing development projects, there is a real fear regarding debt sustainability given the non-concessional nature of such loans and given that the government does not have a clear debt strategy. The limited access to loans, on concessional terms, as a result of sanctions on Sudan and the accumulation of arrears with the main international financial and development agencies has meant that the government has increasingly had to resort to non-concessional loans. *Therefore, removing the current obstacles to Sudan’s benefiting from initiatives*

¹⁰ IMF: Sudan Staff Report for the 2007 Article IV Consultation and Staff-Monitored Program. August 6, 2007

for debt forgiveness will be of paramount importance for opening the door to concessional financing and so freeing resources for poverty reduction in the medium to long terms.

II.B.2. Federal Development Expenditures

Development expenditure, at the Federal level, having started from a low base of 17 percent in 2000, reached a maximum of 28 percent of total expenditure in 2004, but fell thereafter as a share of total to represent, 24 percent in 2007 (SDG 4.9 billion). This expenditure is comprised of allocations for developments projects and development transfers to the states. The composition of development spending in terms of clearly stating transfers to the states (from 2005 onwards) – whether real or due to re-classifications within the budget - signifies progress towards a more identifiable pro-poor budget. Development transfers which contributed, on average, 19 percent of the total federal development budget over 2005-2007 (28% in 2007) will be addressed in more detail in the next section on Intergovernmental Transfers.

Table 4: Federal DEVELOPMENT Projects (in million SDG) 2000 - 2007

Item	2000	2001	2002	2003	2004	2005	2006	2007
Total Federal Development	594.0	760.2	1,411.0	1,852.6	3,103.3	3,252.1	4,479.4	4,935.2
Federal Development Projects	369.4	473.9	970.3	954.5	2,122.0	1,858.9	2,561.5	3,156.5
Agriculture, Irrigation & Livestock	129.8	115.0	113.5	388.4	895.8	939.8	1,111.6	1,629.9
Industrial Sector	66.3	97.6	140.8	111.8	181.4	73.7	323.6	112.0
Transportation, Roads & Bridges	46.7	40.4	38.2	87.6	205.4	348.0	336.2	291.1
Energy Sector (Electricity)	54.9	104.6	193.5	171.3	375.9	323.8	410.4	833.5
Social Development Sector	28.0	73.0	13.4	49.1	120.9	137.5	341.5	255.8
<i>Capac. & human develop.</i>	<i>9.3</i>	<i>13.8</i>	<i>1.3</i>	<i>15.7</i>	<i>9.9</i>	<i>6.2</i>	<i>97.1</i>	<i>108.0</i>
<i>Inform., Communic. & Culture</i>	<i>2.6</i>	<i>2.3</i>	<i>6.6</i>	<i>9.4</i>	<i>34.8</i>	<i>7.9</i>	<i>21.3</i>	<i>26.7</i>
<i>Health</i>	<i>11.3</i>	<i>17.5</i>	<i>1.0</i>	<i>1.6</i>	<i>19.9</i>	<i>26.9</i>	<i>7.6</i>	<i>24.8</i>
<i>Education</i>	<i>2.7</i>	<i>5.0</i>	<i>0.5</i>	<i>13.3</i>	<i>43.5</i>	<i>43.3</i>	<i>22.1</i>	<i>40.9</i>
<i>Social Care Projects</i>	<i>2.1</i>	<i>34.5</i>	<i>1.8</i>	<i>6.4</i>	<i>10.9</i>	<i>49.2</i>	<i>189.1</i>	<i>55.0</i>
<i>Sciences and Tech. Projects</i>	<i>0.0</i>	<i>0.0</i>	<i>2.1</i>	<i>2.7</i>	<i>2.0</i>	<i>3.9</i>	<i>4.3</i>	<i>0.4</i>
Water's Projects (loans & grants)	18.8	15.3	10.5	13.4	71.5	5.7	0.0	1.1
Peace and Settlement Programs	22.2	21.7	35.9	49.1	90.9	0.0	0.0	0.0
Develop. reserves/contingencies	2.8	6.2	3.4	5.4	6.6	27.6	1.2	30.5
Others*		0.0	0.0	6.8	173.5	2.8	36.9	2.6
On-lending & capital contrib.	152.2	192.8	256.4	778.2	893.4	1,118.9	979.0	411.5
Develop transfers-N. States	72.3	93.6	184.3	120.0	88.0	274.4	939.0	1,367.2

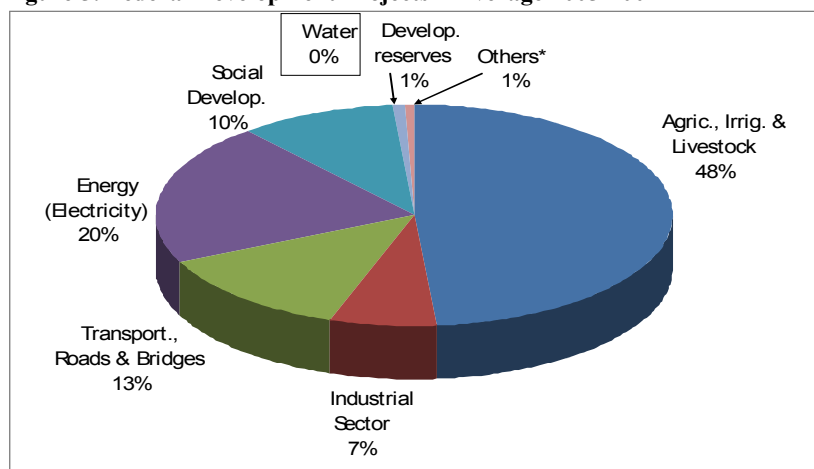
Note: * Others includes allocations for the Central House of records, civil society organizations, funding for Microfinance projects, upgrading and support for development funding agencies, development project feasibility studies.

Source: MOFNE.

The largest category, representing 64 percent of the development budget in 2007, is the financing of federal development projects. An in-depth analysis of the government's investment portfolio was not possible for the purposes of this paper so a brief exposition will be made of the general sector allocations.¹¹

¹¹ The Sudan 2006 PER report considered these in detail and their findings are reflected later in the paper.

Figure 5: Federal Development Projects – Average 2005-2007



Source: MOFNE.

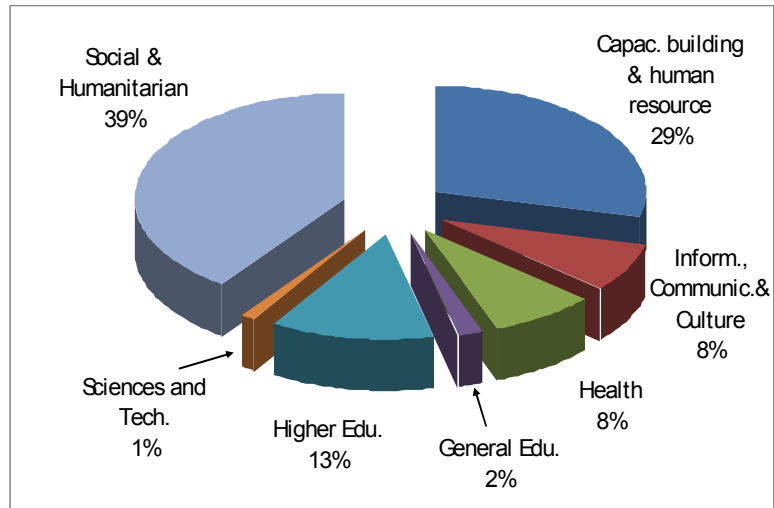
Figure 5 shows the average composition of allocation for federal development projects over the period 2005- 2007. Although fluctuations, in absolute terms, are frequent over the years, the share of allocations for each sector, more or less, remained the same with projects related to irrigation, agriculture and livestock taking the largest share at 48 percent over 2005-2007. As this is the largest sector- both in terms of production and budget allocations - and given its importance for poverty reduction, it will be dealt with in detail in section III on ‘Agriculture Expenditure’. At this juncture, it is worthwhile to note the predominance of expenditure on the Dam’s execution unit which represented 78 percent of agriculture development and 28.5 percent of total outlays for federal development projects in the period 2005-2007.

The agriculture category is followed, at a distance, by allocations for the energy sector at 21 percent of total development followed by the ‘Transportation, Roads & Bridges’ sector at 13 percent and the social sector at 10 percent.

Social Sector Projects

Given that social development is key to human development and to attaining the MDGs, it is pertinent to look at this sector in relatively more detail. Allocations for projects classified under this category are shown in table 4. A careful look or graphing shows that allocation for social development increased greatly in 2004 and then 2005 to SDG 341 million from a low of SDG 13.4 million in 2000. This would normally signify tremendous progress in the direction of allocations for faster growing human development and as such it is important to verify. To do so, we look at the composition of this sector over the period 2005-2007 – shown in Figure 6. The share of the key human development sectors - education (general at 2% and higher at 13%), science and technology (1%) and health (8%) - represented less than a quarter of social development spending in the period 2005-2007. This is understandable given that, both health and general education, are the responsibility of sub-national levels of government. They will, therefore, be considered in more detail within a national overview (federal and northern states) in section IV. However, spending on science & technology is a federal responsibility yet, in 2007, actual disbursements for this sector stood at only four hundred thousand Sudanese pounds (about \$200,000) although SDG 45.5 million was originally budgeted for the sector in that year. This indicates that the development of science & technology is not a priority. Moreover, the extremely small amounts actually disbursed are clearly not in line with the important role that improvements in science and technology can play in development, in general, and human development, in particular.

Figure 6: Social Sector Development Projects – Average 2005-2007



Source: MOFNE.

The dominant sectors within social allocations are those for ‘social and humanitarian’ projects at 40 percent and ‘capacity building’ projects at 29 percent (includes capacity building programs for the revenue unit, parliamentarians, other government units and the population census). Yet the relatively large allocations within these sectors were largely accounted for by one-time expenses such as that for the rehiring of military retirees (SDG 112 million in 2006), the national program for good governance (SDG70 million in 2006 and largely foreign finance) and the population census (SDG 70 million – 80% foreign financed in 2007).

