FINANCING REGIONALISM IN THE SUDAN
TOWARDS A NEW INTERGOVERNMENTAL FISCAL
AND FINANCIAL RELATIONS

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A Thesis Submitted in Partial Fulfillment of the Requirements for the
Degree of Master in Public Administration.

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December 1998
Dedication

This work is dedicated to the soul and memory of my father and to my mother with love and respect.
# Table of Contents

<table>
<thead>
<tr>
<th>Chapter One: Introduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 General</td>
</tr>
<tr>
<td>1.2 The Statement of the Problem</td>
</tr>
<tr>
<td>1.3 The Significant of the Study</td>
</tr>
<tr>
<td>1.4 The Area of the Study</td>
</tr>
<tr>
<td>1.5 The Objectives of the Study</td>
</tr>
<tr>
<td>1.6 Hypotheses of the Study</td>
</tr>
<tr>
<td>1.7 Methodology and Sources of Data</td>
</tr>
<tr>
<td>1.8 Problems and Limitations of the Study</td>
</tr>
<tr>
<td>1.9 Layout of the Study</td>
</tr>
</tbody>
</table>

| Notes and References | 9 |

<table>
<thead>
<tr>
<th>Chapter Two: Literature Review and Conceptual Framework</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1 Introduction</td>
</tr>
<tr>
<td>2.2 Decentralization: Concepts and Definitions</td>
</tr>
<tr>
<td>2.2.1 Decentralization</td>
</tr>
<tr>
<td>2.2.2 Regionalism Concepts and Definitions</td>
</tr>
<tr>
<td>2.2.3 Reasons for Decentralization</td>
</tr>
<tr>
<td>2.3 Decentralization in the Sudan</td>
</tr>
<tr>
<td>A Historical Overview</td>
</tr>
<tr>
<td>2.3.1 Sudan's Need for Decentralization</td>
</tr>
<tr>
<td>2.3.2 Sudanese Experience of Decentralization Before 1980</td>
</tr>
<tr>
<td>2.3.3 Sudanese Experience of Decentralization After 1980</td>
</tr>
<tr>
<td>2.3.3A Regionalization of Northern Sudan Act of 1980</td>
</tr>
<tr>
<td>2.3.3B Local Government Act of 1951</td>
</tr>
<tr>
<td>2.4 Intergovernmental Fiscal and Financial Relations</td>
</tr>
<tr>
<td>2.5 Conclusion</td>
</tr>
</tbody>
</table>

Notes and References | 39 |

<table>
<thead>
<tr>
<th>Chapter Three: Salient Features of Central Government Tax Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1 Introduction</td>
</tr>
<tr>
<td>3.2 Sources of Revenues of Central Government Finance and their Characteristics</td>
</tr>
<tr>
<td>3.2.1 Tax Revenue Sources</td>
</tr>
<tr>
<td>3.2.2 Non Tax Revenue Sources</td>
</tr>
<tr>
<td>3.3 Central Government Financial Position and The time at which 1980 Regionalization Act was Issued</td>
</tr>
</tbody>
</table>
### Chapter Four: Review of Regional Government Finance

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1 Introduction</td>
<td>58</td>
</tr>
<tr>
<td>4.2 The Problems of the Fiscal Gap</td>
<td>59</td>
</tr>
<tr>
<td>4.3 Why the Regional Revenues Fall Below the Expectations</td>
<td>69</td>
</tr>
<tr>
<td>4.3.1 Regional Sources of Revenues</td>
<td>73</td>
</tr>
<tr>
<td>4.3.2 The Central Government Policies</td>
<td>85</td>
</tr>
<tr>
<td>4.3.3 Loss of Tax Authorization</td>
<td>89</td>
</tr>
<tr>
<td>4.4 Conclusion</td>
<td>90</td>
</tr>
</tbody>
</table>

Notes and References: 91

### Chapter Five: Intergovernmental Transfers: Central Grants Allocations

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1 Introduction</td>
<td>93</td>
</tr>
<tr>
<td>5.2 Central Grants: Types and Purposes</td>
<td>94</td>
</tr>
<tr>
<td>5.3.1 Intergovernmental Relations: Distribution of National Revenue Between Central and Regional Governments</td>
<td>100</td>
</tr>
<tr>
<td>5.3.2 Intergovernmental Transfers: Central Grants Distribution to Regional Governments</td>
<td>110</td>
</tr>
<tr>
<td>5.4 Conclusion</td>
<td>113</td>
</tr>
</tbody>
</table>

Notes and References: 114

### Chapter Six: Conclusion and Recommendations

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.1 Conclusion</td>
<td>115</td>
</tr>
<tr>
<td>5.2 Recommendations</td>
<td>117</td>
</tr>
<tr>
<td>Bibliography</td>
<td>121</td>
</tr>
<tr>
<td>Table No.</td>
<td>Title</td>
</tr>
<tr>
<td>-----------</td>
<td>----------------------------------------------------------------------</td>
</tr>
<tr>
<td>(3.1)</td>
<td>Overall Picture of The Central Government Recurrent Budgets</td>
</tr>
<tr>
<td>(3.2)</td>
<td>Allocation of Tax Jurisdiction Between Centre and Regional Government</td>
</tr>
<tr>
<td>(4.1)</td>
<td>The Development of Regional Budgets within the Period (1980 - 1990)</td>
</tr>
<tr>
<td>(4.2)</td>
<td>Estimated Regional Governments' Expenditure Period (1980 - 1990)</td>
</tr>
<tr>
<td>(4.3)</td>
<td>Central Government Recurrent Expenditure on Chapters (1, 2 and 3) During the Period (1980 - 1990)</td>
</tr>
<tr>
<td>(4.4)</td>
<td>Rates of the Animal Taxes in Three Selected Regions, [1987]</td>
</tr>
<tr>
<td>(5.1)</td>
<td>Distribution of Recurrent Revenues between Central &amp; Regional Government. Period (1980 - 1990)</td>
</tr>
<tr>
<td>(5.3)</td>
<td>Population and Area of the Northern Region</td>
</tr>
<tr>
<td>(5.4)</td>
<td>Actual and Expected Per capita Shares of Regions from the Grant Distributed in Period (1980 - 1990)</td>
</tr>
<tr>
<td>(5.5)</td>
<td>Matching Between Actual and Expected shares and Ranking Regions in terms of Shares</td>
</tr>
<tr>
<td>(5.6)</td>
<td>Regions' Own Produced Revenue During the Study Period (1980 - 1990)</td>
</tr>
<tr>
<td>(5.7)</td>
<td>Combining the Actual Per capita Grants with Per capita Some Produced Revenues and Matching with Average Per capita</td>
</tr>
<tr>
<td>(5.8)</td>
<td>Number of Local Government Councils in the Regions</td>
</tr>
</tbody>
</table>
Sudan in addition to its vast area, is most diversified in terms of climate, ethnic structure and modes of economic activities. Decentralization as a means of administration is an inevitable choice. However, decentralization no matter its degree or level, has certain consequences, specially in the area of multi-governments finance.

This study is primarily intended to investigate the intergovernmental fiscal and financial relations in the Sudan, within the context of 1980 regional government Act. Its aims include: Examining the suitability of the time at which regionalization was enacted, the ways and methods of allocating financial powers and responsibilities between centre and regional governments and the allocation of central grants-in-aid. These have been done through reviewing regional governments’ sources of revenues and their structures and identifying the amount and methods of central grants-in-aid allocation.

The study found that central government has recorded deficits in its recurrent budgets throughout the study period (1980-1990) which confirmed the argument presumes the unsuitability of the time at which the regionalism was enacted, since regionalization imposes new expenditure commitments. Even when regionalism was enacted and became reality, the central government retained certain taxes and other sources of revenues which were most lucrative and elastic. Leaving regional authorities with revenue sources
less elastic and administratively difficult to collect. This made regional authorities always short of funds. Accordingly regional expenditure became unharmonized, that the bulk of regional revenues go to chapter one. Not only this but their locally generated revenues did not cover the expenditure on chapter one. This disturbed the regional governments' financial autonomy. Consequently the heavy reliance on central grants-in-aid. In fact central grants financed 80% of regional expenditure. Nonetheless central grants allocation system manifested a high degree of inconsistency and irregular budgetary policies. The system had adversely affected the shares of some regions, whereas others continued to benefit from it. The system has been described as unjust and could not be justified on any base.

The study suggested some remedies for these difficulties among them:

1) Periodic review of the regional sources of revenues so as to keep in touch with current conditions of regional governments.

2) Transfer of some indirect taxes from the central government's tax jurisdiction to regional ones.

(iii) Establishment of a "Finance Commission" to cater for the centre-regions fiscal and financial relations. In addition to introduction of a new distributive formula which encompasses some elements, such as population size, relative backwardness, measure of tax efforts, special...
locational and social characteristics and commitments to major national schemes. Each of these factors should be given special weight and relative importance so as to come out with a formula which may be more comprehensive and judicious.
المؤلفان رضوان كبر مصباح وأبو الامير طه عن حزب التحرر العربي، المخالب، والباحة والمصادر الإخبارية، ذلك انه الحكم الإقليمي كمركز لإدارة البلاد هناك من تلك، إن الفئات الإدارية بعض الإشراف عليهن ويتناولها مع إبداءها اسئلة والعمليات، ونتائج وحامة.

على سبيل المثال أمامية: بين الحكومة المركزية والإقليم.

هذا البحث يهدف إلى دراسة العلاقة المتبادلة بين الحكومة المركزية وحكومات الإقليم في إطار فقرة الحكم الإقليمي. لذا، فإن هذا البحث يبحث في دراسة مدى علاقة الوقت الذي أنجزه الحكم الإقليمي وتناول الطريق والوسائل التي يوجهها للمؤثرات والسلوكيات والماليين بين الحكم المركز والإقليم. بالإضافة إلى الأسس والكودية التي يوجهها في توزيع الحكم الإقليمي.

خلال الدراسة، كتب أن الحكومة المركزية سجّلت عرضاً في ميزانيتها الجزيرة، طيلة فترة الدراسة سابقاً على عدد ملايين الملايين، الذي أحكم فيه الحكم الإقليمي، فهناك أن الحكم الإقليمي يتعين إثبات النتائج حتى الحصول على الموارد النهائية. حتى حين يمثل تأسيس الحكم الإقليمي، وأصبح القيادة بعد أن حكم حاصل الحكم الإقليمي إستاذة بالشك ولمسامح الإجراءات الأخرى الذي يتميز ذات شروط وحوى المصادقات، إدارية، ونادرًا، تأكيد الحكومات الإقليمية بما يحترم إجراءات أكثر مرونة وأكثر صعيد في تحقيقها. هذا الرفع عمل للمؤسسات الإقليمية يتعين ذا من صحراء الإمكانات المادية، وتبقي عن ذلك عدم تجاوز الحزام الإقليمي، يتعين أن يكون ملخصات الإقليمية تتبّع الخطة الأولى بالإحراز والتحسينات. لكي هذه، كتب، ولكن إجراءات الإقليم لا تمت لتوزيع الحكم لأولًا، فقط ذلك الإحصاء إبلاً للهيمنة المركزية، في الحقيقي، نظير تتبع الدعم المركزي بين مجموعات 85 من مصادر الحكومات الإقليمية، مع ذلك ليس هناك فم معرفة في توزيع النظام الإقليمي بين الإقليمات، في الصعب ببعض الإقليمات، بينما استدامتها من الإقليمات الأخرى. نظام توزيع الدعم المركزي غير عادل، ولا يمكن تبادل ما كانت الإسباب.
في النهاية قدمت المدرسة بعض الملاحظات لحل المشكلات التالية منها:

1. المراجعة المرورية لصادر الإيرادات الإقليمية للتأكد من مراقبتها للاستعمال المتكرر.

ب) تحريل بعض الطرق البارزة للمناطق وخاصة الطرق البارزة:

ج) إنشاء جهاز أو جهاز ملابس وإدارية مستقلة تشمل بالكامل وعلاقته الدائمة بين المركز والإقليم، و_utilize تقديم صيغة جديدة لتسهيل الدعم المروري، بحيث تأخذ في الاعتبار المنطق الواعية في الإقليم، مثل حجم السكان، التقليد الاجتماعي، الإجهاض، وترخيص الإقليم، ووضع الإجراءات الخاصة مشكلة الإقليم، كل هذه العوامل يمكن أن تؤثر حتى يتضمن الحصول على صيغة شاملة وعادلة لتسهيل الدعم المروري.

1
ACKNOWLEDGMENT

I would like to express my deep appreciation and gratitude to the supervisor of this work Dr. Abdel Rahman Abbaker Ibrahim, who guided, directed and followed this study at all stages.

Thanks are also due to my colleagues, Khawjali Hamed Abdelalla, the senior Administrative Officer of Al-Kurmak Area Council, and Abdelalla Abdel Rahman, the Senior Administrative Officer of Al-Damazin Area Council, for their support and financial help.

In fact I owe debts to many people and institutions. Among them, Commission of Al Damazin and Al Rosureia Area council. I also appreciate the sincere and free help of my colleague Mahi Klin Ahmed Ibrahim for his continuous follow-up and catering for financial matters concerning me in the council of Al-Damazin.

Finally I am greatly thankful to Abdel Hadi Abdalla Margun who typed this thesis with care and efficiency.

Mohamed Ali Mustafa
CHAPTER ONE
CHAPTER 1
INTRODUCTION

1.1 General

Finance is the most important issue in any type of administration, whether, unitary or decentralized government. It is essential both at central and regional levels.

In modern societies, no organized body of social institution can perform its objectives effectively and efficiently without adequate financial resources. Hence finance is the life blood of any co-ordinated social activities. However, in almost all systems of federal or regional governments, these problems arise with regard to intergovernmental fiscal and financial relations. These are:

1. How to allocate responsibilities rationally?
2. How to allocate taxing powers reasonably and efficiently?
3. How to share revenues. Bashir Omar (1984)[1]

The problem here is how to strike a balance between central control and autonomy. Control of Central government financial autonomy of regional bodies. For regional bodies to become effective social organizations, they must have reasonable financial resources to provide reasonable sort of services for their local citizens.

1.2 The Statement of the Problem

In any decentralized form of government, there is a problem of striking a balance between central control and regional fiscal and financial autonomy. This problem can best be explained in term of intergovernmental fiscal and
financial relations. Discussing centro-region fiscal and financial relations in the Sudan, means implicitly talking about the distribution of resources between the two levels of governments. Thus questions that will be asked are: how much resources should be assigned to regional authorities? And how much revenues should be retained at the central level? It is a question of matching between responsibilities and resources assigned to each level. The regional government's primary aim is to have a clear limits of discretion in raising resources and applying them to their fields of expenditures.

Central governments usually sustain taxing powers and revenues to enable them to finance essential national objectives, and this gives them dominance over regional governments. Bechir Doer (1980)[2]. The need to retain such power also derives from the fact that central government like central bank needs to be the lender of last resort and the regulator of overall financial stability that regional governments face. Regional governments on the other hand want to exercise some degree of fiscal and financial autonomy. The total reliance of regional governments on central government may frustrate regional governments and defeats the ultimate purpose of decentralization.

Distribution of resources between centre and regional government is one problem, however, distribution of centrally collected revenues among different regions is another problem. As a fact total fiscal and financial decentralization of resources is an impractical process, because of
technical and administrative difficulties. Accordingly, some revenues must be distributed to all regions. But how central government distribute this pooled revenue is a very difficult task. Some regions claim to augment their shares from central revenues, arguing that they provide the taxable objects and should enjoy the fruit of their enterprise. Other regions are less developed and their income from local sources is low and they expected that more funds should be given to them to elevate them to the level of other regions.

The problem is further complicated by the lack of simple, comprehensive and clear distributional formula for the allocation of central grants. Moreover, the problem is more acute in developing countries like Sudan which suffers from problems of balance of payment and shortage of funds.

1.3 The Significance of the Study

Three reasons signify both the selection of the topic and period of the study:

(i) The inadequate financial performance of regional government to finance their expenditures. This shortage of finance let the role of regional government remained diminutive and its considerations on the issues of socio-economic development is very minor.

(ii) The absence of judicious formula for the distribution of centrally collected revenues among the different regions. Many regions manifested their discontent and dissatisfaction from the system.
The central government proclaimed recently the establishment of federal system in the Sudan. Thus it is essential to revise the fiscal and financial relations to know what is wrong with the regionalization Act of 1980, in order to prepare for the introduction of decentralization.

1.4 The Area of the Study

The study is confined to the whole Sudan as one unit and as a composition of different regions. Since the study is concerned with the fiscal and financial relations between centre and regional governments, resulted from the implementation of 1980 regional government Act, it will be more beneficiary if it conducted the studies on comparative basis. Especially in the area of the central grants allocations so as to compare and contrast regional shares with each other. This will help us to investigate the historical data to know the historical trends and propose new policies.

1.5 The Objectives of the Study

The basic objectives of this study is to investigate and assess regional finance, especially in area of fiscal and financial relations between central and regional governments. Which had been resulted from the implementation of regional government Act of 1980. The study aims to examine the means by which regional governments sustain financial autonomy and serve as effective mechanism for socio-economic development. These objectives are put in the following points.
(1) To analyze and evaluate the sources of regional revenues, including regional tax jurisdictions and other sources of funds. In addition to the regional expenditure.

(2) To investigate, how centrally collected revenues distributed between central government and regional ones.

(3) To examine the system of central grants allocation to assure, whether it is simple, clear, comprehensive and just or not.

1.6 Hypotheses of the Study

To achieve the above objectives, the following hypotheses are put forward to be tested:

1) Regionalization of the Northern Sudan Act of 1980, was not built on any sound financial base. The locally collected revenues of regional governments did not cover even the regional expenditures on wages and salaries of staff working in the regional governments' departments.

2) The central government, in dividing the tax jurisdiction between it and regional authorities retained the most lucrative sources of taxes, leaving regional bodies with less elastic taxes and administratively difficult ones.

3) Central government's grants-in-aid allocation system represent a high degree of inconsistency and injustice, that central grants typically exacerbates regional disparities. So the research attempts to answer the question of why variations in the regional shares from central grants.
Data and information for this study come from both primary and secondary sources. Primary sources include: the interview of key officials in the Ministry of Finance and Economic Planning and regional governments.

Secondary data obtained from published documents: the following are the descriptions of important published sources and data types:

2) Ministry of local governments and co-ordination of regional affairs.

Data collected from these two sources are:
   a) Annual central revenues and expenditures
   b) Annual regional revenues and expenditures
   c) Annual central grants to regions.

3) Department of Statistics, Third Population Census (1983), Information obtained from this source are:
   Population of the regions and total population of the country.

A few things should be mentioned concerning the information and their sources for the purposes of validity and reliability.

First limitation to be mentioned, which threatens the reliability of data is that actual expenditure might exceed the appropriated revenue figures. Because regions maintains a type of revenue (called self-help revenue) that is not required to be appeared on budget documents.
Second limitation, which one has to bear in mind is that, most administrative regions are extremely large within which several modes of economic activities might be identified. So to avoid loss of information, regions should not be conceived as one homogeneous unit of analysis and one has to be careful in interpreting regional data.

1.8 Problems and Limitations of the Study

Despite the efforts which the author had spent to collect data for this study, the final outcome is very modest this is because the researcher was confronted with many problems and obstacles. These problems include:

(1) The meager literature in the area of regional finance, the current literature about the intergovernmental transfer is so limited. Most of literature about the topic is scattered in fragmented reports and pamphlets.

(2) Lack of data and information, specially the published documents. The study encountered many problems. Partly due to shortage and in some cases complete absence of systematic records. Specially at the regional level. Some officials who were interviewed tended to exaggerate or under estimate for some special reasons.

(3) Limitation of finance and time; inflict the shortage of funds and the duration of time period had greatly limited the intensity and quality of the study.

1.9 Layout of the study

This work is presented in five chapters in addition to chapter one which is an introduction.
Chapter two provides an over-view of main body of literature in this area, in addition to the definition of concepts and terms.

Chapter three describes the salient features of central government tax structure.

Chapter four reviews the sources and structure of regional government finance.

Chapter five analyses intergovernmental transfers, i.e. central government grants allocation.

Chapter six sums up the main findings of the study and provides some suggestions or solutions for the problem.
Notes and References


2) Beshir Omer, 1983.
CHAPTER (II)
LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

2.1 Introduction

The aim of this chapter is to review the available body of literature that has been written on the area of centre-region fiscal and financial relations in the Sudan, which had been resulted from the implementation of the 1980 Act of regionalization of the Northern Sudan. Hence the review will be confined to the period between 1980 to 1990.

In doing so the chapter will try to familiarize itself with some definitions and concepts related to terminologies such as, decentralization, democratization, devolution and regionalism. Then it briefly summarizes the main historical episodes concerned with evolution and development of decentralization processes in the Sudan.

Finally the chapter will review the body of literature associated with intergovernmental transfers. And will finish with a conclusion which summarizes in brief the main points mentioned or covered by it.

2.2 Decentralization: Concepts and Definitions

2.2.1 Decentralization

Decentralization is being used by different people to mean different things. Most governments apply the term to some of their administrative practices, but the reality very often differs from what is being stated in theoretical definitions. However, definitions are like theoretical models are adopted not because they are true but because they are useful. Nuhhood (1983)(1)
If we are simply making a study of public or private management, decentralization might reasonably be taken to cover any shift of decision-making outwards from the centre. But this is not the case when the issue is associated with politics, that why definitions of the term decentralization differ from one discipline to another. But a widely accepted definition is one offered by United Nations it says:

"Decentralization, means transfer of authority on a geographic basis, whether by decentralization (i.e. delegation) of administrative authority to field units of some departments or level of government units. Or special statutory bodies."

The definition encompasses two main forms: concentration, which means delegation of authority that is adequate for discharge of specified functions by personnel of central government units, which are situated outside the headquarters (hierarchical). Whereas devolution means the legal conferment of powers on formally constituted local and regional authorities to discharge specified or residual functions. (See Agab 1987). (3) Devolution may offer an effective solution for problems of congestion at the centre and bureaucratic red tape. However, devolution requires autonomy and boundary. Under devolution there exist three types of local institutions, namely:-

(a) Regional governments
(b) Local governments
(c) Statutory bodies.
The difference between deconcentration and devolution is in quality rather than in degree. In the former power delegated is revocable, whereas in the latter, power devolved is irrevocable, unless some legal arrangements were made at the central and sub-national levels.

It is not the intention of this study to discuss in detail the issue of decentralization internally or externally, which may necessitate to make further analysis. It is a study of argument for and against. Here the research just treats the issue to the extent to which it may serve the objectives of the study.

2.2.2 Regionalism: Concepts and Definitions

Regionalism is a device undertaken to promote analysis, mainly for planning, policies, and administration. Regionalism as a concept also suffers vagueness and grave troubles. It lends itself to a variety of meanings. To put it differently, regionalism is an illusive term, like decentralization used by different people to mean different things. According to Gooch (1989), the region is explored from a number of perspectives. There are geographers who concentrate on the regional configurations and the relationships between man and the natural environment. For the ecologists, the region is the harmony between ecology and the natural components of the environment. The economists look at the perspective of man's ability in controlling his environment for purposes of distribution of production and wealth. Political scientists are very much worried about how to solve the dichotomy between over-centralization and devolution.
And finally the sociologist examines the region from the angle of ethnic, class, status, social mobility, his fundamental point is how mankind control his habitat.

A region may be a conglomeration of fundamental units or just a tract of land. But despite such ambiguities, the wide spread use of the concept in social science is due to the fact that man is "a territorial animal" his loyalty to his region is an integral part of his make-up that why encounter regional identification, shared sentiments, sense of togetherness, aggregation for common purpose and common historical experience.

It is commonly agreed that regionalism is one form of decentralization with authorities less than that of a fully developed federal structure and more than a unitary state administrative formation. In fact in some regional structures, regional authorities enjoy a substantial degree of autonomy.

Throughout this study, the term regionalism is adopted to describe the six regions of the Sudan, which were established according to the regionalization of Northern Sudan Act of 1990. They are viz; Kharotum, Central, Northern, Eastern, Darfur and Kordofan Region.

2.2.3 Reasons for Decentralization

Up to now we came across such question as what is decentralization? But it seems reasonable if someone asked; why decentralization at all? In the ancient times, decisions were made by gathering all people in one place.

-13-
they participate to make such decisions. Today governments' tasks increasingly become varied and intricate. Geographically it is difficult to gather all people in one congress. The nation states' areas or territories are relatively large to be administered from the centre. Therefore some forms of decentralization are inevitable. This view is adhered by one scholar, be argues:

"No country in the world of today be it democratic or authoritarian, finds it physically possible, administratively useful or politically wise to enact and enforce all the rules from the centre. In order to avoid being buried under an avalanche of legislative and executive details, all national governments distribute their rule-making powers hierarchically, functionally and territorially". Murias (1980), (5)

Henry Maddick (1963) warned the third world countries against the tendency towards over-centralization which in most cases leads to a phenomenon known as planning without implementation.

In a nutshell, the contemporary view believes that "the best government is the one who governs least"; it helps to emphasize on political dimensions as well as social and cultural factors. The base for the argument is that; politics all over the world is territory-bound and man remains territorial and "political animal", his loyalty given first to his territory and geographical location, but decentralization may allow him to participate locally in making decisions affecting his day-to-day matters, which
some of its judicial and administrative powers to tribal leaders. The so-called Native Administration or indirect rule was created by this ordinance. By 1957 many ordinances had been passed, which organized the administration of municipalities, towns and rural areas. That was first introduction of local government in the Sudan.

In 1919 Sudan government commissioned A. H. Marshall (a British expert in local government)\(\text{11}\) to design a framework for local government in the Sudan. Marshall in his report recommended establishment of a new local government system. Marshall was considered the founder and the father of local government in the Sudan. His report was very comprehensive and in most cases very specific and precise. Especially in matters concerning structure, organizational chart, distribution of tasks and responsibilities and centre-local fiscal and financial relations. In 1951 a local government ordinance was promulgated which embodied nearly all recommendations suggested by Marshall. This has been known as local government Act of 1951. By the virtue of this Act local government councils were established, and further strengthened by local government tax appropriation ordinance of 1959, which entrusted local councils with functional, economic and judicial responsibilities. It was the first time local government system became institutionalized as an accepted system in the Sudan.

In 1956 the country gained its independence and consequently a new era began. In 1959 the government's commission was setup to revise the local government system. The
commission's recommendations gave rise to 1960 Province Administration Act. The main features of the Act was:

creation of two Administrative Bodies within provinces:

(a) Province council, was entrusted with formulation of policies.

(b) Province Authority, was entrusted with execution of policies formulated by the province council.

Many people believe that, province Administration Act of 1960 was not successful. It has been criticized on the basis: That it did not realize "local democracy". Since the councillors were appointed than elected, in addition, To the creation of a gap between policy formulation and policy execution.

In 1971 people's local government Act was promulgated, with objectives of mobilizing the masses behind the revolution and more penetration of government in rural areas, so as to articulate the people's needs and demands. This was evident from the structure of the system. However, judging the system from decentralization perspective, the Act was defective in many areas these are:

(a) The excessive power, granted to the province commissioner, contradict the very name of the Act itself.

(b) The Act's requirement from local bodies to mobilize the local masses towards consolidation of national integration. Such political commitment, requires politicization
of public service, which is drastically departing from the concept of neutrality of civil service.