Execution of Development Budgets

In executing budget allocations, MOFNE, has traditionally given priority to the disbursement of ‘wages & salaries’ with second priority to intergovernmental transfers (current) and third priority to ‘good & services’ and ‘development’. As such allocations for development consistently show shortfalls, albeit in varying degrees, and depending on political or other little understood priorities. The Sudan 2006 PER has identified this as a major problem noting that the sectors deemed to be poor show the largest shortfalls in actual disbursements. The report states: “Many projects slated for funding in the approved budget tend to receive little or no financing, especially in social development, water and livestock”. To verify that this shortcoming is still in effect, we reviewed the 2007 development budget and compared it to actual disbursements (see table 5). ***This shows that the over performance in financing the Merawe dam (146 percent) was not matched by any other sector and only out-performed by the category ‘reserves and contingencies’ (151 percent). Although the amounts allocated to this last category are relatively small (1 percent of development projects disbursement), it is again a sign of weak management of resources. Considering performance of spending on development projects, excluding allocations for Merawe dam, gives an overall performance in the development budget of 72 percent in 2007.***

Allocations for agriculture, health and education and water will be reviewed in sections III to V of this paper. The rest of the sectors speak for themselves from a review of table 5 (next page).

Table 5: Development Budget Performance 2007 (millions SDG)

	2007 Budget			Actual 2007			Execution 2007		
	Local	Foreign	Total	Local	Foreign	Total	Local	Foreign	Total
Federal Development Projects	2,070.0	1,338.0	3,408.0	2,017.4	1,139.1	3,156.5	97.5	85.1	92.6
Agriculture, Irrigation and Livestock	969.7	535.6	1,505.4	945.9	683.9	1,629.9	97.5	127.7	108.3
a) Ministry of Irrigation's Projects	613.2	487.6	1,100.8	779.1	682.4	1,461.5	127.1	140.0	132.8
Dams' Execution Unit (Merawe Dam)	525.0	422.6	947.6	726.5	661.7	1,388.2	138.4	156.6	146.5
b) Agriculture Projects	289.0	43.3	332.3	159.8	1.5	161.3	55.3	3.5	48.5
Ministry of Agriculture & Forestry's Projects	248.0	8.1	256.1	147.4	0.0	147.4	59.4	0.0	57.6
Rain-fed sector projects	28.0	0.0	28.0	0.0	0.0	0.0	0.0	-	0.0
Agricultural services sector projects	13.0	35.2	48.2	12.4	1.5	13.9	95.1	4.3	28.8
c) Ministry of livestock Projects	67.6	4.8	72.3	7.1	0.0	7.1	10.5	0.0	9.8
Industrial Sector	131.7	0.0	131.7	112.0	0.0	112.0	85.0	-	85.0
Transportation, Roads & Bridges Sector	389.7	156.1	545.8	195.3	95.9	291.1	50.1	61.4	53.3
Energy Sector (Electricity)	260.9	348.2	609.1	570.3	263.1	833.5	218.6	75.6	136.8
Social Development Sector	293.3	286.8	580.1	161.1	95.7	256.8	54.9	33.4	44.3
Capacity building & human resources development	19.0	164.2	183.2	16.9	0.9	17.8	88.9	0.6	9.7
Population Census	15.6	41.7	57.3	15.4	55.1	70.5	99.0	132.1	123.1
Health Sector Projects	49.5	2.0	51.5	20.6	4.1	24.8	41.7	206.5	48.1
Education Sector Projects	18.5	16.0	34.5	9.7	31.3	40.9	52.2	195.4	118.6
Higher Education Projects	18.5	16.0	34.5	9.7	31.3	40.9	52.2	195.4	118.6
General Education Projects	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social Administrative Sector Projects	54.0	7.0	61.0	26.9	4.3	31.2	49.8	61.9	51.2
Humanitarian Affairs Projects	42.0	0.0	42.0	23.8	0.0	23.8	56.7	-	56.7
Sciences and Technology Projects	15.5	30.0	45.5	0.4	0.0	0.4	2.5	0.0	0.9
General Public Services Sector	5.5	12.0	17.5	1.0	0.0	1.0	18.0	0.0	5.7
Water's National Projects	2.2	5.2	7.4	1.1	0.0	1.1	50.4	0.0	15.0
Development project feasibility studies	2.5	6.0	8.5	1.2	0.4	1.6	46.4	6.9	18.5
Development reserves/contingencies	20.0	0.0	20.0	30.5	0.0	30.5	152.6	-	152.6
On-lending and capital contribution	433.0	100.0	533.0	223.0	37.4	260.4	51.5	37.4	48.9
Federal Development(Projects) plus on-lending	2,503.0	1,438.0	3,941.0	2,391.4	1,176.5	3,568.0	95.5	81.8	90.5

Source: MOFNE, Development Directorate.

Table 6: Intergovernmental Transfers - 2000-2008 (Millions SDG)

Item	Actual								BUDGET
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total Intergovt. Transfers	296.5	343.4	513.7	618.2	930.0	3,724.8	6,551.4	7,675.7	10,497.7
Northern States Transfers	296.5	343.4	513.7	618.2	930.0	1,822.3	3,594.1	4,324.2	6,545.4
Total Northern Current Transfers	224.2	249.8	329.4	498.3	842.0	1,547.9	2,655.1	2,957.0	3,187.4
Current Earmark Transfer	0.0	0.0	0.0	0.0	0.0	501.8	527.8	723.0	836.4
Wages for (Judiciary, Police, Higher Education)	0.0	0.0	0.0	0.0	0.0	479.0	461.3	638.0	643.0
Operation for (Judiciary, Police, Higher Education)	0.0	0.0	0.0	0.0	0.0	22.8	25.1	20.6	54.4
Social Subsidy	0.0	0.0	0.0	0.0	0.0	0.0	41.4	64.4	139.0
Block Current Transfers*	224.2	249.8	329.4	498.3	842.0	1,046.2	2,127.3	2,234.0	2,351.0
Transfers to Oil Producing Northern States	0.0	0.0	0.0	0.0	0.0	6.6	49.6	46.8	61.0
Current Transfers to Northern States	224.2	249.8	329.4	498.3	842.0	1,119.6	2,077.7	2,187.2	2,290.0
Development Transfers	72.3	93.6	184.3	120.0	88.0	274.4	939.0	1,367.2	3,358.0
States Development Projects	72.3	93.6	184.3	120.0	88.0	269.7	866.5	974.0	2,383.0
of which block development transfers	72.3	93.6	184.3	120.0	88.0	165.0	433.2	595.9	300.0
Development Transfers to Nuba Mountains and Blue Nile Area	0.0	0.0	0.0	0.0	0.0	0.0	67.5	12.6	190.0
Development and Construction Transfers to Abie Area	0.0	0.0	0.0	0.0	0.0	0.4	5.0	0.0	60.0
Reconstruction Funds	0.0	0.0	0.0	0.0	0.0	4.3	0.0	49.6	725.0
Government of Southern Sudan Transfers	0.0	0.0	0.0	0.0	0.0	1,902.5	2,957.3	3,351.5	3,952.3
Government of Southern Sudan Oil Revenue Share	0.0	0.0	0.0	0.0	0.0	0.0	2,769.5	3,235.0	3,769.0
Southern Sudan Oil Producing States Share	0.0	0.0	0.0	0.0	0.0	0.0	187.8	116.5	153.8
National Revenues Collected by The GOSS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	29.5

Note: Current transfers include agricultural tax compensation, value added tax and additional excise on Benzine (2005 only).

Source: Sudan PER updated for 2006, 2007 from MOFNE Budget Directory.

Table 7: Budget - Intergovernmental Transfers (millions SDG)

ITEM	2007	2007	2007	2007	2007	2007	2007	2007	2007	2007	2008
	Revised Budget			Actual			Execution				
	Local	Foreign	Total	Local	Foreign	Total	Local	Foreign	Total %	Budget	
TRANSFERS TO SOUTH STATES			2,962			3,351.5			113		3,952
TOTAL TRANSFERS TO N. STATES			6,023			4,386			73		6,545
Current Transfers to Northern States			3,636			2,957.0			81		3,187
<i>Earmarked Current Transfers</i>			<i>751</i>			<i>723</i>			<i>96</i>		<i>836</i>
<i>Block Current Transfers</i>			<i>2,886</i>			<i>2,234</i>			<i>77</i>		<i>2,351</i>
Development Transfers			2,126.3			1,367			64		3,358
Specific Projects	751.7	254.6	1,006.3	276.8	101.4	378	37	40	38		2,083
<i>Agriculture, Irrigation, livestock</i>	<i>383.5</i>	<i>64.4</i>	<i>447.9</i>	<i>101.2</i>	<i>30.2</i>	<i>131.4</i>	<i>26.4</i>	<i>46.9</i>	<i>29.3</i>		<i>897.3</i>
<i>Industry</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>		<i>33</i>
<i>Energy</i>	<i>35.0</i>	<i>0.0</i>	<i>35.0</i>	<i>18.4</i>	<i>0.0</i>	<i>18.4</i>	<i>52.6</i>	-	<i>52.6</i>		<i>50</i>
<i>Transport, Roads & Bridges</i>	<i>7.5</i>	<i>20.0</i>	<i>27.5</i>	<i>1.4</i>	<i>18.6</i>	<i>20.0</i>	<i>18.7</i>	<i>93.0</i>	<i>72.7</i>		<i>30.18</i>
<i>Health</i>	<i>37.7</i>	<i>33.8</i>	<i>71.5</i>	<i>27.5</i>	<i>10.4</i>	<i>37.9</i>	<i>72.9</i>	<i>30.8</i>	<i>53.0</i>		<i>189.06</i>
<i>Education</i>	<i>66.8</i>	<i>33.9</i>	<i>100.7</i>	<i>13.4</i>	<i>9.1</i>	<i>22.4</i>	<i>20.1</i>	<i>26.8</i>	<i>22.2</i>		<i>207.37</i>
<i>Water</i>	<i>101.5</i>	<i>64.5</i>	<i>166.0</i>	<i>76.8</i>	<i>15.7</i>	<i>92.5</i>	<i>75.7</i>	<i>24.3</i>	<i>55.7</i>		<i>231.8</i>
<i>Administrative & Social Sector</i>	<i>119.7</i>	<i>38.0</i>	<i>157.7</i>	<i>38.1</i>	<i>17.4</i>	<i>55.5</i>	<i>31.8</i>	<i>45.8</i>	<i>35.2</i>		<i>444.29</i>
Unspecified Development Transfers	250.0	0.0	250.0	592.9	3.0	595.9	237.2	-	238.4		300