(c) The prescribed responsibilities were not coinciled with corresponding financial sources assigned, that why the system has been described as "born lame". The financial difficulties created by the Act continuously became the locus of troubles and headaches of local government for long period.

In 1972 the government of the Sudan signed an agreement with rebels from the southern Sudan to end-up the civil war. This agreement was known as (Addis Ababa peace Accord), whereby the southern region was given autonomous-self governing rights, which made it different from the rest of the country.

The southern region will be excluded from this study due to the unavailability of data, because of the civil war. And because the researcher deems that, southern region acquired status which was protected by law. In other words, center-region fiscal relations were precisely prescribed by constitution. When president Nimeri tried to breach such legal contract, the peace agreement was broken and the civil war was started.

2.3.2 Sudanese Experience of Decentralization

After 1980

(A) Regionalization of Northern Sudan Act of 1980

The year 1980 witnessed the amendment of Sudan's permanet constitution and number of other laws to introduce
unsatisfactory financial realities under the 1971 Act. It specifies that regional revenue should consist of following:

1) Revenue obtained from commercial, industrial and agricultural projects and activities in the regions.
2) Funds approved by the national government to regions.
3) Loans and donations.
4) Direct and indirect taxes levied by the regions.
5) The remainder of the regional revenue is made up by grand-in-aid. However, regional government are not permitted to levy taxes and fees on the following items.

(i) Export and import taxes
(ii) Excise duties
(iii) Capital profit (gain) tax
(iv) Business profit tax
(v) Personal income tax
(vi) Public services benefits (pensions).

Scholars in the field of public administration believe that, Regionalization of the North Act of 1980 was mainly a device for political engineering than a true means for decentralization. The issue of regionalism will be elaborated in detail in subsequent chapters.

(3) Local Government Act of 1981

The introduction of regionalism in Northern Sudan necessitated realignment of local government system, so as to comply with the new situation. Consequently peoples...
Local government Act of 1971 was repealed and anew local government Act was introduced which has been known as 1981 people's local government Act. The main features involved in this re-organization was the re-structuring of local government, by addition of the people's province executive councils and their replacement by area and district councils, which are corporate bodies with full budgetary status. What is evident in the Act is that, the role of the commissioner has been seriously reduced. Now he only has the role of supervision. He is not only responsible for the maintenance of law and order, (the chair man of the security committee in his province) and the supervisor of regional and local officials in his province.

Functions assigned to local authorities according to the Act cover; primary and intermediate schooling, provision of health care, provision of care to agricultural credit corporations and rural industries, preservation of local animal resources, licensing businesses in their area and providing self help and organizing local employment, etc.

Concerning the source of revenue to finance such functions, the Act stipulates that local government should draw their revenue from the following sources.

1. Locally imposed taxes
2. Miscellaneous sources, such as licenses, dues, and court fines.
3. Central government grants.

Nonetheless local governments are allowed to borrow, but after following along procedures. The Article (27) fixed sources and methods of borrowing. In addition, the article
prescribed that local government council could only borrow with approval of regional government (regional governor).

Concerning the financial positions of local government councils, many local government officers and councillors agreed that, it is useless and unsatisfactory to finance the responsibilities assigned to them. The situation was further aggravated by the announcement of Zakat and Taxation Act of 1984. Many taxes which constituted the major revenue sources of local authorities were abolished without providing substitute. This adversely hit the local government finance. Since Zakat has certain avenues to discharge revenue. Those avenues are strictly prescribed by [Holly Quran] which accepts no compromise with the various local government’s discharge of funds.

After the removal of May regime in 1982, all regional assemblies and regional council assemblies were dissolved immediately. No further attempts were made for creation of such new bodies nor enactment of new ordinances are made by the previous democratic government.

Recently a presidential decree has been issued, announcing implementation of federalism in the Sudan. (However, since it is not within study period and its application is not yet completed, so it will not be included here in this study.)

2.4 Intergovernmental Fiscal and Financial Relations

So far we have seen the evolution and development of the concepts and practices of decentralization in the Sudan.
as a historical perspective. Now we will overview the available body of literature written in Sudan, describing the centre-regions fiscal and financial relations.

The study tries to review some works written in public finance, especially in regional finance. Bearing in mind that the main focus of the research is to examine critically the intergovernmental relations within the framework of 1980 regionalization Act. But, before proceeding to overview the work written in this aspect, it is necessary to mention that, there is no universally accepted theory, nor standard of methods that specify how responsibilities, functions and material resources should be distributed between central government and sub-national units. So, recommendation of one theory or method for distribution of resources between two levels of governments is not possible. Nevertheless, this does not mean that the study will not suggest some possible solutions at the end, by identifying some alternative possibilities.

Many scholar in the field of public finance tend to perceive that, financing regional governments always causes constant anxiety and difficulties. K. J. Davey (1982)[12] in his analysis of intergovernmental practices of regional finance with special reference to Third World countries regional finance, believes that regional finance or centre-region fiscal and financial relations implicitly means allocation of resources between the two levels of governments and among different regions. Davey asserts that, there is growing demands of regional expenditure due to
Growing demands of local services. The demands have been fuelled by a number of factors; among them population rates and life expectancy. So the number to be educated, watered also increased. Moreover public spending in the third world consequently have been compounded by rapid urbanisation. Urban population in the developing countries have been expanded by an average of 3.7 per annum during 1970s (see Davey 1983). According to him the problems of inter-governmental fiscal and financial relations in the developing countries are originated to the choice of development approaches and concentration of services in certain urban areas, neglecting the bulk of the rural population live in poverty. Davey gave an empirical example which explains his argument. That the primary school children in the rural areas sit on the floor and scratch their multiplication tables on the earth. While University students enjoy similar conditions to (Cambridge and Harvard). Again an urban city enjoy six-lane highways to the airport, contrast with dry-weather tracks to the villages. At the same time central governments pass benefits to regional governments arguing that the regional resources are not adequately tapped. Such practices will make the local people mistrust the central government. The natural consequences he said are; conflicts, anxiety and tension, which are inevitable in the arena of fiscal and financial relations between centre and regional government. Davey continues to argue that, the distribution of resources between central and regional governments is one problem, but the distribution of resources among different regions is another problem. He
calls it the problem of geographical distribution of re-
to civil war. Competition for resources feeds on differ-
ences of perceptions as Davey stated:

"... richer regions claim the right to enjoy the fruit
of what they see to be divestment of resources to improvident
or sinue neighbours. They argue the need for incentive,
for more using the size of the "cake" rather than adjusting
their shares. Poor regions regard themselves as the vic-
tims of neglect, starved of the investment with which they
could match others in their productivity and innovation", 
Davey (1983).[[1]]

According to Davey, geographical distribution is a
balancing act in several dimensions; Between the political
demand upon central loyalty or appeasement or any other
covered considerations. This balance is done by the central
government through using intergovermental transfers (grants
and development spendings). Thus substantial changes in the
balances between objectives can be hidden beneath variations
in the distributional formula of intergovermental trans-
fers. Davey believes that it is misleading to believe on
the neutrality of statistics and arithmetic in examining
issues of resources allocation. Resources allocation has to
be conceived within the context of patronage; The use of

-26-
there is incentive for the regime to redistribute resources from the regions of the "have". Which do indeed in this case the "have nots" expect redistribution and the regime must respond if it is to maintain their support. The degree and type of decentralization appropriate for a regime also varies with the amount of resources controlled by the ethno-regional base on which it rests. However, Mikell argues that the relationship is not linear.

Following argument of Mikell, the regimes base consists of society "have", their interests are best served by either total centralization or maximum devolution. In other words unitary state or a confederation. By controlling unitary state, a have regime can defend its constituency from any raid on its resources. This can also be defended by a confederation because each component is responsible for raising its own revenues and retain virtually all of them for its own use. Rich regions are not obliged to share their wealth with poor ones except to provide for minimal common services. Thus a have regime rarely embraces decentralization, but if it does, it must apt for maximum devolution and grant local authorities substantial if not total control over the budgetary and revenue generating process. The same logic explains why "a have not" regime can not adopt a confederal even federal form of decentralization even though it has strong incentive to restructure a federal state.

Mikell approach correlates directly degree of decentralization and hence the centre-region relations, to the among of resources. His concept perhaps seems to be sound when we
are concerned with economic integration between two or
different regions, but when the issue concerned with decen-
tralization we must specify and evaluate the motives and
drivers call for decentralization. To put it simply, it is an
incomplete work if we perceive the issue in terms of economic
criteria alone.

Beshir Omer (1987) (17), is very critical to the fiscal
and financial relations in the Sudan. His views have been
reflected in a pamphlet presented in a seminar held at the
Friendship Hall in 1987. Beshir showed the weakness of the
Sudan's experience on decentralization in general and the
1980 regionalization of Northern Sudan Act in particular.
Specially the issue of intergovernmental fiscal and finan-
cial relations. In this he relied on his practical experience
as a Minister of Finance. Beshir said that, in 1980 decen-
tralization Act, powers on levying taxes and raising reve-
 nues are delegated from the centre to the regions or sub-
national units, without much mentioning of fiscal and finan-
cial autonomy. To him the 1980 regionalization Act was what
ought to be applied. Hence the question of financial auton-
omy and legal status of the established regional bodies was
out of question. So in distributing the jurisdiction between
central and regional governments, central government as-
signed very few taxes of any importance to the regions. The
central government kept all lucrative, buoyant and elastic
sources of revenue and passed little to the regions in form
of grants-in-aid. On the other side the 1980 Act assigned
the regions a wide range of responsibilities without suffi-
cient local sources of finance. The regional government Act
of 1980, Beshir said; Failed to give a concise answer to questions such as:-

1) How to allocate responsibilities and functions efficiently.
2) How to allocate taxing powers rationally and effectively.
3) How to share revenues.

As a result of failure to answer such questions, Beshir seemed sceptical about the value of regionalization Act of 1980. He further argues that, the original drives for regionalization in the Sudan were politically motivated, that socio-economic considerations played very minor role in its initiation as a policy.

In the area of grants allocation, the system was not clear. (Although regional budgets are supposed to form the basis for grants allocations, Central Ministry of Finance sometimes ignores them completely.) The Ministry of finance followed the rule-of-sumb methods for allocating funds among regions without really applying altogether acceptable criteria. Some regions receive more than their due shares while others receive less. It depends on the bargaining power of particular region. Throughout his period spent as a Minister of Finance and through his practical statistical analysis, revealed that Darfur and Kordofan regions are least privileged in terms of central grants-in-aid. Beshir diagnosed the system of grants and pointed out the following pitfalls:-
i ) The system creates a lot of uncertainty about forthcoming budgets which makes prior planning almost impossible.

ii ) As it stands, the system penalizes regions that make an effort to increase their local revenues by reducing their subsidy in the following round.

iii ) The system is characterized by unwarranted, long and complicated periods of negotiations.

iv ) Subject to little or no accepted criteria, it is open to personal, geographic and political bias.

v ) Approval even at the stage following the conclusion of negotiations does not mean that money will be available for expenditure. Beshir Omer (1987)(18).

Beshir disclosed his fear that, in the long-run the system may lead to confrontation between the people in regions and their governments. As a corollary, dissatisfaction and frustration due to the inability to provide adequate services to meet the modern demands of society.

Another writer, Ali Z. Derima (1980)(19) shares similar views with Beshir. In his Ph. D. thesis he elaborated about the 1980 regionalization Act. He argues that throughout the history of decentralization in the Sudan there are common characteristics, which can be observed, that central government always the law-giver and it remains always omnipotent (as he calls) all times; with certain reconsiderations it can always retrieve with impunity the powers it has.

-31-
devolved. Furthermore, Berima argues that; the conventional wisdom which centres on the sheer size of the country and its ethnic diversity, does not adequately explain the real motives behind regionalization of 1980. To him regionalization is a device for political engineering whose objectives is to devalue bureaucratic status and buffer regional problems. It is precisely, the struggle for political power in the capital city stimulated the sudden impulse towards regionalization. This was done with the aim of dismantling bureaucratic institutions and disperse them in different regions. If this is not the case, Berima questioned; why application of regional institutionalization in the Northern Sudan was delayed for almost eight years after the implementation of autonomous rule in southern Sudan since 1972? To him the simple answer to this question is that; the southern experiment came as the result of an armed struggle, accordingly the representative of south and Sudan government sat together to compromise over constitutional guarantees for individual and group rights and real division of powers. The gradual handling of power to Northern regions accounts for their weak negotiating capacity. This weak negotiating capacity was exploited by the central government in specifying centre-region relations. The new regional institutions are sheer artificial structures. Hence the political and economic powers devolved are very meager. In reviewing the fiscal relationships between the two level of governments, Berima came out with what he calls, national government encroachment on legislative as well as on the financial sources. The problems of fiscal and financial relations are
devolved. Furthermore, Berima argues that; the conven-
tional hierarchies that emerged are different in different
regions. If this is not the case, Berima questioned; why
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Sudan was delayed for almost eight years after the implemen-
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fiscal relationships between the two levels of governments,
Berima came out with what he calls; national government
encroachment on legislative as well as on the financial
sources. The problems of fiscal and financial relations are
deliberately created by the central government, which reflects the desire of the national government to achieve control through the system of grant-in-aid, so that regional governments remain dependent on central finance. Berima is also very critical about the methods of allocating grants. The methods discriminate regions. And as a result of this discrimination, remarkable disparity in terms of economic and social development is observed among different regions. Furthermore, he correlates the existing distributive methods with regional discontent and political unrest which some regions had passed through. He stated:

"... the absence of judicious allocation of resources between the different nonforming regions jeopardized the state’s capacity to deal with crisis of political integration. As a consequence of this, incapacity to bind together substantial segments of the population under one polity, with a common frame of reference, Sudan had ceased to be a state in the empirical sense, that its central government lost control of important areas in its jurisdiction during the struggle with rival political organizations. [Berima 1980], (20)"

Berima continues to assert that, ethnicity and ethnic identity are considered the main factor for determining intergovernmental transfers (grants and development spending)

"The idea of the nation and nationalism is an alien concept to many people in the Sudan. Because it is an European import, without defensive root, it claims to override"
the ethnic identity which constitutes the primary social grouping. Hence it generates intense inter-group conflict. In Sudan in establishing the new national identity some people are excluded, and once the primary group becomes the basis for discrimination, it is invariably an object of hostility at some point or another. (Berima 1976) (21)

Following Berima's logic, the variations in the regional shares of intergovernmental transfers are due to the concept of core and periphery groups. Those who considered as a primary group will get more than those who are not included in the core group.

However, Berima was not successful in specifying the determinate factors of the base and peripheral groups. Of course such clear cut demarcated dichotomy is very difficult to be visualized in the contemporary Sudanese intergovernmental relations.

An empirical analysis concerning the grants allocation were being done by A. A. Suliman (1977). (22) Using statistical techniques, Suliman made recommendations that; Effort should be made to relate regional relative shares to regional tax contributions. At the same time regional expenditures should demonstrate equalization, because people are entitled to similar services irrespective of their ability to raise local revenue. Central grants should be used as an instrument for expenditure equalizing among regions. But he adds that, financial system should be changed from conventional grants system to a full fledged revenue sharing between centre and regional governments.
Finally Sullivan concluded that, the basis of distributing grants to various province and local councils had to be changed. Sullivan pointed out that the system was "ad-hoc" arbitrary and highly unjust to the extent that it cannot be tolerated any longer.

Even Sullivan’s analysis were made before the introduction of the regionalism of 1980, but they help us to establish a base for further studies to know whether the introduction of regionalism helps to rectify the problem of inequity in allocating central transfers as indicated by Sullivan.

Further critical evaluations of centre-region fiscal and financial relations has been made by Al-Shibly (1995). He came out with a conclusion that the central government levies and collects most of taxes in Sudan. He said the regional governments are not bound to raise their revenue to finance their expenditure since the revenue-expenditure gap is filled by central transfers. Regional revenues are always below expectations. This is due to the nature of regional tax structure. The tax structure is always inelastic. Al-Shibly believes that, the problem of regional finance is due to the nature of the tax base, than the administrative inefficiency of local authorities. He claims that, the rural economy base for regional authorities is a nomoetary economy (subsistence economy) which causes difficulties in extracting taxes in money forms. Al-Shibly argues that there is a high degree of central government involvement in regional budget preparation. He adds central

-35-
government presently finance 80% of the total local government expenditure. This is done via central transfers (grants). Thus central transfers are considered the backbone of regional finance. To him there is no accepted criteria for devolution of funds, Al-Shibly asserted:

"Unfortunately there is no evidence of any scientific approach being followed in distributing the central transfers to the regions. Transfers are mainly allocated on the basis of the budgetary deficit of the regional and local governments".\(^\text{(24)}\)

Al-Shibly continued that; Sudanese experience in grants allocation, no matter what the stated rational might be, distribution and allocation have always been dominated by political bargaining. Consequently consecutive governments have consistently refrained from adopting an explicit grant formula so as not to expose these hidden forces behind the allocation of central transfers. Conceptually Al-Shibly agrees with Davey, that perceiving central transfers in terms of arithmetic calculation is least feasible. It is not the principles of equity and egalitarianism only govern the allocation system. He stated:

"The political scenario of central-local relations in the Sudan renders a chance for central politicians and bureaucrats to cover these transfers by an air of confusion, uncertainty and obscurity. This ambiguity has often been used to reinforce central control and mitigate the serious political conflicts which might arise"\(^\text{(25)}\). Al-Shibly (1999).
Finally he comments that, the unharmonized regional expenditure defeated the ultimate objectives behind decentralization. He called for an establishment of finance commission to order for distribution of intergovernmental transfers.

Adam Azzin (1981) made conscious efforts to understand how the resources (grants and development spending) are distributed among different regions. Azzin used statistical techniques, such as correlation coefficients, coefficient of determination and simple average (ear analysis in grants will follow the same techniques). Azzin recognized that there is variation among regional shares. His analysis finds that there are some regions continue to receive least shares, which he calls them privileged regions, or regions seem to receive an exceptional treatment. Whereas some regions are receiving less than supposed to be received. Azzin made further analysis by questioning: why variations among regional shares? And what are the key determinants of regional resources allocations? Through his analysis, he was convinced that, variations in regional shares are attributed to incrementalism. Incrementalism here means, that regional shares are determined by their relative shares in the previous years. Regions which start off with Lion's share will remain in the lead. Unfortunately region's with lowest share will lag behind indefinitely. Azzin concluded that the situation is sad, because the Lion's shares are justifiable on neither equity nor efficiency ground. Contemplating that such variations may lead to regional political unrest and regional political tensions.
2.5 Conclusion

Through the overview of the available body of literature on decentralization and its consequences, centre-region fiscal and financial relations, one can confirm that, most scholars and writers in the field of public finance, disagree with the existing practices of the intergovernmental fiscal and financial relations. Especially in the field of grants allocations. Which is core of the intergovernmental relations' problem. They unanimously agreed upon the absence of accepted and logically justified distributional formula, that why some regions receive more than their expected shares. But few of them made further analysis to explore the determinant factors behind such variations. They did not make further inference, perhaps, they are not convinced with the over motives of decentralization. However, most of them recommended the revenue sharing, as one possible solution to adjust the centre region fiscal and financial relations.

In the subsequent chapters, we will try to make further analysis to assure whether the above described practices continue to persist, or have been adjusted? and if they are still existing; what are the determinant factors behind such practices? Nevertheless, the study will try to make further analysis to explore whether revenue-sharing can be tolerated under the existing regional economic disparities.
Notes and References


CHAPTER THREE
CHAPTER (iii)

Salient Features of the Central Government Tax Structure

3.1 Introduction:

This chapter is written to identify and investigate the main sources of the central government's revenues, their structures, and characteristics. It will also correlate the central government's financial position to the suitability of the time at which the 1980 regionalization of the northern Sudan Act was issued.

As the Act has been issued and regionalism became a reality, then it is essential to know how the tax jurisdiction has been distributed between the central and regional governments.

Finally, the chapter will end up with a brief conclusion which summarizes the main issues discussed in it.

3.2 Sources of Revenues of Central Government Finance and their Characteristics

Like most developing countries, Sudan faces the ever-increasing problem of shortage of funds to finance its recurrent and development expenditure. The problem originates from the inability of government to raise funds at local and international levels. In the former by inadequate and inflexible sources of revenue and in the latter by an increasing unfavorable international monetary systems and high cost of borrowing. Beshir Omar (1984) [1].

A quick glance at central government recurrent budgets show us the continuous and rising deficits for last ten years...
years, which indicates central taxes and charges have failed to cover recurrent expenditure, let alone create surplus for the development finance and implementation of regionalism.

The main sources of central government's revenues come from main two sources which are namely:

(i) Tax revenue sources

(ii) Non-tax revenue sources

We shall consider each of these two and their main difficulties in brief. Each of these two types of taxes has its characteristics and special features.

3.2.1 Tax Revenue Sources:

In evaluating revenues from taxes, it is very essential to distinguish two forms of taxes. This is best be done through identifying the economic implications of each one. The distinction is necessary since the indirect taxes are associated with a higher general price level than direct taxes. Moreover, the distinction is more times based on relative prices. However, the most influential distinction is frequently justified on incidence considerations. While the burden of direct taxes often fall on people on whom they are levied, the burden of indirect taxes may shift to someone else. Many other factors, including the elasticity of supply and demand influence the validity of this argument.

Indirect taxes can easily be assessed, monitored and collected. On the other hand, direct taxes are not easy to administer especially in economies like Sudanese one, where the subsistence sector is large and where the standard of literacy and record-keeping is very low.
Most of indirect taxes in Sudan are collected by customs and Excise Duties Department, and are composed of: - import duties, consumption duties, export duties and sugar monopoly profits. (Distribution and sale of sugar in the Sudan is monopolized by the government). Although the profits from sugar monopoly are not strictly speaking considered a tax, but the price of sugar has frequently been multiplied over the years to raise the government revenue, e.g. the price of sugar has been increased 600% (from one Ls to seven per pound, during the previous two years 1988 - 1991)(2). Revenue accruing to the government are a type of excise duty. Accordingly the system taxes commodities rather than wealth or income. This annual reliance on indirect taxes(13) The heavy reliance on indirect taxes and especially on foreign trade as sources of finance is inescapable being dictated by the structure of the economy which is characterized by a large subsistence and predominance of the export sector.

Comparing central revenue yields of indirect taxes to that of direct taxes, the amount received from the latter is relatively very low. The low share of revenue raised by direct taxes is due to several factors, among them; collection of the direct taxes require of course proper record keeping as well as assessment of income and wealth. Many other reasons are considered responsible for the low share of the direct taxes that considerable amount of revenue is lost due to evasion and avoidance of the taxes, as well as low per-capita income and small proportion of people subject to income taxation.

-44-
Direct taxes include; personal income tax, business profit tax, sales and property tax and capital gain tax.

As has been shown above, the yields of indirect taxes always exceed the direct ones. Indirect taxes are further more income elastic than direct ones e.g. during the study period (1980 - 1990) elasticities of indirect and direct taxes on average are respectively 1.28 and .97 (see Economic survey June 1990).

Another fact which is of great importance is that, generally the average ratio of tax to gross domestic product (GDP) in Sudan is very low. It is estimated on average during the study period to be 3.5% (Economic survey June 1990). This is less than the comparative picture in many other developing countries, in which it is estimated during the same period to be 15%. By comparison with developed countries in which the average equivalent is 30%. The Sudan case is very low.

3.2.2 Non-Tax Revenue Sources:

Other sources of Central government revenues are a non-tax revenue in nature. These mainly resulted from government participation in schemes and projects, such as agricultural schemes as well as income from public companies and utilities. In addition to government charges and fees. These all together formed on average during the study period 7.6%. Beside these, Central government sources of non-tax revenue include; loans and donations and revenue generated from remittances of Sudanese working abroad.
As it has been shown, these taxes and their characteristics are responsible for the inadequacy of taxation as an effective instrument for generating needs of public expenditure and as an effective tool for achieving social justice and economic stability. Moreover beside these characteristics, the central government tax system is bedevilled by administrative and social problems, including the following:

(1) many business do not submit detailed records or any records at all. Hence are subject to arbitrary assessment, resulting in low payment (this is one problem of direct taxes.)

(2) Only a very small fraction of rental income is recorded or reported, particularly in cities like Khartoum where recent increases in rent levels is noticeable.

(3) There is some degree of personnel incompetence and shortage in the administration of the tax system and little or no co-ordination between tax department and Custom and excise duties department. Beshir Omer (1984) (9).

3.3 Central Government Financial Position and the Time at which 1980 Regionalization Act was Inposed

The inadequate and inflexibility of the central government tax system has resulted naturally in deficits in the recurrent budget which has been shown in the table below.
<table>
<thead>
<tr>
<th>Year</th>
<th>Direct Tax Revenue</th>
<th>Indirect Tax Revenue</th>
<th>Total Tax Revenue</th>
<th>Total Revenue</th>
<th>Total Expenditure</th>
<th>Surplus or Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>66,400</td>
<td>79,200</td>
<td>145,600</td>
<td>204,400</td>
<td>204,400</td>
<td>(1995)</td>
</tr>
</tbody>
</table>

As manifested by the table (3.1), the country suffers from chronic financial troubles, which resulted in continuous deficits. This is practiced before the proclamation of regionalization as the problem continued after the implementation of the regionalization. Thus without an alternative the central government compelled to resort to heavy domestic borrowing.

The ailing financial position, (Beshir omer 1984)\textsuperscript{10} of the central government supports the doubts casted by many central and regional officials about the suitability of the timing of regionalization. (Regionalism of course requires more government spending which means adding more troubles to an already worsened financial situation, since regionalization induces substantial new expenditure commitments.) Regionalism has been imposed without investigating to what extent are the regions able to meet most or some of these commitments? This fact alone strengthens the suggestion that the 1980 regionalization of the Northern Sudan was only a political engineering which was meant to shake off responsibilities of the central government.

3.4 Distribution of Tax Jurisdiction Between Centre and Regional Governments

Under these staggering financial positions regionalism was born and became a reality, which acquired the assignment of financial resources to finance its commitments. Now let us to examine how the central government distributed the tax jurisdiction between it and regional governments, the table below indicates how the issue was handled.
Table (3.2)  
Allocation of Tax Jurisdiction Between Central and Regional Governments:

<table>
<thead>
<tr>
<th>Central government taxes</th>
<th>Regional governments taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Import duties</td>
<td>Direct and indirect government taxes.</td>
</tr>
<tr>
<td>Export duties</td>
<td>Regional industrial, agricultural &amp; commercial activities.</td>
</tr>
<tr>
<td>Excise duties</td>
<td>All regional government taxes.</td>
</tr>
<tr>
<td>Business profit taxes</td>
<td>Urban tax on land and building.</td>
</tr>
<tr>
<td>Capital gains taxes</td>
<td>Ushur and Gibbana (or tax on agricultural produce).</td>
</tr>
<tr>
<td>Personal income tax</td>
<td>Animal tax.</td>
</tr>
<tr>
<td>Pension deduction and after service benefits</td>
<td>Commercial and other business licences.</td>
</tr>
<tr>
<td>Development (sale) tax and domestic production</td>
<td>General levies on services.</td>
</tr>
</tbody>
</table>

Decentralization Office, Khartoum.