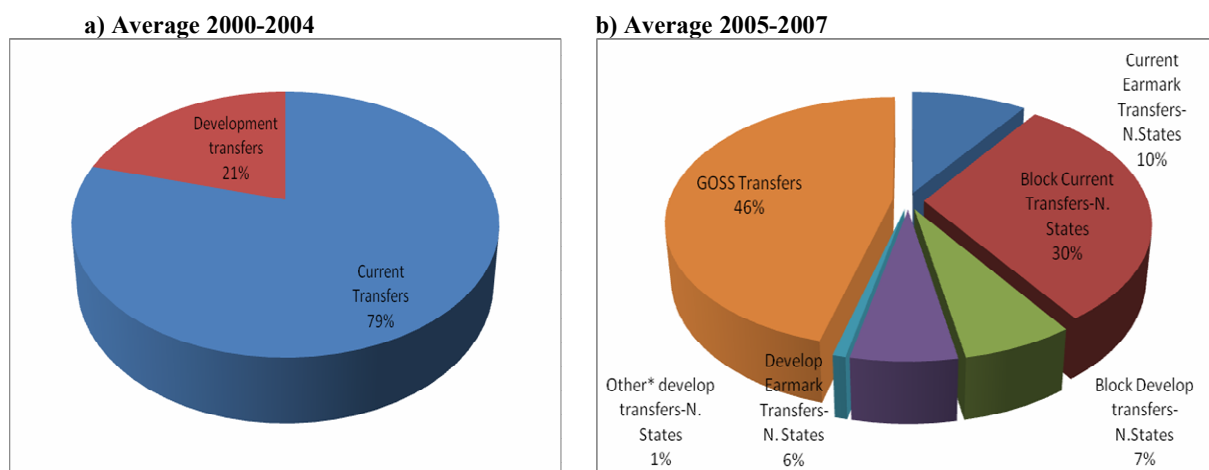
Source: MOFNE (Development transfers - Earmarked projects + unspecified).

II.B.3. Intergovernmental Transfers

Intergovernmental transfers represented almost 36 percent of total government expenditure over the period 2005-2007 and stood at 7.7 billion Sudanese pounds in 2007 (37%). These transfers include current and development transfers to Northern states (20.8 percent in 2007) and transfers to the Government of Southern Sudan (16.2 percent in 2007). The overall trend in intergovernmental transfers was addressed previously and as stated at that point, focus will only be on Northern states.

A comparison of the composition of intergovernmental transfers can be done with the help of figure 7 a & b below. This shows that in the period prior to the CPA (2000-2004), intergovernmental transfers (8.6% of total public expenditure) were composed of current (79%) and development transfers (21%) to all states of Sudan (North & South). At that time, the Southern Sudan Coordination Commission was in charge of disbursements to Southern states. Following the CPA, intergovernmental transfers rose to represent 36 percent of total government outlays and their composition changed dramatically. GOSS transfers took up 46 percent of total intergovernmental transfers in the period 2005-2007. Allocations to Northern states were divided between current (40% of total intergovernmental transfers) and development transfers (14%). In other words, financial transfers to Northern states were composed of 74 percent current transfers and 26 percent development transfers.

Figure 7: Composition of Intergovernmental Transfers



Note: *Other includes transfers to Nuba mountains, Blue Nile, Abyei and the Reconstruction Funds.

Source: Sudan PER updated for 2006, 2007 from MOFNE Budget Directory.

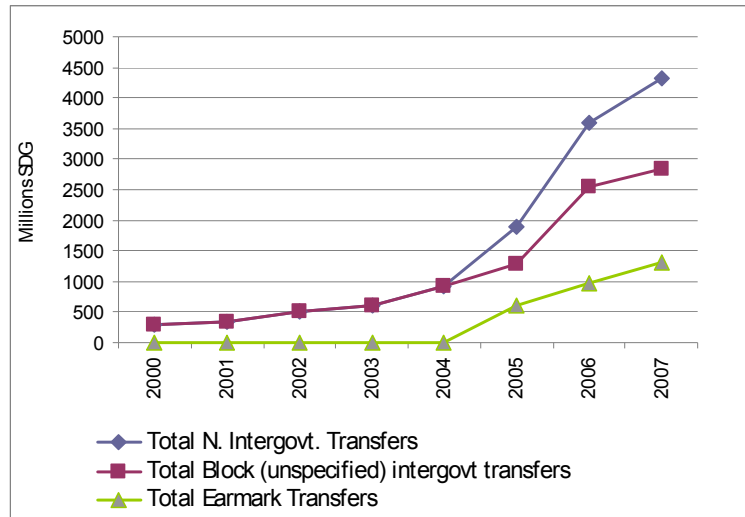
Current transfers, represent those transfers that had been channeled through the former State Support Fund (NSSF) – these are what are referred to as block transfers in the period after 2005 and include VAT transfers and agriculture compensation. The remaining earmarked transfers (after 2005) are the result of transfer of responsibility to the states for police, judiciary and higher education. They actually represent current expenses (incl. wages and salaries) for these sectors as well as some social subsidies (see table 6).

On the other hand, development transfers to Northern states, in the period prior to 2005, were unspecified or, more correctly, not earmarked for a specific purpose. After 2005, they include those same unspecified development transfers (7%) plus those earmarked for specific projects implemented at the state level (i.e. previously in the federal budget for development projects and now averaging 6% of intergovernmental transfers over 2005-2007).

In order to try to differentiate between the actual increase in intergovernmental transfers to Northern States and those increases due to reclassifications within the budget, all block transfers (current and

development) are compared with earmarked transfers (current plus development). The trend in all three categories of total, block and earmark transfers is shown in the graph below (Figure 7 c). This shows that transfers to Northern states actually began to rise significantly in 2004 (average annual growth of 91 percent in 2004-2007 compared to 27 percent in 2000-2003) solely driven, at that stage, by block transfers handled by the State Support Fund. As stated previously, earmarked transfers actually represent reclassifications within the budget so that the actual increase in funds going to the states is that represented by block transfers (current and development). These block transfers rose at a slower pace, with growth averaging 51 percent per annum in 2004-2007 (compared to 91 percent for northern states total transfers).

Figure 7 c: Transfers to Northern States- 2000-2007 in Millions SDG



Source: Sudan PER updated for 2006, 2007 from MOFNE Budget Directory.

For the most part, transfers feed into poverty reduction and *if distributed equitably* work towards reducing inequalities between the various parts of the country. However, the purpose of the differentiation, between block and earmarked transfers, is an attempt to identify the areas which should be targeted for improvements in PEM, i.e. the specific purpose of this paper. ***Earmarked transfers can be evaluated and monitored more easily than block (unspecified) transfers and should be targeted, in the short term, for PEM reforms and increases. Given the constraint that the states face in capacities to implement development transfers (resource and human constraints), responsibility for such transfers should be gradually delegated to the sub-national level as capacities there improve.*** This could work towards faster poverty reduction while capacities in the states are improved in the medium to long term. Although this might be perceived as a step back on the commitment to fiscal decentralization, the fact remains that currently the necessary infrastructure in terms of financial management and accountability) for implementing a full fiscal decentralization does not exist in the states.

However, the management of intergovernmental transfers, at the federal level, also leaves a lot to be desired. An assessment of the quality of projects financed by development transfers will need to undergo a cost benefit analysis which is beyond the scope of this paper. However, it is amply clear that these projects are either old ones that keep recurring for allocations or are not priority areas for the states.¹² Therefore, ***a first step for more efficient allocations would be to re-evaluate in a participative manner, all development transfers.*** A second step would be to improve execution of budgeted transfers. The Sudan 2006 PER report states: ***“Thus while the GNU has increased its budget commitments to pro-poor spending via fiscal decentralization, execution in aggregate terms***

¹² States’ Minister of Finance who participated in the PEM workshop organized by Unicons & UNDP in Khartoum on 18th June, 2008.

was low for 2006 and the timing of releases erratic. This has a devastating effect for state budgets which rely on central transfers for a significant share of revenues". While this was the assessment based on data for 2005 and 2006, we will seek to find improvements in budget performance for intergovernmental transfers by reviewing the budgeted and actual disbursements in 2007 - see table 7. Development transfers for specific projects implemented at the state level in 2007 showed a mere 38 percent execution performance with those suffering the most from shortfalls in funding being in education agriculture and the social sector. ***Thus and as a major step towards improved management of resources for poverty reduction and equitable growth, deviations of actual disbursements from budgeted must be improved, at the federal level, while financial management capacities in the states are built.***

III. Trends & Patterns in Agriculture National Government Expenditure

Although empirical studies of poverty are lacking or dated in Sudan, it is known that the majority of the poor are to be found in the agricultural sector. Both Sudan's Interim PRSP document and the JAM document placed agriculture at the top of the agenda for post conflict development and poverty reduction. The sector, however, is dominated by low and variable productivity that can be attributed to many factors, most important among them, are the poorly formulated policy measures that extend through all types of production. Reformed agricultural policies aimed at a faster growing agricultural sector would generate incomes for poor farmers and would increase the demand for goods and services generally produced by the poor.

The Government seems to be aware of that as seen in the Five Years Strategic Plan (2007-2011) which encompasses the Nafra (Agricultural Transformation) ambitions. The program of action that was formulated to translate these ambitions into action has now been running since 2007. It is out of the scope of this paper to analyze agricultural policies but we will attempt to assess the prioritization given to this important sector in the government's spending patterns and performance in 2007 (the first year of the "Agricultural Transformation Program"). At this juncture, however, we would like to emphasize that, structural reforms in this sector must run hand in hand with increased government spending in order to get the desired impact on growth and poverty. Moreover, attracting private investment into this sector is a desired and necessary means to achieve our objectives but it is necessary to lay the foundations of physical and human capital for such investment to be successful. This is a major role of the government that will also need to be seen in increased share of the relevant categories within the agriculture budget.

In considering public expenditure in agriculture, reference is made to total spending in irrigation, agriculture and livestock – all of which are necessary components of a comprehensive analysis of the agricultural sector in Sudan. As seen in table 8 below, spending on federal 'agriculture development projects' is the largest component (66%) in the national (federal and northern states) budget for agriculture and so will be the starting point of the analysis.

Table 8: AGRICULTURE National* Expenditure - Irrigation, Agriculture & Livestock (Millions SDG)

Item	2000	2001	2002	2003	2004	2005	2006	2007
Total Nation* Agric Exp	227	206	214	493	1,072	1,223	1,686	
National* Agric Current	92	89	96	97	159	165	238	
National* Agric Develop	135	117	118	395	913	1,059	1,448	
Fed Current Irrig, Agric, Livestock	40	40	34	35	49	29	70	78
Federal Current-Irrig	19	20	25	25	37	21	46	51
Federal Current-Agric & Livestock	21	20	9	10	12	8	24	27
Fed Develop-Agric, Irrig & livestock	130	115	114	388	896	940	1,112	1,630
Fed Irrigation Develop	68	84	84	326	785	834	890	1,462
Dams' Exec Unit (Merowe)	1	17	34	221	687	694	793	1,388
Federal Agric & Livestock Develop	62	31	29	63	110	106	222	168
Transfers-Irrig, Agric & Livestock	0	0	0	0	0	90	202	131
N. State Agric & Livestock	57	51	66	69	127	165	302	
N. States-Current Agric	52	49	62	62	110	136	168	
N. States-Dev Agric	5	2	5	7	17	29	134	

Note: National* refers to federal and northern state expenditures. Source: Sudan PER Report with Updates from MOFNE.

III.A.1 Federal Agriculture Development

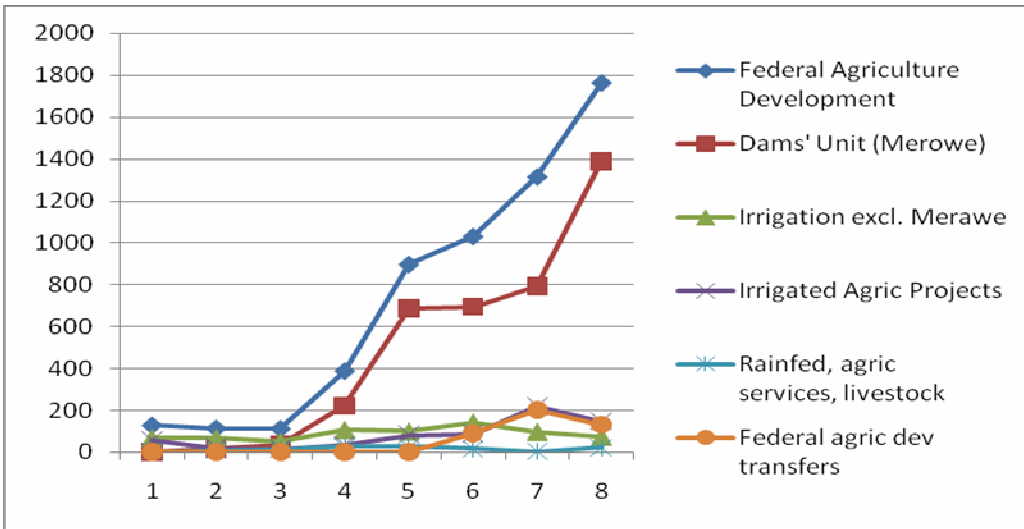
As seen in the section above on Federal Development Projects, the largest spending is in agriculture (irrigation, agriculture and livestock) – representing an average of 47 percent of total federal development over the period 2004-2007. A closer look at the composition of this spending will now be undertaken with the purpose of identifying the various components as they relate to poverty reduction. The analysis will be done for the two periods 2000-2003 and 2004-2007 to signify the rising development expenditures in this sector and the changing budget structure given the increasing intergovernmental transfers.

Federal development spending on agriculture showed a dramatic increase of 121 percent in 2003 and continued to rise from that point onwards to stand at 1.6 billion Sudanese pounds in 2007 and budgeted for 1.7 billion SDG in 2008. These are very large amounts when compared to the allocation of 130 million SDG in 2000 and would indeed signify great progress towards public spending in agriculture as the main sector to be targeted for a more equitable economic growth and poverty reduction. BUT is this spending sustainable?? And if so and (with the provisos given in the beginning of the section), is this spending directly impacting the poor?

To attempt to answer these questions, we take a closer look at the trends in this large rise in agriculture development spending – see figure 8(a) below. The figure clearly shows that this spending was driven to the larger extent by spending on Merawe dam. This is also evidenced in a comparison of agriculture development spending with and without Merawe dam. Federal agriculture spending grew at an average annual growth of 114 percent in 2000-2007, however, when spending on Merawe dam is excluded, this category of spending showed a growth of only 11 percent per annum. **Total spending on Merawe dam from 2000 to end 2007 stood at about 3.8 billion Sudanese pounds (72 percent of total agriculture development spending during that period) with an additional 1.1 billion budgeted for 2008.** There is no doubt that in the long run, this spending should benefit the country as a whole including the poor - in terms of providing the infrastructure for large irrigated agricultural land and possibly many other pro-poor categories to be found in the justifications provided by the government for such large spending. However, the two questions raised above

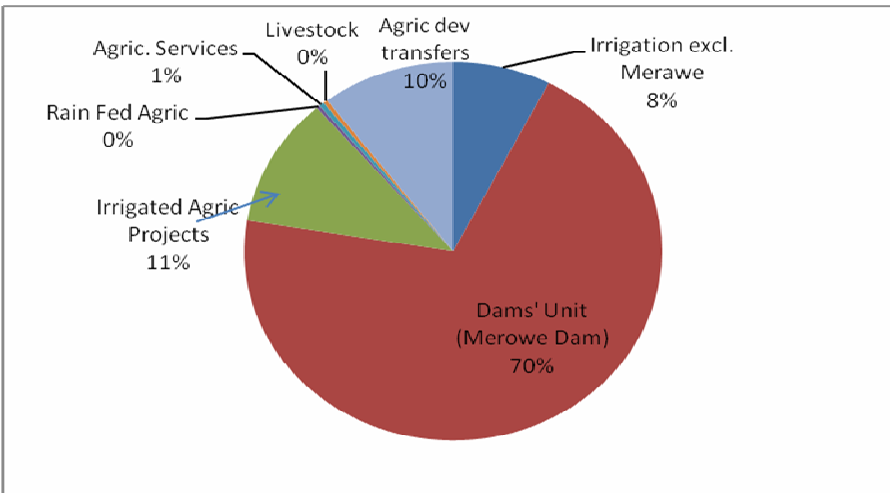
remain. A Benefit Incidence analysis would answer the second question regarding impact on the poor and the efficacy of such spending.

Figure 8(a): Federal AGRICULTURE DEVELOPMENT (in millions SDG) 2000 - 2007



Source: Sudan PER Report with Updates from MOFNE.

Figure 8(b): Average Composition of Federal Agriculture Development in 2005-2007



Source: Sudan PER Report with Updates from MOFNE.

In terms of sustainability, i.e can the government continue such high spending on the agricultural sector or will it drop to amounts allocated to such spending without Merawe dam. It is our view that it is not sustainable. Such large spending has only been made possible by incurring increasing external debt parts of which are on non-concessional terms (high interest rates and short repayment schedule) rendering the real cost of such development much higher than actually given by the numbers above. Financing for the Roseiries dam heightening is only now being looked into and is expected to take up a substantial share of irrigation expenditure in the future but nowhere near the amounts currently being spent on the Dam Execution unit (more exact projection can be found). Barring that, new investments in large irrigated agriculture, will need to be increasingly taken up by the private sector (national, regional or international) to free resources for much needed public spending in the sectors of agriculture directly impacting the poor. These have been identified in the country's Interim PRSP as being rain-fed traditional agriculture, agricultural services, livestock and rural roads.

Figure 8(b) above on Federal agriculture development spending clearly shows that the sectors deemed as being pro-poor by Sudan's IPRSP have not been receiving priority in allocations. The share of the three sectors combined in agricultural projects (the rain-fed sector, agricultural services and livestock) was an average of only 1.5 percent over the period 2005-2007. While this does not signify any progress, the true picture of spending in these sectors is improved when two other factors are taken into consideration. These being:

(1) absolute allocations showed a minimal increase from a very low SDG 4 million SDG in 2000 to SDG 21 million in 2007.

(2) the monetary allocations refer only to federal development projects yet it is known that rain fed agriculture and livestock are mostly implemented at the state level, therefore an inclusion of development transfers (from 2005 onwards) earmarked for the agriculture sector in the states is warranted.

With the inclusion of development transfers, total federal involvement in the 3 sub-sectors deemed pro-poor in the country's IPRSP shows an average annual growth of 117 percent over the period 2004-2007 so that their share in the federal agriculture development budget rose from 5 percent in 2000-2004 to 11 percent in 2005-2007. ***This shows progress although absolute allocations are still very small standing at SDG 152 million in 2007 (86 % of this was devoted to development transfers to the states) and much lower than the amounts budgeted in that year. In 2007, budgeted amounts for projects in the three sectors totaled SDG596.4 million but execution (actual disbursements) was only 25.5 percent.***

III.A.2 Execution of 2007 Federal Development Budget for Agriculture

The year 2007 should have been a significant year for agricultural development in Sudan as it marks the first year of implementation of 'Al Nafra' or 'Agricultural Revolution'. Table 5 above (Development Budget Performance 2007), gives execution for the agriculture development budget at the federal level. This shows an impressive execution of 108 percent for the agricultural sector with execution of financing for the Dam Execution unit over-performing at 146.5 percent (both local and foreign components over-performed). ***In fact, the table shows that funding for Merawe dam is the only performing sector within the federal agriculture budget.*** This part of the budget was removed to get a clearer picture of development funding as shown in the lower part of the table. In this case, ***execution of the total development budget falls from 92.6 to 72 percent with that allocated to the agricultural sector dropping from 108 to a mere 43 percent.***

The large under performance of the agriculture budget (43% in 2007), at a time when the government is advocating an agricultural revolution, seriously jeopardizes the credibility of the government and its budget. Under-performance is below 50 percent in all sectors and very much below that in the sectors deemed to impact the poor the most, i.e. rain-fed agriculture (0%), agricultural services (29%), livestock (9.8%). Moreover execution of development state transfers for agriculture, livestock and irrigation stood at only 29 percent as budgeted amounts were SDG 447.9 million while actual disbursements were SDG 131 million.