As the table shows, the central government retained almost all indirect taxes within its jurisdiction leaving the regional governments with tax structure composed of almost all direct taxes. Paul Heorabes (1984) remarked that regional governments do not have the authorities to impose any indirect taxes or levies, nor can they impose taxes on income or profits. A number of commentators have repeatedly argued that it is unfair that regional governments do not have shares in indirect taxes generated and collected in their regions. Many regions show their dissatisfaction and discontent. (12)

According to Sayed Nemosi (1974) and many other Sudanese scholars in the field of public finance believe...
that indirect taxation forms lucrative source of revenue, due to their ease collection by the government at the place of manufacture or at the port of entry, Sudanow (1984)(14). When talking about lucrartiveness of taxation system it is perhaps important to distinguish two economic terminologies. These are:-

Elasticity and buoyancy. According to Alshibly (1990)(15), the response of tax revenue to change in income has often been identified as vital component for the evaluation of tax system. Recent studies he said, have tended to distinguish between two forms of response namely; Elasticity measures the automatic response of tax revenue to changes in income whereas buoyancy measures the total response of tax revenue to income that; indirect taxation forms lucrative source of revenue, due to their ease collection by the government at the place of manufacture or at the port of entry, Sudanow (1984)(14). When talking about lucrartiveness of taxation system it is perhaps important to distinguish two economic terminologies. These are:-

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-50-
elasticity has widely been recognized as better indicator of the response of the tax system to income changes and preferred to buoyancy, which includes the effect of discretionary action. Al-Shibly like other economists concluded that, central government's tax structure is more buoyant and lucrative than regional ones.

Another Sudanese scholar, Abdin Salama (1989) conducted elasticities analysis of both central and regional government taxes. He also concluded that, central taxes are more buoyant and income elastic. To confirm or reject such arguments it is necessary to conduct elasticities analysis to measure the sensitivities of both central and regional tax structures. However, elasticity analysis require measures of both gross domestic and gross national products, which are highly difficult to conduct under the current economic conditions of the Sudan.

In a nutshell the scholars' views centered around the fact that, distribution of tax jurisdiction between central and regional governments was unfair under 1980 regional government Act. This tendency continues to exist in the mentality of central policy makers. It can easily be notified even in the recently proclaimed federal system, (central government proclaimed federal system as a political formula for overall country. Presidential decree no. (4) 1991(17).

A word should be mentioned here that a federal system is not at the central theme of this study, we just came across it to give an example to the process of distributing tax
jurisdiction between the two levels of the governments. According to the decree each level of the government is assigned to certain taxes. But in distributing the tax jurisdiction between the two levels the central government insisted to retain almost all indirect and lucrative taxes, leaving the states, with only those already under the 1980 regional government Act. Of course we know that, as a political and economic fact federal system is more expensive than other forms of decentralizations. That it involves duplication of the national institutions, which means a total change in the political and administrative structure of the whole country.

Section five, Article (34) of 1991 decree on federalism, has very little to add to the unsatisfactory state of financial affairs of the regional governments. It specifies that the sub-national governments or states' revenues consist of the following:

(1) Taxes and charges levied by the regions. And they are composed of:

i) Animal tax

ii) Al Qabar and Gibbana taxes (taxes on agriculture produces)

iii) Entertainment taxes

iv) Building taxes

v) Land taxes

vi) Dates tree taxes

vii) Local rates

viii) Fees on commercial licences

ix) Fees on health care
(E) Central grants

(C) Percentage share of revenue (to be specified by central government) obtained from commercial, industrial and agricultural projects and activities

(D) Revenue collected from the following:

i) Revenue generated from the investment in commercial, industrial and agricultural activities run by the state

ii) Business profit taxes. Only up to the level of individual traders (companies are excluded)

iii) Local court fines

iv) Capital gain taxes

v) Fees on vehicles and cars

vi) Income generated from regional governments’ real estates

vii) Sale tax (only fees on services rendered by the state)

viii) Domestic loans and donations

ix) Self help.

(With regard to the first source (A) revenues for states, the distribution of the tax jurisdiction between central and regional governments, under the 1991 decree, like the 1980 Act assigned very few taxes of any importance to the regions.) The central government still keeps all the lucrative sources of revenues and passed very little to the regions. What is new in the decree is that the central government has agreed to share revenue obtained from commercial, industrial and agricultural projects and activities in the regions. The authority to specify and adjust the rate is left to central government. Also...
central government passed two forms of taxes to the newly born states.

i) capital gain tax

ii) business profit tax (only to the personal trade level).

Concerning the former case which, revenue sharing, we donot know how this will be done under the existing regional disparities. [For the latter, we can notice here that the two taxes assigned are direct taxes.] But if all direct taxes in the whole country could only manage to yield on average 12%[18] of total tax revenues during the study period (1980 - 1990), i.e. 80%[19] of the tax revenues come from the indirect taxes. Then these two taxes add very little to the existing regional financial positions.
Conclusion

It is clear that, the staggering central government's financial position alone convinces the observers that, the time at which regionalization had been enacted was not suitable, since regionalism imposes new expenditure commitments.

Even when regionalization was enacted and became a reality, the central government retained with it almost all lucrative sources of revenues (usually indirect taxes) leaving regional governments with direct taxes which are income-impacted and administratively non-bountiful. This makes the regional governments suffer from shortage of funds to finance their expenditures.

2. During the period 1989-1991 the government increased the prices of sugar from one Sudanese pound to seven


10. Deshir Omar, Ibid.


Chapter liv

Review of Regional Government Finance

4.1 Introduction

Preservation of regional autonomy is an essential goal for any genuine political decentralization. Regional autonomy cannot be preserved without having an adequate access to financial resources. Thus in evaluating any degree of decentralization and its consequences, it is essential to overview the regional government finance.

The main objectives of this chapter is to confirm or reject the premise which states that; regionalization of Northern Sudan Act of 1980 was not built on secure financial base and accordingly the socio-economic considerations played very minor role. One way to test such premise is to try to understand what regions could offer to their local citizens. Of course regionalism is not a target in itself, but a means for provision of better services. The quantity of services which have been provided can be manifested by regional budgets: Analyzing regional expenditures on chapters tell how the revenue had been incurred. Matching home revenues with expenditures, explains how regional financial autonomy is preserved. If the revenue-expenditure ratio is drastically low, this indicates the existence of a fiscal gap. Thus it requires to identify the main sources of regional revenues, in addition to the central government policies which may be responsible for increasing or decreasing, both revenue and expenditure.

-58-
Finally the chapter will conclude with the main issues covered or discussed in it.

4.2 The Problem of the Fiscal Gap

The critical element in centre-region fiscal and financial relations, is the matching between the responsibilities assigned and financial resources allocated to each level of governments. As Davey (1983)(1), calls; the problem of who gets, what and from where? This is very essential for the preservation of autonomy of regional authorities. If regional authorities are entrusted with provision of social services and functions without assigning a reasonable financial resources, the process will probably lead to the frustration of local authorities; as well as the local citizen, whom the regional bodies presumed to serve.

The problem of striking balance between responsibilities and revenue, or in other words, balance between regional autonomy and central control, has been recognized by many scholars and experts. Among them Meddick (2):

"Willing the ends by allocating functions to local government without providing the necessary finance is futile self delusion, but is surprisingly widely practised. Moreover it is likely to cause the collapse of the local government system. The public will distrust it and individuals will be reluctant to serve either as voluntary councillors or paid staff, if nothing can be achieved" Meddick (1983)(2).

-59-
Accordingly, in order to create sound and meaningful regional bodies capable of providing social and economic services, they must have adequate access to financial resources. In other words, when distributing responsibilities and resources between levels of governments there are certain principles that should be observed:

(i) A rational distribution of powers over raising and spending of public resources must be found in order to regulate relations between central and regional governments. Strictly speaking, of course it is difficult to identify what is "rational". But simultaneously it is not difficult to realise what is "irrational". What is needed here is that distribution of responsibilities should be consistent with the general patterns of decentralization. One of the most disastrous problems is the setting of unrealistic goals and trying to achieve them with modest capabilities.

(ii) Adequate share of public resources as a whole for financing services and development programmes performed by regional governments.

(iii) Adequate distribution of public expenditure between regions; or at least a deliberate progress should be made in this direction.

(iv) A fiscal effort in taxing and charging by the regional governments should be made with an equitable distribution of total burden of public expenditure.

As far as sources of regional revenues are concerned, in distributing tax jurisdictions between centre and lower tiers of local governments, flexibility of sources of reve-
nues was a special feature of local government finance in Sudan in the system of 1951. Marshall[3] the founder and the father of Sudanese local government system of 1951, outlaid the basic principles of the system in his famous report. These are the backbone of local government Act of 1951. The principles are the following:

(i) The country should when fixing or amending the duties of the local authorities, divide the task of government between central and local government and then allot suitable taxes to each level. Finance should be hand-maiden and not the master.

(ii) the taxes allocated to local authority should be regularly over-hauled to keep them in touch with current conditions.

(iii) Subventions (grants) from the central government should be used to equalize resources, to cater for special needs. However, he added subventions should be given in a manner which never interferes with local discretion.

The local government system in the very beginnings relied on a secure financial base, for provision of modest services. The reliance of local government on central grants and the problem of fiscal gap had not become acritical issue in the Sudan at the early stage of local government. For example, until 1967, grants had not risen above 10% of the total councils expenditures. According to answers prepared by the ministry of local government to questionares designed by international union of local authori-
ties (ULA) in 1966/67. The contribution of revenues sources were as follows:

1) Taxes and rates 58%
2) Central grants 9%
3) Other sources of income 33%

However, the above secure base was worsened through time. The country has witnessed a series of amendments of its local government system. Each new local government Act added some responsibilities to local or regional authorities without assigning corresponding financial sources of revenues. The problem has been escalating in the 1980 regional government Act. That is why many scholars believe that regionalism of the Northern Sudan was not built on solid financial base. Among them A/Gaffar M. Ahmed (1984). He remarks that, the drivers for the establishment of regionalism was undertaken by the central government to abdicate responsibility for particular functions. That the central government hid behind the façade of regionalism to escape from the demands of rural development and basic services. So compromised the regions would themselves frustrate the area councils by passing on the burden and leaving the regional tiers as little no more than "a parasitic" bureaucracy which would be disastrous outcome and will make the role of the regional government remains always diminutive.

For practical confirmation or rejection of the above premise, which casts suspicions on the essence of the regionalism of the 1980 Act, as a mode of decentralisation.
one possible way to understand it, is to re-evaluate what regions had produced to their local citizens. Of course, regionalism is not a target in itself. It is means for better provision of services and sound administration. What regions offer, can be manifested through the analysis of their annual budgets.

Table (4.1) displays the development of regional budgets within the study period (1980 - 1990).

<table>
<thead>
<tr>
<th>Year</th>
<th>Reg. own gen. revenue</th>
<th>Total expenditure</th>
<th>Surplus or deficit</th>
<th>Percentage change in revenue</th>
<th>Percentage change in expenditure</th>
<th>Percentage of revenue to expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980/81</td>
<td>66.3</td>
<td>223.1</td>
<td>210.8</td>
<td>15.1</td>
<td>22.5</td>
<td>19.6</td>
</tr>
<tr>
<td>1981/82</td>
<td>78.9</td>
<td>287.0</td>
<td>208.1</td>
<td>15.1</td>
<td>22.5</td>
<td>22.8</td>
</tr>
<tr>
<td>1982/83</td>
<td>99.4</td>
<td>333.3</td>
<td>234.3</td>
<td>21.0</td>
<td>22.5</td>
<td>26.1</td>
</tr>
<tr>
<td>1983/84</td>
<td>112.7</td>
<td>447.1</td>
<td>334.4</td>
<td>24.1</td>
<td>23.9</td>
<td>25.4</td>
</tr>
<tr>
<td>1984/85</td>
<td>99.1</td>
<td>505.1</td>
<td>406.0</td>
<td>-33.0</td>
<td>31.4</td>
<td>18.0</td>
</tr>
<tr>
<td>1985/86</td>
<td>119.1</td>
<td>559.1</td>
<td>440.0</td>
<td>-12.3</td>
<td>-11.1</td>
<td>15.1</td>
</tr>
<tr>
<td>1986/87</td>
<td>123.2</td>
<td>578.8</td>
<td>455.6</td>
<td>11.5</td>
<td>9.4</td>
<td>10.3</td>
</tr>
<tr>
<td>1987/88</td>
<td>176.0</td>
<td>620.3</td>
<td>444.3</td>
<td>36.5</td>
<td>17.5</td>
<td>10.1</td>
</tr>
<tr>
<td>1988/89</td>
<td>221.0</td>
<td>714.0</td>
<td>493.0</td>
<td>25.5</td>
<td>15.3</td>
<td>11.0</td>
</tr>
<tr>
<td>1989/90</td>
<td>259.7</td>
<td>777.5</td>
<td>517.8</td>
<td>23.3</td>
<td>19.1</td>
<td>13.3</td>
</tr>
<tr>
<td>Total</td>
<td>1331.5</td>
<td>4819.0</td>
<td>3487.5</td>
<td>14.7</td>
<td>27.6</td>
<td>13.9</td>
</tr>
</tbody>
</table>


Note: Period 1988/87 has witnessed enactment of a new wages and salaries scale.

-63-
Procris, indicate the deficits the regions witnessed through the study period.

Period (1981/85) the country had been hit by drought which led to drastic reduction of revenues and hence reduction in expenditures.

Period (1988/89) had witnessed also enactment of a new wages and salaries scale.

Table (4.1) shows the development of the regional budgets during the study period (1980 - 1990). It tries to relate revenues with expenditures to know whether regions can finance themselves so as to produce services to the local citizens. And if there was revenue-expenditure gap how it was created. Then tries to understand the rate of change of regional revenues and expenditures to assure whether, the process continues or not.

Table (4.1) displays the following facts

(1) The regional governments recorded deficits in their recurrent budgets throughout the study period. They only managed to generate on average 19.51% of their total expenditure. The rest of the expenditure which exceeded 80% is financed by the central grants.

(2) At the very beginning or at the start of the regionalism, regions' percentage of revenues to expenditure was 30.6%, (1980). i.e. the regions at the very beginning can only generate 30.6% of their total expenditure. But even this has been deteriorated by the time pace.
(3) The average rate of growth of regions' expenditures within the study period was 27.5%.

(4) The average rate of growth of regions' home revenue within the study period was only 15.2%.

The results obtained from the table (1,1) are not encouraging. In fact, the figures depress the observer. That regionalism seems to be some what obvious thing. Not only that, but the expression "parasitic" which A/Gaffar described, has its meaning, as the system is totally dependent on the centre in financing its services. The figures show that regionalism was not built on secure financial base, that from the very beginning the regions only managed to generate revenues cover 30.6% of their expenditure whereas the balance was covered by the central grants. Not only this but the ratio of revenue to expenditure decreased with the pace of time.

One of the crucial problems is the widening of the fiscal gap as time passes. The average rate of growth of revenues throughout the study period was 15.2% whereas the average rate of growth of the expenditure during the study period was 27.5%. This means that as the time pace the unfavourable revenue - expenditure gap will increase which means deepening the problem of fiscal gap and dependency burden. Not only this but the regions are not able to raise revenue to finance wages and salaries to their employees.
Table (1.2)
Estimated Regional Government
Expenditure—Period 1980/81—1989/90
(In Millions, Rs)

<table>
<thead>
<tr>
<th>Years</th>
<th>Chap. one</th>
<th>Chap. two and three</th>
<th>Total expenditure</th>
<th>Regional revenue</th>
<th>Percentage of chapter one in total expenditure</th>
<th>% of revenue to expend. on Chap. one</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980/81</td>
<td>575.5</td>
<td>97.6</td>
<td>673.1</td>
<td>665.3</td>
<td>54.76</td>
<td>72</td>
</tr>
<tr>
<td>1981/82</td>
<td>598.7</td>
<td>99.9</td>
<td>698.6</td>
<td>75.5</td>
<td>61.40</td>
<td>12.6</td>
</tr>
<tr>
<td>1982/83</td>
<td>238.2</td>
<td>107.1</td>
<td>345.3</td>
<td>99.6</td>
<td>65.20</td>
<td>29.40</td>
</tr>
<tr>
<td>1983/84</td>
<td>235.7</td>
<td>141.7</td>
<td>377.4</td>
<td>132.7</td>
<td>63.80</td>
<td>15.3</td>
</tr>
<tr>
<td>1984/85</td>
<td>334.8</td>
<td>195.9</td>
<td>530.7</td>
<td>95.3</td>
<td>63.10</td>
<td>20.30</td>
</tr>
<tr>
<td>1985/86</td>
<td>582.1</td>
<td>196.4</td>
<td>778.5</td>
<td>116.2</td>
<td>44.5</td>
<td>30.4</td>
</tr>
<tr>
<td>1986/87</td>
<td>451.8</td>
<td>299.6</td>
<td>751.4</td>
<td>122.2</td>
<td>69.3</td>
<td>19.4</td>
</tr>
<tr>
<td>1987/88</td>
<td>780.1</td>
<td>312.8</td>
<td>1092.9</td>
<td>178.0</td>
<td>71.6</td>
<td>22.5</td>
</tr>
<tr>
<td>1988/89</td>
<td>543.7</td>
<td>410.0</td>
<td>953.7</td>
<td>224.0</td>
<td>59.3</td>
<td>23.7</td>
</tr>
<tr>
<td>1989/90</td>
<td>565.5</td>
<td>504.3</td>
<td>1069.8</td>
<td>239.4</td>
<td>58.8</td>
<td>15.6</td>
</tr>
<tr>
<td>Total</td>
<td>3337.4</td>
<td>2388.7</td>
<td>5726.1</td>
<td>2755.3</td>
<td>Aver. 67%</td>
<td>Aver. 32%</td>
</tr>
</tbody>
</table>

Ministry of Finance and Economic Planning

1) Chapter one: indicates expenditure on wages and salaries

2) Chapter two and three indicate expenditure on services.

Table (1.2) shows the following:

1) The regional authorities spent on average 67% of their total expenditure on chapter one. In other words this...
In the percentage of chapter one to total expenditure.

2) Not only this but the regions can generate on average only 32% of their expenditure on chapter one; this means that they are even not managed to cover or pay salaries and wages to their employees.

Thus if regional bodies are not able to generate revenues to finance their bureaucratic structures, then one can hardly conceive that they can be used as development tools for social mobilization.

The issue of the regional expenditure especially on chapter one, some what becomes crucial problem. The ratio of chapter one to total expenditure is relatively very high, comparing with the ratio spent by central government within the study period.

Table 4.3 indicates the central government expenditures on chapters one, two and three.

Using information obtained from table (4.3), we can say that, central government spent on average 13.4% of its total expenditure on chapter one. In other words, central government spent on average 36.6% of the total expenditure on chapter two and three, which indicates the amount incurred in the provision of the services.

Comparing the central government's budget with revenues, the situation is reversed. Where regional governments spent on average almost 67% of their total expenditures on chapter one, which means, salaries and wages. Only 33% of their total expenditures are incurred in provision of services.
<table>
<thead>
<tr>
<th>Year</th>
<th>Expenditure on chapter 2</th>
<th>Expenditure on chapter 3 (for 4 years)</th>
<th>Total Expenditure</th>
<th>% of Expenditure</th>
<th>% of Chap. 2 &amp; 3 to total Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>107.5</td>
<td>744.7</td>
<td>552.6</td>
<td>12.3</td>
<td>57.7</td>
</tr>
<tr>
<td>1981-82</td>
<td>116.2</td>
<td>854.3</td>
<td>971.5</td>
<td>12.2</td>
<td>65.0</td>
</tr>
<tr>
<td>1982-83</td>
<td>131.6</td>
<td>1056.6</td>
<td>1182.2</td>
<td>11.3</td>
<td>53.7</td>
</tr>
<tr>
<td>1983-84</td>
<td>132.9</td>
<td>1305.3</td>
<td>1438.2</td>
<td>8.9</td>
<td>90.4</td>
</tr>
<tr>
<td>1984-85</td>
<td>125.7</td>
<td>1426.7</td>
<td>1552.4</td>
<td>8.9</td>
<td>91.3</td>
</tr>
<tr>
<td>1985-86</td>
<td>136.0</td>
<td>2294.4</td>
<td>2430.4</td>
<td>5.3</td>
<td>93.1</td>
</tr>
<tr>
<td>1986-87</td>
<td>1261.2</td>
<td>3015.5</td>
<td>4276.7</td>
<td>29.2</td>
<td>70.5</td>
</tr>
<tr>
<td>1987-88</td>
<td>1521.6</td>
<td>3722.6</td>
<td>5244.2</td>
<td>25.1</td>
<td>72.5</td>
</tr>
<tr>
<td>1988-89</td>
<td>2097.0</td>
<td>5515.7</td>
<td>7612.7</td>
<td>9.3</td>
<td>29.7</td>
</tr>
<tr>
<td>1989-90</td>
<td>1827.5</td>
<td>1411.5</td>
<td>4239.0</td>
<td>4.1</td>
<td>89.6</td>
</tr>
<tr>
<td>Total</td>
<td>9255.9</td>
<td>24888.3</td>
<td>34144</td>
<td>Ave. 13.12</td>
<td>Ave. 66.57</td>
</tr>
</tbody>
</table>

Ministry of Finance and Economic Planning

From the above analysis, it reveals that revenue has been increased very marginal. Not exceeding 15.2% (see Table 4.1). At the same time the expenditure increased at rate 27.6% (also see Table 4.1) annually, which is higher than the rate of the growth of the revenues. The natural consequence, of course, is the creation of fiscal gap. Many
scholars and practitioners in the field of local administration believe that; central government's policies are the main cause of the increment of regional expenditure. As the regional revenue is not kept in pace with the regional expenditure. For this reason, the central funding of regional budgets, i.e. grants had to increase at rate higher than that of regional expenditure.

4.3 Why do Regional Revenues Fall Below The Expectations

Or in other words why the financial disability of regional bodies in generating revenues to finance themselves. There are several factors for this, among which are the following:

1) Regional government tax structure itself
2) Central government policies
3) Lack of tax authorization at the regional level
4) Central government’s policies on grant systems.

We shall consider each of these factors individually, for further elaborations.

4.3.1 The Regional Government Tax Structure & Regional Sources of Revenues

Though several Acts were being issued concerning local and regional government regulations; nonetheless, section of the finance witnessed no significant amendments. In fact, the regional taxes originated from 1961 local government Act, which later supplemented by 1954 and subsequently 1958 local government appropriation of tax ordinances. Not only that but till now the taxes are assessed and collected...
by the lower tiers of regional bodies (Local Councils). The 1980 regional governments had to rely on the existing tax sources, administered by local councils, since the Act did not assign any new sources (see table 3.2).

Under 1961 local government system and 1967 and 1988 appropriations of tax ordinance, the following taxes are assigned to local governments councils.

a) Animal tax  
   b) Land tax  
   c) Date tree tax  
   d) Ushur and Gibbana tax  
   e) Tribute tax  
   f) Head or poll tax  
   g) Noise tax  
   h) Local rates  
   i) Beer on commercial licenses, fire arms, liquor and mineral waters.

It can easily be recognized that the taxes assigned are characteristically those of rural nature, i.e. they are levied in the rural societies. As a matter of fact, the rate of illiteracy among the rural people is very high, that is why the issue of records holding is very rare. This created a problem of proper assessment and evaluation of taxes. Beside this, the rural population are not familiar with social services provided by the government, due to the remoteness of the rural areas. Not only this but question of civic responsibilities on the part of tax payers in rural area is another complex issue. Rural people have a grim view towards the taxation. Sometimes may not comply with tax laws. That tax evasion and avoidance are not considered as an anti-social behavior should be denounced.
Collection of taxes under such circumstances is somewhat a very difficult task. Analysis of the regional taxes show that, except entertainment tax, rates and house taxes, the rest of other taxes have no urban nature.

Extraction of taxes no matter what the type and rate of social progress, has specific principles and criteria, which should be observed. It will be naive if someone conceived that he can increase the revenues just by simple upgrading of the tax rates or broadening the tax base. In searching for new tax sources there are a number of criteria and principles which must be considered; among them:

(A) **Yield of the tax**

(i) Adequacy in relation to the functions to be financed

(ii) Certainty and predictability of yield.

(iii) Elasticity; revenue increasing automatically with inflation, income, and population growth.

(iv) Collection costs as a proportion of yield (including opportunity costs of all resources used).

(B) **Equity**:

(i) The tax basis and liability should be clear and not arbitrary

(ii) Horizontal equity between all those in similar economic situations

(iii) Vertical equity; the rich should pay more than the poor

-71-
(iv) Benefit principle: Those who benefit (or benefit most) from services should pay more.

(C) Economic efficiency

Taxes should be designed to avoid creating disincentives or affecting choices, by minimizing the distortion of relative prices, (unless the aim is to regulate consumption or to provide specific incentives).

(D) Ability to implement

(i) The political will to implement (which can be assisted where taxes are automatic).

(ii) The administrative capacity and skills to assess and collect fairly and efficiently.

Beshr Omer (1984)(4), in his analysis of regional government taxation, concluded that: Regional taxes are not confirmed to the standard required by the described criteria. Moreover taxes were assigned to newly emerging regions without giving practical answers to any of the following questions:

How large is the revenue from the assigned taxes? and to what degree is it sufficient for financing the provision of services and for production or investment in the regions. Are they indeed yet another factor causing regional frustration and regional dependency?
4.3.1.(6) Regional Sources of Revenues

Regional sources of revenues include many local taxes, but they vary considerably among regions according to the composition, structure of regional economies, geographic disparities, social differences and colonial heritages. (e.g. date tree tax only applied in the northern Sudan. Also crocodile’s leath er tax only applied in the Southern region). However they originated from the ancient days. Quite a few experienced few alternations, whether in their coverage or rates. Thus they remain rather static source of revenues despite substantial changes in the economy and in the demand for funds. Beigir Omer (1984).

It is difficult to list out and describe all regional taxes. Instead we shall describe in brief the major taxes which contribute most to regional revenues. Many being common to all regions.

(4) The Bushur and Gibhana Taxes:

These are taxes on agricultural produce. And were originally imposed on the potential output of rainfed lands, and were assessed prior to harvest. Later they were shifted to a tax on actual output, and could be paid in cash or occasionally in kind. Now the taxes are collected in the market from the bakers, when the crop is sold in the market. Usually paid at specific rate, based on the value of the produce. Own consumption is therefore, excluded from the tax base. Bushur tax is often supplemented by Gibhana tax.
which originated as a weighing charge in markets. But sometimes it is administered and treated as a separate specific tax or surtax on the Ushur. In general the two taxes are synonymous with each other in practice. Both taxes are the major revenue generating sources in the regions.

Ushur tax is a good example of lack of uniformity. Each region (not only region but even provinces within the same region) decides on what commodities will be taxed under Ushur, and rates differ from one region to another. (For example Nill in Khartoum to 15¢ of product value in South of Blue Nile). This cause massive transportation of food and grain from high tax regions to low tax ones. In addition to smuggling across regional and even national boarders.

A report on local taxation, (1902), found that only one tenth of the estimated yields from these taxes are normally collected, due to this form of evasion.