The underperformance in executing the budget for agriculture (Non-Merawe) is not a one year phenomenon as the Sudan PER revealed that the credibility of the budget in all years under consideration (2000-2007) was lacking. The budget is an economic as well as political instrument and as such its credibility is of the utmost importance. Moreover, it has been shown that the underperformance is largest in those sectors affecting the poor the most so improvements in budget credibility must take precedence if any progress is to be made in meaningful reduction in poverty or attaining the Millennium Development Goals.

IV. Education and Health Expenditures

Education and health are the main pillars of development and as such are targeted by all countries seeking the betterment of their people. The importance of these two indicators of human development is also reflected in the fact that all of the MDGs relate, in one way or another to them, while six out of the eight are directly related. Our focus in the sections to follow on expenditures on education and health reflects the growing concern as to the low levels of human development in Sudan inspite of the high rates of growth the economy has been witnessing. As frequently stated, the UNDP Human Development Index (2006) ranks Sudan at 141 out of 177 countries.

The low level of human development is further aggravated by great regional disparities in achievement. Results from the Sudan Household Health Survey (SHHS) conducted in 2006 reveal that all the key indicators in health and education showed inequalities with respect to gender, rural-urban residence, and at the regional and sub-regional level. For example, the Reproductive Health Poverty Index, a composite of 12 indicators, showed that the bottom-ranking states (West and South Darfur) in the Northern part of the country scored less than half of El Gezira and Khartoum.

Net primary school attendance in the North ranges from above 80 percent in River Nile and Khartoum States, to below half in Kassala, Blue Nile, Southern Kordofan and West Darfur. Average enrolment rate in the South of Sudan showed even lower performance standing at only 13 percent according to the preliminary estimates from the SHHS. In fact, Preliminary findings confirm that the major challenge facing Sudan's progress towards the MDGs is the massive inequalities in outcomes and access to services.

IV.A. Education - Consolidated Expenditure

An attempt has been made here to look at overall trends and patterns in public education expenditures at the federal level before moving on to get a bird's eye view of total consolidated expenditures (Federal and Northern States) on this important sector for human development. Given that general education, i.e. primary and secondary, is the responsibility of sub-national levels of government, a correct assessment of this sector's expenditures is incomplete without the consolidated data although this is problematic for the reasons stated in an earlier section of the paper.

IV.A.i. Federal Education Expenditure.

Education expenditure, at the federal level, rose significantly over the period 2000-2004 with an average growth of 42 percent and driven mostly by the government's intense policy for expanding higher education known as "The Higher Education Revolution" (see table 9 and Fig 11). Education expenditure continued its growth after 2005, albeit at the slower pace, averaging 23 percent per annum. Although the figure shows a decline in 2005 that is misleading as a closer look reveals that it is merely due to a reclassification of University wages and salaries to state specified (earmarked) current transfers as a result of devolution (in theory) of that responsibility to the sub-national level. However, we could not capture this transfer as it relates to higher education because a functional classification (police, judiciary and higher education) of specified current transfers to the states was not available.

Nevertheless the total federal budget for education remained at a low of 3.7 percent of total federal expenditure over the period 2003-2007 – rising in absolute terms from 144 million in 2000 to 488 million in 2007. As mentioned above, this was mostly accounted for by expenditure in tertiary education which represented, on average, 89 percent of the Federal government's education budget during that period. Yet, even this is low with all public universities being starved of funds and highly criticized for the low quality of education they provide. The statement that an analysis of government sectoral expenditures should include an assessment of the efficiency of such spending cannot be more

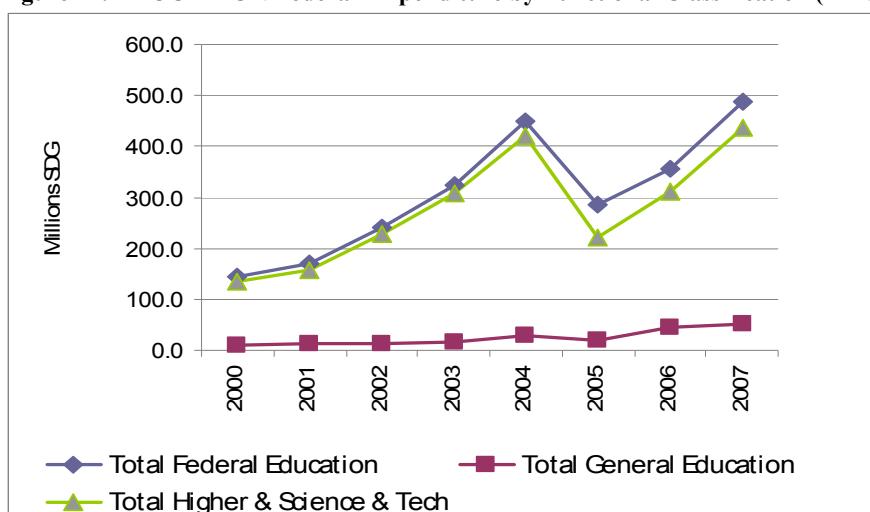
applicable than in the case of tertiary education in Sudan. It is amply clear that the sector is in dire need of extensive reforms to ensure efficiency and equity of spending in this area.

Table 9: EDUCATION Federal Expenditure by Economic & Functional Classification (in million SDG) 2000 - 2007

ITEM	2000	2001	2002	2003	2004	2005	2006	2007
Total Fed. Educ Exp.	143.8	170.5	240.9	324.9	449.5	285.9	357.6	487.7
Current Edu. Exp.	135.3	150.1	225.0	277.3	343.7	175.4	265.6	324.6
<i>General Education</i>	10.1	12.1	13.9	15.9	23.7	14.8	26.5	30.6
<i>Higher Edu., Scientific Research & Tech.</i>	125.2	138.0	211.1	261.4	319.9	115.5	239.1	294.0
Wages % Salaries	84.2	107.8	175.4	218.7	261.7	108.5	181.2	235.6
<i>General Education</i>	2.2	4.4	5.4	6.0	6.5	4.0	10.8	14.0
<i>Higher Edu., Scientific Research & Tech.</i>	82.0	103.4	170.0	212.7	255.2	59.4	170.4	221.5
Goods & Services	51.1	42.3	49.6	58.6	82.0	66.9	84.4	89.0
<i>General Education</i>	7.8	7.7	8.5	9.8	17.2	10.8	15.7	16.6
<i>Higher Edu., Scientific Research & Tech.</i>	43.2	34.6	41.1	48.7	64.8	56.1	68.7	72.4
Federal Development Projects	2.7	5.0	0.5	13.3	43.5	43.3	22.1	40.9
<i>General Education</i>	0.0	0.0	0.0	0.0	4.8	5.8	8.3	0.0
<i>Higher Education</i>	2.7	5.0	0.5	13.3	38.7	37.5	13.8	40.9
Sciences and Tech. Projects	0.0	0.0	2.1	2.7	2.0	3.9	4.3	0.4
Transfers - develop. General Edu.	0.0	0.0	0.0	0.0	0.0	0.2	10.2	22.2
National Fund For Students Care	5.8	15.4	13.2	31.5	60.3	63.1	55.4	99.6

Source: Compiled using data from “Sudan PER Report” with Updates from MOFNE.

Figure 11: EDUCATION Federal Expenditure by Functional Classification (Mn SDG) 2000 – 2007



Source: Compiled using data from “Sudan PER Report” with Updates from MOFNE.

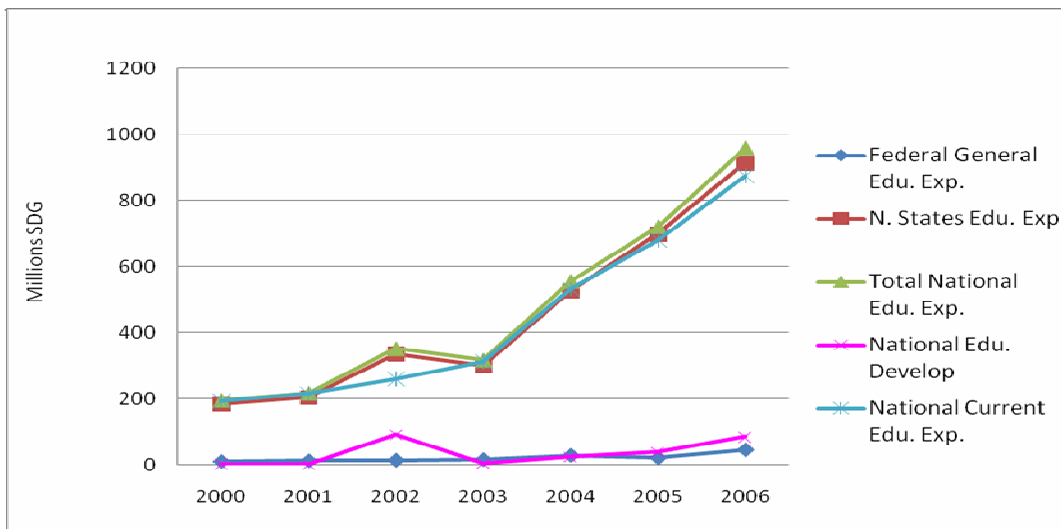
It is to be noted that there has been a large increase in private universities in the period under consideration with those generally believed to provide better quality education. This raises the important questions as to whether the *“Higher Education Revolution”* has in fact increased

inequalities with the poor being confined to low standards of education and the extent to which this phenomenon has contributed to the increasing numbers of unemployed graduates. Nevertheless, these private universities have been concentrated in the state of Khartoum. As such any considerations for the efficacy of public spending on tertiary education and for geographical equity purposes, must necessarily take these developments into account.

IV.A.ii. Consolidated Expenditure on General Education

Overall national (Federal plus Northern states) expenditure on education (general) increased more rapidly from 2004 onwards (average growth of 24 percent compared to 15 percent in 2000-2003) partly reflecting the higher intergovernmental transfers during that period as compared to previous years - Figure 12 (a). The rise in government expenditure in education is also reflected in the per capita expenditure levels (table 10) which more than doubled from an average of 8.2 million SDG over the period 2000-2003 to SDG 21 million over the period 2004-2006 (the increase in per capita education expenditure would probably be slightly higher given that expenditures in Southern Sudan were not included whereas population figures included that part of the country). Nevertheless, as a percentage of total public expenditures, the shares showed minimal improvement – from 4.7 percent in 2004 to 5.1 percent in 2006.

Figure 12 (a): Total National* General Education Expenditure by Function and Level of Government In Millions SDG (2000-2006)



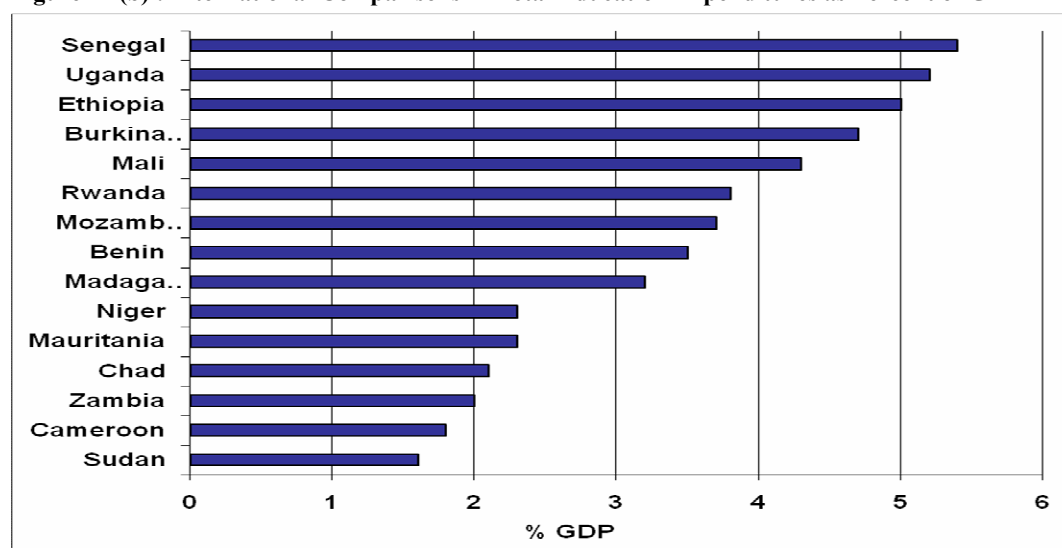
Source: Compiled using data from “Sudan PER Report” with Updates from MOFNE.

Expenditures on education are still far lower than international figures for developing countries, in general, and for PRSP implementing countries and/or those benefiting from the HIPC initiative. To allow for international comparisons, spending on higher education is included to obtain total education spending. In 2006, spending on total education (including university education) stood at 1.6 percent of GDP and 7.7 percent of total national public expenditure. This put Sudan’s spending on education at the lower bottom of any comparisons with the aforementioned countries (see figure 12 (b)).

National development expenditures on ‘general’ education rose significantly after 2004 with average growth of 80 percent and its share in the nation’s budget for general education also showed progress from less than 1 percent in 2003 to almost 9 percent in 2006. Yet, having started from a very low base of less than SDG 4 million in 2003 it remained at a low of SDG 90 million in 2006. Current expenditures, on the other hand, continued to take up the major share of expenditures in general

education at the national level. This is to be expected given that general education is a sub-national responsibility where current expenditures (mostly wages & salaries) over-ride.

Figure 12 (b) : International Comparisons in Total Education Expenditures as Percent of GDP



Source: World Development Indicators 2007

Table 10: GENERAL EDUCATION Consolidated Expenditure (Millions SDG)

ITEM	2000	2001	2002	2003	2004	2005	2006
Fed. General Edu. Exp.	10.1	12.1	13.9	15.9	28.6	20.9	45.0
States Education Exp.	184.4	204.1	336.2	300.0	526.4	698.9	913.7
Total National* Edu. Exp.	194.5	216.1	350.1	315.9	555.0	719.7	958.7
Total Edu. Develop.	2.14	1.97	90.05	3.50	23.85	39.25	83.67
Federal Develop. on Edu.	0.00	0.00	0.00	0.00	4.83	6.03	18.54
State Develop. on Edu.	2.14	1.97	90.05	3.50	19.03	33.22	65.13
Total Current Edu. Exp.	192.3	214.2	260.0	312.4	531.1	680.5	875.0
% Development	1.1	0.9	25.7	1.1	4.3	5.5	8.7
% Current	98.9	99.1	74.3	98.9	95.7	94.5	91.3
% Federal	5.2	5.6	4.0	5.0	5.1	2.9	4.7
% of Public National* Exp.	4.8	4.4	5.8	3.8	4.4	5.1	5.8
% of GDP	0.7	0.6	0.9	0.7	1.0	1.1	1.2
Per Capita Expenditure	6.3	6.8	10.7	9.4	16.1	20.3	26.4

Notes: National* is without Southern Sudan after 2005.

Source: Compiled using data from "Sudan PER Report" with Updates from MOFNE.

The consolidated data confirms that general education is the responsibility of the states as federal expenditure accounted for about 5 percent of total expenditure over the entire period 2000 – 2006.

The Federal budget show investments in General Education started only after 2004 through both federal projects as well as specific earmarked transfers to the states, however, they remained weak throughout the period. The two categories of expenditure must be combined to get the true federal development expenditures because in 2005, MOFNE started to categorize projects implemented at the state level as earmarked state development transfers.

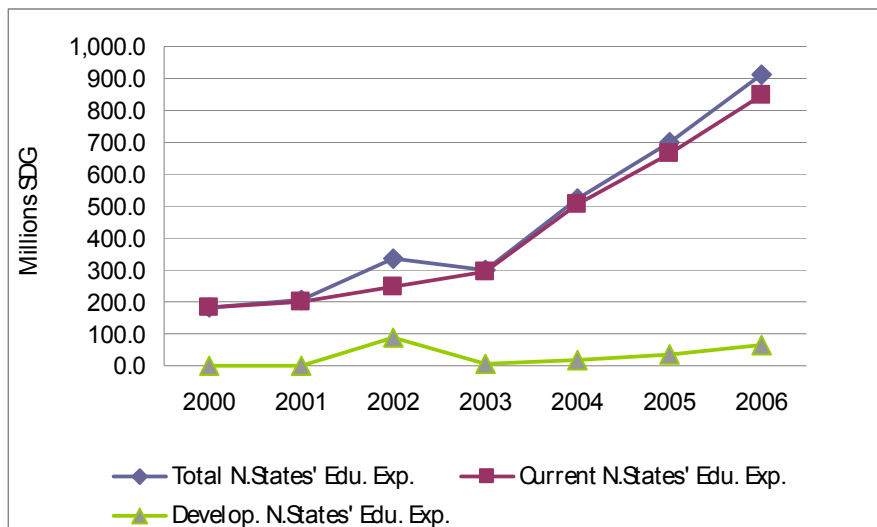
Federal commitment, over 2004-2006, in terms of investments in this sector rose from a low of less than 5 million SDG in 2004 to 18.5 millions of Sudanese pounds in 2006 and representing on average

only 0.3 percent of total federal development over that period. *Yet even these small federal investments represented 20 percent of total national investments in education over the period 2004-2006. This is a clear indication of a combination of two factors: (a) the states' inability to finance such investments in light of their meager resources and (b) the low priority given to education in the states' budgets.* The government seems to recognize the need to increase investments on education through its development transfers to the states yet it has failed to translate this into action. This can be deduced from the budgeted and actually executed expenditures. Expenditure data, at the federal level are available for 2007 and budgeted 2008. *In 2007, actual development transfers for education increased slightly to 22.4 million SDG although the budgeted amount was 100.7 million SDG – representing an execution rate of only 22 percent.* In 2008, these budgeted amounts have been more than doubled to SDG 207 million BUT unless execution of the budget is drastically improved, substantial increases that are greatly needed in education investments will still be far from requirements.

IV.A. iii Education Expenditure at the State Level:

As can be deduced from the above considerations, states provided about 95 percent of total Northern governments' education expenditures over the entire period 2000-2006. *State level spending on education increased sharply from SDG 300 million in 2003 to SDG 914 million in 2006. Yet, its share in states' total public expenditure showed very small improvements – staying in the range of 22 percent over 2000-2006.* Figure 13 shows that the increased expenditure that accompanied the rise in intergovernmental transfers was largely absorbed by the increase in current expenditure which continued, in 2004-2006, to take up more than 90 percent of total state level spending on this sector.

Figure 13: Northern States' Education Expenditure by Economic Classification (Mn SDG)-2000-2006



Source: Compiled using data from "Sudan PER Report" with Updates from MOFNE.

However, the share of the education sector in states' development budgets showed small improvement from 1 percent in 2003 to almost 5 percent in 2006. So while the former finding can be attributed to the states' meager resources and the priority that is accorded to covering of wages and salaries, the second finding indicates that although there has been an improvement in development allocations for education, at the state level, the education sector is not accorded priority in states' development budgets. Our calculations current expenditures, in general, take up more than 70 percent of state budgets with wages and salaries accounting for a major part of that category (about 60 percent). As such, it can be fairly safely deduced that the larger part of the increase in expenditures on education was translated to an increase in wages and salaries rather than any other form of current spending - be it rehabilitation of existing schools, text books or new investments. Only a more in-depth study could

determine whether the increase in wages and salaries is a result of more teachers being recruited (a lower ratio of students per teacher) but it clearly explains the poor state of schools and the increasing dependence on local communities/parents¹³ for the upkeep of public schools in a most parts of the country. All in all, the total amount allocated by the states to general education is still very small – being less than a billion Sudanese pounds (914 mill SDG) in 2006. An in depth study would be needed to determine the needed amounts to be allocated to the sector in order to reach the desired outcomes most related to poverty reduction, e.g. the primary education completion rate, gender disparities in basic education and adult literacy rate. This will need to be done at the state level in order to address the geographical disparities in educational attainments alluded to earlier.