Ushur and Gibbana taxes are levied on commercially produced agricultural output. Those to any own consumption is exempted. If peasants or farmers consume their produce and do not bring it to market, there is no possibility to levy Ushur or Gibbana taxes. It is not uncommon even nowadays to find rural societies in Sudan which have the characteristics of non monetary economy, i.e they produce for self subsistence and rarely produce cash crops, bringing them to the markets. Local councils in such areas are
deprived from revenues generated from Usur and Gibbana. In addition, since Usur taxes are levied on commercially marketed crops, there is danger that if the tax rate becomes relatively high, peasant and farmers may shift away from commercial production to subsistence production, creating all sorts of distortion to both regional and national governments. Moreover, the Usur and Gibbana taxes are highly sensitive to the quantity of the product which itself is a function of fluctuation of rainfall and other natural disasters. For any reason if the crop failed, local councils will lose a considerable portion of that income as in 1984, (the country in this year witnessed a serious drought which caused total crop failure and famine).

Even in evaluating Usur and Gibbana taxes using the measurements and criteria required in imposing taxes, the so-called Usur and Gibbana taxes suffer from many weaknesses. Among them, they neglect the differential costs of production. In so far as their incidence is on production, the effective tax rate on net income will vary from one farm unit to another, the production will increase as the fertility of land increased, at the same time the production will decrease as the fertility declines.

Again since the tax is levied on product brought to market, there is possibility of shifting of tax from producer to the consumer or buyer in the market. This means a total shift from the concept of the taxing agricultural income of farmers. However, it is a fact to be mentioned that the system has the advantage of easy collection, precision and
elimination of any possible errors. In addition it is flexible or somewhat elastic, i.e. the tax yields increase as the price of the produce increases. Nevertheless the maximum ceiling or the maximum rate can be levied is 15% of the product value.

(B) Animal Tax

It is a tax levied in accordance with the 1925 Animal Tax Act. On the basis of this Act the councils were given authority to levy taxes on animals within their jurisdictions. However, the Act specifies the type of animals to be taxed and the maximum rates to be charged.

Sudan is among the richest countries in Africa in terms of number of animals. But very unfortunately this wealth has not so far fully been utilized. As a result the tax from this source has typically generated only about 10% of total revenue of regional governments. Abdin A. Salama (1989), realized that statistics obtained from the veterinary inoculations (vaccination) shows that the animal population is far greater than numbers obtained for tax collection. He said that the number registered in tax records represent only 12% of the actual numbers recorded in the inoculation centres.

There is a critical question which should be answered that why although the country is one of the richest countries in Africa in terms of animal wealth, but the revenues yields from it is not so significant? It is a fact that, for any tax yield to be increased, there are two possible ways:-
(i) To widen the tax base or

(ii) To raise the tax rate

But increasing the tax yields from livestock through these two alternatives is every difficult task. There are several obstacles which hinder the increment of revenues, these are:

a) The majority of livestock owners are nomads who are constantly on move. Given the long distances in the country, they can hardly be reached effectively. Not only this but it is commonly observed that nomads who willingly pay are few. Some nomads attempt to escape from paying stamp duty at a low amount when they bought their animals in the market. Such people will not give the actual number of their animals to tax collectors willingly.

b) Many of these nomads move about and cross regional boundaries, so they can successfully avoid the payment of taxes.

c) The estimated tax on livestock is grossly underestimated. This is partly because physical counting of animals is not socially feasible. Some nomads believe that physical enumeration of animals is harmful for the animal wealth. It is a cultural belief which has no scientific base. But it is a tradition which requires along time and efforts to eradicate. In the past the problem of under-estimation of the number of animals was solved by
co-operation of (Shiekhs) tribal leaders with local authorities. However, after liquidation of native administration in 1965, "Shiekhs" as part of the system have lost their status and they no longer have powers. One possible way for tribal leaders to keep their positions and preserve continuity is to seek support of their tribal members. This may be done through under assessment of animal numbers owned by the members of tribe.

Some councils tried to solve this problem by setting for all-up sums, often obtained from the "Shiekh" or chiefs of tribes in advance. But the tribal leaders tend to refuse this method nowadays due to security problems and long distances. Not only this but if the "Shiekh" is hard or strict on the question of tax collection, members of the tribe may desert him, by registering their animals under another "Shiekh". Or even some times they appoint another individual from among them as a "Shiekh". The new "Shiekh" would normally cooperate with them in underestimating their animals.

Recently the country has been hit by destructive drought which resulted in loss of great number of animals, a factor which of course reduced the tax base. At the same time it resulted in poor grazing which forced the nomads to move into long distance in search of pasture. This require councils' officers to go after them to assess the taxable herds. However the problem is further exacerbated by shortage of cars and fuels in some regions, namely Darfur and Kordofan.

-78-
Really animal tax is a typical example of non buoyancy and inelasticity of regional taxes. Due to these difficulties the animal tax rates always remain low. Table (4.4) shows the rates of some regions in 1987.

Table (4.4)

<table>
<thead>
<tr>
<th>Animal</th>
<th>Eastern</th>
<th>Central</th>
<th>Kordofan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Camel</td>
<td>L.₧ 3.00</td>
<td>L.₧ 2.00</td>
<td>L.₧ 1.00</td>
</tr>
<tr>
<td>Cow</td>
<td>L.₧ 2.00</td>
<td>L.₧ 1.50</td>
<td>L.₧ 0.50</td>
</tr>
<tr>
<td>Sheep</td>
<td>L.₧ 1.00</td>
<td>L.₧ 0.25</td>
<td>L.₧ 0.25</td>
</tr>
<tr>
<td>Goat</td>
<td>L.₧ 0.25</td>
<td>L.₧ 0.25</td>
<td>L.₧ 0.25</td>
</tr>
<tr>
<td>Horse</td>
<td>L.₧ 1.00</td>
<td>L.₧ 1.00</td>
<td>L.₧ 0.50</td>
</tr>
</tbody>
</table>

Source: Taxation Department and Regional Ministries of Finance. Quoted from Bashir Omer 1987[11]

As the table shows the rates are remained an acceptably low, comparing with the values of the taxable animals.

Another problem contributed negatively to the yields of revenue from this tax, is the long and boring procedures followed in the recovery of any tax "arrears". The Act gives detailed procedures to be followed. For the council to recover tax arrears; first step is to issue an order for the immediate seizure of any or all animals in respect of which the tax is due. The Owner as the defaulter is the third part. As a second step the council has to keep the seized animal(s) for fifteen days to give the owner an opportunity to pay the tax or to show a good reason why he is unable to pay the tax. If either of these measures did not
produce results, the council may then take the third step by ordering the sale of such animal(s) in lieu of the tax due. Taxation of animals Act, (1925)[12]. It is obvious that the procedures are rigid, long and somewhat complicated. The process is further exacerbated by the fact that the market value of the single animal may be more than the amount of taxes in arrears. If during this period, the seized animal(s) get lost or die, the loss will be incurred by the council. Sometimes the value of the animal(s) far exceed the tax payable to the council.

Besides all these problems, the animal tax has conceptual and technical difficulty that the process tax capital rather than income. Animal wealth regarded capital than annually taxable income.

(C) Al-Atiyah Tax

This type of tax is more common in regions such as Central, Eastern and Northern. It is applied to irrigated lands, whether utilizing traditional methods or modern techniques, such as individual pumps or large-scale irrigations.

Recently studies show that yield from this tax is very low. The reasons are not hard to identify. Al-Atiyah tax like the animal tax suffers from many difficulties due to the absence of expert bodies responsible for its assessment. Moreover, in some regions where there are large public agricultural schemes and subsistence schemes (e.g. for refugees), the tax is not applied. For the regional bodies
to increase the yield from this tax, the public schemes must be included in the tax base, and should be treated on the same footing as private one. However, the presence of such schemes will create other sources of taxable income.

(D) Date Tree Tax

It is one of the oldest taxes in existence in Sudan. It is originated in the Northern region. It is a flat tax imposed on every single date tree, rather than on production. One of its advantage is that; it is easy to be administered and difficult to evade, since the tax is assessed by a tree count which takes place usually every three to five years. Recently fruit trees were included.

The date tax elasticity was found to be negative, \(-0.07\), Salama (1989)(13) this may be attributed to the static nature of the tax base. Many scholars and experts in the field of local government finance complain that the yield from it is very low. This is due to the narrow base, i.e. the number of trees are limited, (3.5 million trees) and rates have been charged low. e.g in 1987 the rate was 10 p.t per tree. Bashir Omar (1984)(14)

To increase the yield from this tax, there are two possible ways; one is to widen the base. This is done through planting new trees. But the long period of gestation (the period between the planting and production of fruits) already discourage people from planting more trees. It is possible only to follow the second alternative by raising the rates, but if the base is constant and rates
continue to increase the process may cause disincentive and
negative tax effect.

One way to escape from such dilemma is to shift the tax
from a fixed tax rate per tree produced or not, to a tax on
rental production of the dates. In fact the market price of
dates justify the above suggestion. In addition if the rates
remain that as it was, this violate the principle of equity.

(4) Entertainment Tax

It is a tax covers entertainment activities, such as
festivals, sport and so on. This type of tax is levied by
the town councils, on tickets for cinemas, theatrical per-
formance and sporting events.

The yields from this tax constitute a very small source
of revenue. It was expected to account for only 2% of the
total revenue, Al-Shibly (1990) [15]. The problem associ-
ated with this tax is that receipts from it are a function of
attendance at these luxury places of entertainment, which
in turn depends on the level of the region's per capita in-
come. As a result, the greatest returns are to be expected
in rich and populous regions such as Khurais and central
region. It is difficult to see how significant increase in
its yield can be achieved. Because of the paradoxical situa-
tion surrounding this tax. If it is decided to raise
the yield by increasing the base (i.e. through opening more
entertainment places) this would involve encouraging unnec-
essary consumption in entertainment. And if, other wise,
the choice is made to raise the tax rate the base is likely
to shrink more than proportionately, especially nowadays, that television covers the whole country and attracts some viewers. There is another complexity that the same tax is also topped by the central government (a form of stamp duty on entertainments) which reduce the base available for the local authorities.

(F) Tax on Urban Land and Building

This tax is originally introduced in 1919 and is common in all urban centres in Sudan. This tax sometimes is called local rates, and is usually assessed and collected by the urban councils or township councils. The revenue from it is used to meet the financial commitments in the provision of urban services.

The tax imposed on the basis of the annual rental values of land and building. It is specified that the rate should be charged in (1/12). Beshir Omer (1984)[16] revised and inspected the files of urban councils and identified the following inherent deficiencies of the system:

1) Rental value is estimated on a five years basis which is too long in the face of escalating urban land values and property prices.

2) Rental value is established by a committee of local property owners and councilors and not by proper surveyors and trained independent appraisers. This leaves the door open for all sorts of personal biases, underestimation and even corruption since the owners are the actual assessors of taxes.
iii) The tax rate is unrelated to the use of property (intensive use require proportional taxation to pay for part of the cost).

iv) In some towns, the tax is a flat rate per house without regard to rental value, this penalizes the poor section of the community and can thus be regarded as socially unjust.

v) The collection of arrears, and penalties for defaulters is not effective. Sometimes for urban council to collect arrears should follow long procedures, including suing the tax payers to the civil courts, because there is no enough specialized courts to tackle such problems. Even in some cases other factors included, such as the fear of losing political support of particular power groups in given areas in the cities. So the contribution of the tax in the revenue of regional authorities is very limited.

(G) Licenses Tag and Other General Levies

These levies consist of motor vehicles licenses, for commercial activities, fire arms, whereas other levies consist of charges on services and public utilities. Revenue from these taxes composed about 17% of the total regional revenue. Alshibli (1990)117). However, there is asignificant variation in the degree of dependability on this tax. For example licensees revenue represent the main source for urban councils, while the commercial and market licenses predominate in rural councils.
Like most regional taxes these levies lack a specialized body to look for their assessment and collection. That in most cases they are under estimated, due to the lack of experts and professional bodies or personnel. In addition, the law of commercial licenses is very archaic. It was issued in 1925, and rates in most regions remain very low. Moreover, the penalties associated with default or non-payment have witnessed very little change since then.

It is obvious from the above analysis that regional taxes with all their varieties and number, do not constitute at present a sufficient and sound source of income for the regions. This is due to the fact that their local revenues sources remain for long time static despite the growth of responsibility and rising of cost of services. This static tax base is accompanied with inadequate means of assessment and collection. In fact the assigned direct taxes proved to be income inelastic and expensive in assessment and collection. The revenues from these taxes sometimes fail to cover their collection costs, causing some local councils to neglect some taxes altogether and rely on central and regional grants. A good example in hand is the animal tax in some remote areas of Kordofan and Darfur. On the other hand, the yields from the ushar and Gibbana fluctuate with the quantity of agricultural production in rain-fed areas. This indicates very uncertain revenues from year to year. Moreover, the prices are highly sensitive to international price fluctuation which add another type of uncertainty of revenue generated from these taxes.
One of the most crucial problems associated with tax collection in the regions is the enforcement of the law. The tax defaulter is very high but the law enforcement in most of these cases is very poor.

4.3.2 The Central Government Policies

Central government policies are the main cause of the increasing regional expenditure and decreasing regional revenue. Historical evidence shows that the central government irrespective of the type of government. (Democratic or Military) issued legislations which were harmful to the local revenue. For example the multi-party system which has been adopted after attaining independence, had negatively affected taxation system of the local bodies. Some parliamentary candidates made promises of either abolishing some taxes or stand against imposition of new ones, so as to be re-elected.

Under colonial rule tax laws were strictly enforced. However, during the post-colonial period, governments were either unable or were very lenient on the issue of tax law enforcement against defaulters. So poor tax collection became the rule in local authorities. The local councils encountered the increasing problem of tax arrears or uncollected revenues of all taxes with exception of Usbur, Gibbana and Entertainment tax, which their rates rise with prices and are collected when they are assessed. Such arrears under conditions of increasing inflation and growing cost of services, will undoubtedly cause many problems to the local bodies. The central theme is not to resurrect the brutal
methods and practices which were followed by the colonial authorities to levy and collect taxes, but just to have some sort of seriousness in the collection of the taxes.