IV. B Health – Consolidated Expenditure

Table 11: National* HEALTH Expenditure - Federal Government plus Northern States 2000 - 2006 (Millions SDG)

ITEM	2000	2001	2002	2003	2004	2005	2006
Federal* Government Exp.	3,297.4	3,935.6	4,852.2	6,862.7	10,195.4	10,907.2	12,193.5
Federal Current Health	33.3	46.9	55.0	77.3	125.6	103.3	187.1
Fed. Develop. Health Projects	11.3	17.5	1.0	1.6	19.9	26.9	7.6
Fed. Develop Transfers	0.0	0.0	0.0	0.0	0.0	0.1	17.1
Public Health Subsidy	18.8	18.2	23.7	25.7	40.2	60.4	77.8
Total Federal Exp. - Health	63.3	82.6	79.7	104.5	185.7	190.7	289.5
Total States' Public Exp.	732.7	934.0	1,235.5	1,511.5	2,445.3	3,110.0	4,229.9
States' Current Exp. - Health	159.0	233.1	299.5	365.6	553.5	761.7	856.0
States' Develop. Exp.- Health	3.8	3.0	6.6	9.7	14.6	73.3	72.4
Total States' Exp. - Health	162.9	236.2	306.1	375.3	568.2	835.1	928.4
Tot. Nation.* Exp. - Health	226.2	318.8	385.8	479.9	753.9	1,025.8	1,217.9
% Public Expenditure	5.6	6.5	6.3	5.7	6.0	7.3	7.4
% GDP	0.8	0.9	1.0	1.0	1.3	1.5	1.5
Per Capita Public Exp.-Health	727.3	999.3	1,179.7	1,428.1	2,185.1	2,897.7	3,355.2

Notes: *Federal* Government expenditure is total Current Federal Expenditure + Federal Development Expenditure minus Development transfers to States (2005, 2006).

National* is without Southern Sudan after 2005.

Public Health Subsidy includes Medical treatment abroad; Life saving medicines; Hospital operations; Emergency medical treatment; Local medical Program.

Source: Compiled from “2006 Sudan PER”; MOFNE; State Data from Unicons compiled data on Northern State budgets.

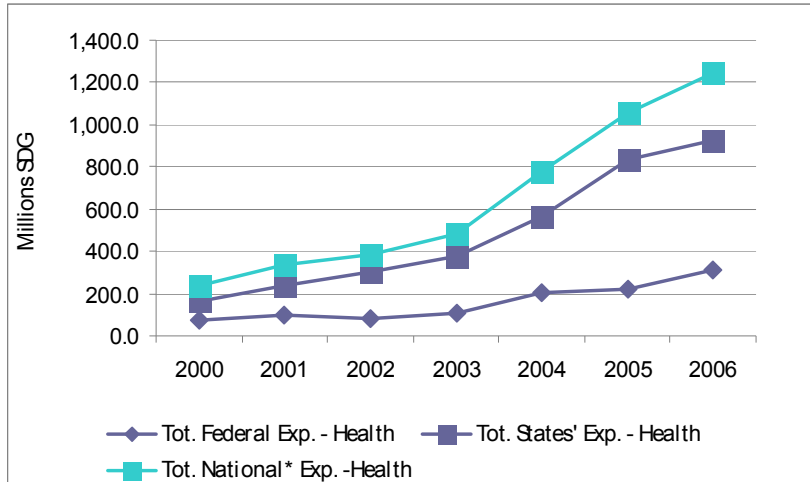
Health Expenditure followed the same patterns as those of education – rising rapidly after 2004 with average growth of 60 percent but remained low by international standards standing at 1.2 billion Sudanese pounds in 2006 and representing 1.5 percent of GDP and 7.4 of total public expenditures in that year. Comparisons with countries in similar levels of development or those in the process of implementing their poverty reduction strategies, shows that again Sudan stands at the bottom end. Neighboring Uganda spends 2 percent of its GDP and 10 percent of total public expenditure on health whereas Ethiopia’s spending on health is even higher as a percent of GDP (3%)and public expenditure (11%) and Burkina Faso stands at 4percent of GDP and 18 percent of public expenditure.

Consistent with the responsibility of the states for the delivery of basic health services, *state expenditures accounted for 78 percent of total public health expenditure over the period 2004-2006*- indicating that the federal government share is greater in health than in education where it

¹³ UNDP report (2004) on Sudan MDG’s puts the share of informal contributions from communities in total education expenditure at 53.4%

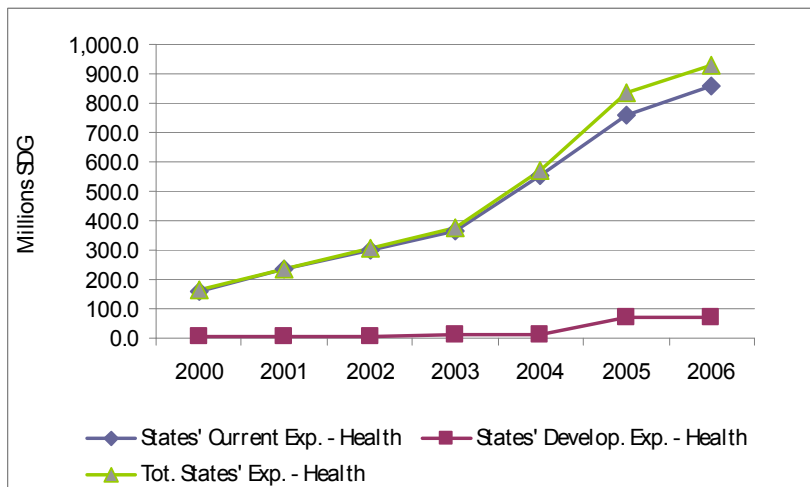
contributed a mere 5 percent to that sector. But this is probably due to the fact that for health, data was not available to differentiate between expenditure in primary health care and other expenditures whereas in education this was possible.

Figure 14 (a). Trends in National Expenditure on Health (Federal & Northern States)- 2000-2006 in Million SDG



Source: Compiled from “2006 Sudan PER”; MOFNE; State Data from Unicons compiled data on Northern State budgets.

Figure 14 (b). Trends in Northern States Expenditure on Health by Economic Classification- 2000-2006 in Million SDG



Source: Compiled from “2006 Sudan PER”; MOFNE; State Data from Unicons compiled data on Northern State budgets.

As in education, current expenditures took up more than 90 percent of these meager resources with development needed for the improvement of health facilities and services being still very low. This is easily explained by the fact that the rise in health expenditures, at the national level, was driven mostly by state expenditures and within states, current expenditures rose at a faster rate than development. Again *reflecting the expectation that the rise in intergovernmental transfers is being translated into current expenditure rather than development*. In fact, the share of health in total investments, at the state level, remained below 10 percent. *At the Federal level, investments representing 31 percent of total national development spending in health in 2004-2006* rose to a maximum of SDG 63 million in 2007. The small amounts contributed by the federal government were

significantly contributed (60%) by earmarked development transfers although these were only half executed in terms of financing (as were the federal health projects).

V. The Delivery of Water - Consolidated Expenditure

The provision of safe and adequate water supplies poses a substantial challenge for the country as a whole. Recent surveys (MICS 2000) indicate that only 59% of the urban population and 47% of the rural population have access to safe water supply at levels well below the accepted international standards. According to FAO, in rural areas the overall daily per capita amount of drinking water was only 35% to 60% of the minimum required amount and in urban areas 38% to 44%. Although the proportion of the population in northern Sudan who have access to an improved water resource has been estimated at 70 %, this conceals considerable regional variations – ranging from 24 % in Blue Nile state to 93% in Khartoum state.¹⁴ The situation is further complicated in that nearly 65% of rural population live in areas where no rivers or other perennial surface water supplies exist. These communities rely almost exclusively on underground water supply and catchments of the seasonal runoff.

In view of this situation and the vital importance of clean water supply, the Government adopted in 2002 a five-year program for the development of safe water for the period 2002-2007. While it is beyond the scope of this paper to assess the extent to which this program achieved its pronounced goals, we will consider resources allocated for the sector in the period of the program

The provision of safe drinking water is also a sub-national responsibility and as such a correct assessment of expenditures on service delivery would need to consider both federal expenditures as well as those made by the states.

Table 12: Consolidated Expenditure on WATER-Economic Classification by Level of Government 2000-2006

Millions SDG							
Item	2000	2001	2002	2003	2004	2005	2006
National Current-WATER	53.5	62.3	68.9	72.9	128.3	161.3	191.7
Federal Current-WATER	0.5	0.5	0.6	0.7	1.4	0.6	1.6
States Current-WATER	53.1	61.8	68.3	72.1	126.9	160.8	190.1
National WATER Development	58.1	74.5	32.0	222.7	407.9	555.0	698.0
Federal WATER Develop	18.8	15.3	10.5	13.4	71.5	80.7	161.6
federal WATER Projects	18.8	15.3	10.5	13.4	71.5	5.7	0.0
Federal WATER Transfers	0.0	0.0	0.0	0.0	0.0	75.1	161.5
States' WATER Develop	39.3	59.2	21.5	209.3	336.4	474.3	536.4
Total National Water Expenditure	111.6	136.8	100.9	295.6	536.2	716.3	889.7

Source: MOFNE, Unicons dataset for Northern States

In 2006, total national spending on the delivery of safe drinking water in Sudan stood at the relatively small amount of nine hundred million Sudanese pounds (about 450 million Dollars in 2006) albeit showing an improvement from allocations in 2001 when they were SDG 136 million. These amounts include all federal and northern states' expenditures. The share of water in total national spending, also showed some improvement from a low of 3.5 percent in 2001 to 7 percent in 2006.

Consistent with the sub-national responsibility in delivery of drinking water, *Northern States contributed almost 86 percent of total spending on water*. However, in contrast to the status of states' spending on education and health, *development was allocated the lion's share of states' spending on*

¹⁴ Sudan Millenium Development Goals Interim Unified Report, December, 2004

water and averaged 74 percent in the period 2004-2006. Moreover, ***investments on water are clearly a priority in states' development spending as they took up more than 50 percent of their total investments in the period 2004-2006.*** Having said that, it must be noted that the major part of states' investments on water (86 percent) were contributed by the state of Khartoum.

The contribution of the Federal government to the development of delivery of water showed improvement from 2004 onwards but remained minimal at SDG 161.5 million in 2006 and even dropped to SDG 92.5 million in 2007. This is inspite budgeted amounts for 2007 standing at SDG 173 million thus showing that only about half (54 %) the amounts budgeted were actually disbursed in that year. A similar exercise in preceding years shows similar underperformance in water projects financing (31%execution in 2005 and 82% in 2004 but only 22% execution in 2003).

VI. The Definition of Pro-Poor Spending

Having, attempted a comprehensive review of public expenditure and throughout highlighting areas that need to be taken into consideration for improved PEM efforts for poverty reduction, it is pertinent to point to the similar exercise in the Sudan PER report undertaken by the World Bank in conjunction with MOFNE and to which we have alluded to on several occasions in the paper. The report is the first of its kind in Sudan and provided, for the first time, the kind of data needed to conduct such reviews. This is a tremendous effort, given the unavailability of such data and when available, the discrepancies that render it of limited use.

The report tries to assess pro-poor spending in Sudan based on international measures and then compares it to such spending in other similar countries. To do justice to the report it does point out that the definition of pro-poor spending varies from one country to the other in accordance with each country's Poverty Reduction Strategy. However, Sudan does not yet have a PRSP and so the WB undertook the exercise and in several cases pointed to disagreements with MOFNE on what really constituted pro-poor spending. Areas of contention include whether university education should be regarded as pro-poor or whether foreign financing of development projects should be included and whether spending on large projects such as that of Merawe Dam are to be included. In its recommendations, it asks that the first step is for MOFNE to have a clear definition for pro-poor spending. However, an assessment of how public expenditures affect poverty is a function of many variables which cannot be answered by the WB or MOFNE alone but must be done in a participatory approach with the national stakeholders, i.e. civil society.

Variables affecting poverty in the context of Sudan include whether the allocation of funds are actually reaching the service provider; the quality and use of the service; the complementarities and trade off between expenditures, and the time horizon that is needed for expenditures to show impact on outcomes (immediate poverty reduction, or greater poverty reduction if some "non-poor" expenditures have higher return in the future) – this came out very clearly in the case of financing of Merawe dam. Other concerns include on-going public programs and the extent to which they have a significant impact on poverty reduction or that such programs actually benefit some narrowly defined groups rather than addressing the goal of lifting large parts of the population out of poverty.

How these questions are answered can lead to very different expenditure policy choices, all of which can make a significant change as to what constitutes pro-poor spending. However, given the political nature of the budget process the approach made by the WB can be regarded as the most pragmatic one and a starting point towards a more participatory exercise.

VII. Key Issues Emerging for Improved Public Expenditure Management

This section will focus on the major issues emerging from the preceding budget review/analyses for reform in Public Expenditure Management as they relate to increasing and monitoring both the level and quality of spending for more equitable growth and poverty reduction and thereby progress in attaining the Millennium Development Goals.

In addressing these issues, it is necessary to point out that political readiness to undertake reforms is a pre-requisite for improved budget management, in general, and expenditures, in particular. Political commitment can expedite or slow progress. Capacities in terms of data and analytical abilities, is another pre-requisite (more will be said on this below). As such, results can only be expected in the medium to long-term yet if needed priority reforms are not undertaken in the short-term even this will not be forthcoming.

Priority areas for action and monitoring, therefore, include:

- 1. Greater development spending– the opportunity and the challenge.** A major issue that came out from analysis above was the poor level of development spending in critical areas for

poverty reduction. A great window of opportunity is now open to the country which should be translated into greater allocations for development. The double opportunity lies in: (a) the higher levels of revenues arising from increased oil production and the high oil prices; and (b) the rekindled interest in the agriculture potential of Sudan with the world-wide food shortages and higher food prices. However, higher levels of spending in development and especially that targeting the poor cannot all be made through increasing overall expenditures given an ultimately limited resource envelope. Therefore, more efficient resource utilization, the ultimate objective for improved PEM, will require re-allocations to be made from categories currently taking up large shares of the budget and which have little or no impact for poverty reduction. This is a major challenge that will need to be met based on analyses of costs and benefits but ultimately with political will.

2. **Investments in Health, Education and Water** remain unacceptably low and need to be given special consideration in development spending at both the federal and state levels. Consistent with the assignment of responsibility of these social services to sub-national levels of government, federal investments represent a small share and are mostly contributed in the form of development transfers. Yet, at the state level, development spending is given low priority with current spending taking up more than 90 percent of their meager resources.
3. **Rising Debt and Mounting Arrears.** With the local debt rising and arrears mounting together with the increasing resort to foreign loans on non-concessional terms, there is a real fear as to the sustainability of this situation. The government does not seem to have a clear strategy for contracting debt – both local and foreign. Opening the door to concessional financing through a clear strategy for benefitting from initiatives for debt forgiveness will free resources for poverty reduction in the medium to long terms.
4. **Improving Budget Credibility.** The lack of budget credibility in terms of consistency and timeliness of disbursements with budgeted amounts surfaced, as a serious issue, time and time again throughout the review of expenditure. It has been shown that actual spending invariably differed from budgeted and authorized allocations whether in overshooting or shortfalls. It has also been seen that such deviations from budget were neither predictable nor made in accordance with clear objectives or controls, i.e. there was no transparency in how these deviations occur with monitoring being most difficult. Moreover, serious shortfalls were seen in the areas most targeting the poor – mostly in the sectors of agriculture and livestock as well as the social sector development programs (health, education and water). Serious shortfalls as well as late disbursements are also in the transfers to the states and most clearly in development transfers. Predictability and timely disbursements in accordance with budget are of paramount importance to all executing agencies and takes an extra dimension when it relates to development spending and state transfers. This will need to be urgently addressed through greater internal controls which will be considered in the first part of the report but also through greater transparency.
5. **Capacity building for financial management and reporting urgently needed at the sub-national level.** World Bank studies at the state level have shown the great lack in capacities within the relevant ministries for undertaking the budgetary process as well as in execution and reporting. It will be pertinent to build these capacities, at both the state and locality levels, to ensure financial transparency, accountability and efficient execution as more resources become available to them in the context of greater fiscal decentralization. This will also be a pre-requisite for more efficient pro-poor spending and the attainment of the MDGs given that social service delivery is a sub-national level responsibility.
6. **Data constraints:** There are three aspects to address in this regard: **Firstly**, relating to data needed for poverty diagnostics- characteristics of the poor and their most urgent requirements.

The last Household Budget Survey was conducted in 1976 and this was followed by a few scattered donor funded surveys that only partially fulfill data requirements for poverty analysis. The population census that has just been conducted (the previous one was in 1993) will open the door for a comprehensive household budget survey which will need to be given urgent priority. In the meantime, focus should be on ensuring that the analytical skills are in place both within MOFNE and the Central Statistical agency but also within the universities (researchers in general). Close cooperation between these entities will need to be ensured from the beginning to avoid the past pitfalls of keeping the data away from researchers and later contesting their results.

Secondly, relating to budget data needed for efficient expenditure management and monitoring. In this respect, two issues arise: (a) presenting the data according to international standards of Government Financial Statistics (GFS) which has been started with the 2008 federal budget. Now that capacities within MOFNE are in place for such classification, it will be important to have it backdated for previous years to allow for identifying patterns and trends. And most importantly, expand capacities in this area in line ministries and in the states. (b) This will also pave the way for data consistencies that will allow for a consolidated budget for the country as a whole.

Thirdly, relates to improving data at the program and/or project level to allow for the availability of data (inputs and outcomes) needed for evaluation and monitoring. This will be undertaken at the sector level and so is the responsibility of the relevant line ministries but will need to be coordinated for follow-up and consistency.

7. **Medium-term planning: Prioritization within a Medium term Budget framework – linking policy to budget allocations and the resource envelope.** Because most policy decisions have multiyear budgetary implications, their successful implementation requires multi-year budget planning. This is what is known as the Medium-term budget and requires projections of GDP within which revenue and expenditure envelopes are made for 3-4 years in advance. In theory, this is currently being done in the Ministry of Finance but basic inputs for its usefulness are lacking. It lacks proper investment planning and costing of programs within such programs. That explains why the strategic priorities, as stated in the government's various programs, are not linked to clear and realistic expenditure commitments within a Medium-term budget. Capacities in this regard are urgently needed to ensure that when a PRSP is eventually formulated it is integrated in such a medium term resource envelope framework. For now, it is urgently needed to improve overall fiscal discipline by improving proper prioritization, predictability and monitoring.
8. **Improving transparency through greater participation in the budget process.** The budget process has traditionally been closed and only partly revealed to the public after parliamentary approval. Information on various aspects of the budget is difficult to come by and published accounts are dated and even then made very difficult to understand and follow. The importance of making such information easily accessible cannot be overstressed - both for greater transparency and for monitoring purposes. This would allow civil society, the beneficiaries of government services, to monitor the execution of the budget. Involving the stakeholders in the various levels of budget process has been found to improve monitoring and ultimately impact on the poor. Researchers, the press and media in general have a crucial role to play in this regard. But a pre-requisite is that the information be made consistently available in an easily understood and timely manner.
9. **Consensus on what constituting pro-poor spending.** We argued in the previous section that reaching a nationally accepted definition of pro-poor spending must be made in a participative manner. However for this to occur, stakeholders must first be informed about the budget, its resource envelope and expenditure categorization and prioritization.

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