In some cases the central government followed the policy of appeasement. It took several actions that resulted in the reduction of the local revenues. For example immediately after independence, three of local taxes were repealed. They are described as colonialist insipid and incompatible with a free nation. These are poll tax, tribute and hat tax. The debate here is not on the essence of the taxes whether they were malign to human dignity or not, but they had been abolished without introduction or replacement with suitable source of revenue. Such practices would of course negatively affect the regional revenues. Other mistake was done such as the abolition of native administration 1971. It had added new dimensions to the problems of local taxes assessment and collection, especially the collection and assessment of animal tax.

In 1983 the central government legislated Sharia laws, where it introduced Zakat and Taxation Act as an Islamic fiscal system. Many taxes were deemed incompatible with Zakat and were repealed without replacement. These include many local taxes previously transferred to local authorities, however, they were reinstated in 1988 by republican decree, following period of confusion and loss of order and revenue of regional authorities. Zakat is resurrected again, with aim of replacing the existing fiscal system with an Islamic one. But Zakat unlike taxation has specific
avenues to be spent. Avenues which had been laid so uncom-
promisingly by the "Holy Quoran". Even if avenues are
broadened to include further expenditure, but the main
reservation against Zakat as an alternative system of reve-
nuce will remain valid.

Central government policies and practices also affected
the regional expenditure, e.g after implementation of re-
gionalism in the Northern Sudan in 1980, the country wit-
nessed excessive centralism both in personnel and financial
management. This was contrary to the expectation from the
policy of decentralization. Instead central personnel
policies which were highly centralized were responsible for
the expansion of regional expenditure, because of central
decisions to improve wages and allowances for public per-
sonnel. For example in (1986/87) the central government
enacted the minimum wage legislation. As a result regional
expenditure on chapter one inc reased from 302 million
pounds in financial year (1985/86) to the figure 671 million
pounds in financial year (1986/87) causing a rate of growth
in the expenditure (percentage increase) almost 55% (see
Table 4.2). Again the central government enacted in 1988/89
a new wage legislation which upgraded the wages and allow-
ance of government's employees. It noteworthy to mention
here, some facts concerning the personnel system in the
regions. The regional personnel composed of two distin-
guished groups:

First, regional authority staff, are drawn from the
central civil services, but working on the bases of second-

-88-
ment to the regions. This staff is sponsored and remunerated by the central government.

Second, local staff are employed by regional authority but organized "nation wide" in single civil services. The remuneration of this one is done by regional governments. If the central government upgraded the wages and salaries of personnel drawn from it, but working on the bases of secondment to the regions, regional governments are also bound to increase the wages and salaries of the personnel remunerated by them. Such policies will increase the regional expenditure.

4.3.3 Loss of Tax Authorization

Though regional taxes are assessed and collected by the lower-tiers of regional bodies i.e. local councils, but tax authorizations are still in the domain of the central government, i.e. regional authorities have no jurisdiction to amend or repeal tax legislation, or to levy new taxes beyond that stated in the financial section of different regional and local governments Acts. In fact many of legislations are out of date and outdated, but their adjustments or amendments are in the hands of the central government. In reality regional bodies depend on the so called self-help revenue sources, which the largest part of it comes from charging extra fees on sugar and other services consumed in the regions.
4.4 Conclusion

In a nutshell, we can say that, regional governments' revenues are not sufficient to finance their bureaucratic structures. This fact alone makes the issue of the fiscal autonomy out of question.

Several factors associated with the low yields of the regional revenues. Among them the regional government tax structure itself and the sources of the regional revenues, as well as the central government policies which affect the regional governments' financial performance.

Due to these financial difficulties, the regional governments heavily depend on the central transfers (grants) to finance their deficits. And because of the important role played by the central grants, the subsequent chapter is specified to discuss it.
6. Bashir Omer M. Padiulla, Ibid.
7. There are the prevailing rates at the time when the research was prepared.


CHAPTER (v)

Intergovernmental Transfers: Central Grants Allocation

5.1 Introduction:

This chapter aims at examining the financial relations between the centre and regional governments. This will be done through the evaluation of the nature and practices of intergovernmental transfers in the Sudan during the study period (1980 - 1999). Due to several constraints the analysis will be limited to central grants-in-aid only, since central grants finance on average 80% (see table 1.1) of the regional governments' expenditure. Thus the focal point of the chapter will be analyzing the central government grants allocations. How they are distributed? Who gets the biggest share? and who? Then trying to know in general the main factors behind the central grants allocations? In other words the main objectives are to confirm the argument that central government grants-in-aid allocations are carried out on other basis, determined by geographic blocks and personal values of those in power. The system reflects regional inequality and regional disparity.

Concerning the methods of analysis, this chapter will utilize the empirical data of the central government grants-in-aid to regional bodies. It will proceed in a two-fold manner:

Compare the actual regional shares with the expected one, to know how the equity principle is obtained.

It will use the descriptive statistics to explain the nature of regional shares, and then to confirm or reject the hypothesis mentioned above. Further the chapter will try to manifest whether the variations in regional shares (if exist) can be attributed to specific determinants. In other words we are trying to find the causal factors behind the financial figures. Moreover, it is the intent of this chapter to know which region or regions are more benefiting, and which one is least privileged from the present system of grants-in-aid allocation. The dependent variables (here are the regional shares) are measured by the per capita grants. The independent variables are related to the methods of grants allocations. Per capita grants for each region is equivalent to total amount of grants allocated to region during the study period (1980 - 1990), divided by the total number of the population of the region. The total amount of grants are the regional shares of grants distributed within the study period. Whereas, the total population of regions are extracted from the 1980 population census.

5.2 Central Grants:
Types and Purposes

Central grants are defined as, authorized contributions made by the central government to lower levels or subnational governments. Central grants are most important forms of intergovernmental transfers or central allocations. Central grants itself are inevitable, because of technical and
administrative difficulties of regionalizing all taxation. Of course it is out of question to talk about total decentralization of all financial sources of revenue in the country. Some revenue sources must be centralized, but their earning should be distributed among the different regions. Nevertheless, many people believe that, central grants are sometimes used by central government as a device for reinforcing the political control over revenue distribution. So it is the central government who allocates as much or little to regional authorities in away which pleases it.

No matter what the size or the types of grants allocated, they have specific purposes. It is hard to list them all here, but instead few of them should be mentioned. Among them:

First, grants are used to finance wholly or partly the cost of services which are of vital national importance.

Second, grants are best means for redistributing resources, by compensating regions with low fiscal capacity or relatively with inferior potentials for raising their own revenues.

Third, grants are sometimes used to control regional expenditures so as to ensure compliance with national policies and standards and to avoid financial irresponsibility.

Fourth, grants are used as instrumental to encourage and stimulate growth of regional economies.
According to the purposes mentioned, it is obvious that grants take varying forms. But for the purposes of simplifying the study, we categorize them into the following two major forms:

A) **Specific grants**, which are based on fixed percentage of regional expenditure, e.g. unit cost grants, which are based upon a fixed amount per unit or percentage of cost incurred.

B) **General grants** (sometimes called lumpsum grants). As its name indicates, it is general and not specified. So it is a multi-purpose grants. It can be multipurpose equalization grants, multi-purpose contribution to balance regional budgets grants, etc. It is the nature of services rendered that specify the type of grants. In general there are two broad approaches to the concept of intergovernmental transfers. The first approach follows the "aggregation model" and the second approach follows "devolution model". Al-Shibli (1990)11. For the purposes of policy making, the adherents of the former approach would recommend unconditional grants, and the transfer is usually for redistribution or regional balance purpose. On the other hand proponents of the latter model recommend conditional (specific) grants.

It is not the interest of this chapter to recommend one approach as positive scientific base for a comprehensive reform of grants system in Sudan. Because there are some non-economic factors which may justify the use of the aggregation model. At the same time there are some logical reasons for making use of the devolution model.
Central grants in Sudan have been realized and included in all local and regional government Acts issued in the country. Central grants were first introduced by 1951 local government Act. At the very beginning, the grants were systematic and straightforward. However, they have been deteriorated over time. Under 1971 people's local government Act, the grants system was changed from the concept of subsidizing regional or local governments' financial positions to bridge the deficiency (a gap between revenue and expenditure). By so doing, the regional budgets are exposed to substantial influence from the central Ministry of Finance. It is clear to observers that central involvement in local financial matters is very common; it resulted in a high degree of dependence of regions' authorities on central transfers. Central government financed almost 80% of total regional expenditures (see Table 4.1), which resulted in fiscal imbalance. As a consequence, regional governments were made complacent and indifferent about raising revenue from their own sources. One possible and easy way for regional government to get more grants is to resort to tactics which permit them to inflate their expenditure and deflate their revenues. It is widely believed that regional governments' financial statements are not realistic, that why the present system of central allocations, despite its long practices and experience, heavily criticized by many Sudanese scholars and practitioners. The common denominator among all is the absence of accepted criteria for the dis-
tribution of the centrally collected revenues. Each many factors overlap with the distributional formula of central grants. Al-Shibly (1980)[2] argues that, it will be over-simplification to conceive a distributive system of grants in the context of poor economic basis. Grants distribution in Sudan have always been dominated by political bargaining. The same view is shared by Kerima (1981)[3] and Sullivan (1977)[2]. They agree that the process of distribution was ad-hoc and is based on unjust grounds. Similarly Adam Aspin (1981)[2], in his Ph.D thesis, made analysis of the financial records concerning both grant-in-aid and development spending. His findings were very interesting. That central transfers exemplify regional disparities. Not only that but there are two regions “least privileged” in both cases (grants and development spending) these two regions are viz; “Darfur and Kordofan”.

The most comprehensive and well distinguished work in the field of the central grants allocation was that of Dakhir Omar (1987)[1], The former Finance Minister. According to him:

1. The system creates a lot of uncertainty about forth coming budgets which makes prior planning almost impossible.

2. As it stands, the system penalizes regions that make an effort to increase their local revenues, by reducing their subsidy in the subsequent round.
The system is characterized by an warranted long and complicated period of negotiations.

Subject to little or no acceptable criteria it is open to personal, geographic and political bias.

Approval even at all the stages following the conclusion of negotiations, does not mean that money will be available for expenditure.

Observations of Result are essential. But observations number two and four are more serious; if the system penalizes regions which try to increase their house revenue, by reducing their shares in the following round, this means that no region will exert efforts to increase its revenue, so as to save its budget from the reduction of central subsidies. Instead many regions follow other deceptive tactics to increase their shares. This is usually done by inflating the expenditure or defrauding revenues or both. Again if the system is an ad-hoc and subject to personal, geographic and political bias, this will open room for inequality and unjust distribution of central grants, especially in cases where a public official is exposed to low codes of ethics; one acquired through formal education and legal training and the other gained from prevailing values in the country. These conflicting values and expectations place pressure on civil servant leading him to favour own tribe or homeland. Thus trying to find a loop point to support own homeland or region may not be considered as an anti-social behavior or irrational decision that should be denounced publically.
5.2.1 Intergovernmental Relations: Distribution of National Revenue Between Central and Regional Governments

Before taking analysis of regional governments’ shares of central grants-in-aid, it is perhaps essential to know how much is the total regional shares from national revenue. This can be done by specifying the national and regional shares of its period, centrally collected revenue. It will tell us how the national “pool” is divided between the two levels of governments. Table below displays the recurrent national revenues within the study period (1980-1990) and the share of the each two levels of the governments. Regions here include all Northern regions, in addition to the Southern regions.

One striking figure about the table below is the fact that central grants have always been below one third of central government recurrent revenues. As shown in the table (5.1), central government on average spent 20.47% during the whole study period. As mentioned before, one of the prominent features of regional finance is the high dependence of regional governments on central transfers in financing their expenditures. But the amount allotted seems very meager. It is below the standard percentage in many countries sharing similar characteristics prevailing in the Sudan. For example, Nigeria, India and Korea, these percentages of decentralized governments’ shares to total governments’ revenues respectively, 49%, 16% and 50.7% (IMF, 1979)(7).
<table>
<thead>
<tr>
<th>Year</th>
<th>Total Recurrent Revenue</th>
<th>Amount Distributed to Regions</th>
<th>Amount Retained in the Centre</th>
<th>% of Amount Distributed to Regional Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>928.7</td>
<td>197.0</td>
<td>731.7</td>
<td>21.7</td>
</tr>
<tr>
<td>1981-82</td>
<td>1100.1</td>
<td>282.7</td>
<td>817.7</td>
<td>25.7</td>
</tr>
<tr>
<td>1982-83</td>
<td>1310.6</td>
<td>299.0</td>
<td>1011.6</td>
<td>22.6</td>
</tr>
<tr>
<td>1983-84</td>
<td>1510.1</td>
<td>335.7</td>
<td>1174.4</td>
<td>21.1</td>
</tr>
<tr>
<td>1984-85</td>
<td>1456.8</td>
<td>367.5</td>
<td>1089.3</td>
<td>25.0</td>
</tr>
<tr>
<td>1985-86</td>
<td>1899.2</td>
<td>447.9</td>
<td>1451.3</td>
<td>23.7</td>
</tr>
<tr>
<td>1986-87</td>
<td>4989.9</td>
<td>1003.3</td>
<td>3986.6</td>
<td>20.5</td>
</tr>
<tr>
<td>1987-88</td>
<td>6379.1</td>
<td>1328.8</td>
<td>5050.3</td>
<td>17.8</td>
</tr>
<tr>
<td>1988-89</td>
<td>9933.1</td>
<td>1226.6</td>
<td>8706.5</td>
<td>12.5</td>
</tr>
<tr>
<td>1989-90</td>
<td>1572.1</td>
<td>2100.0</td>
<td>472.1</td>
<td>26.8</td>
</tr>
<tr>
<td>Total</td>
<td>11196.7</td>
<td>33209.0</td>
<td>33209.0</td>
<td>Average: 29.47</td>
</tr>
</tbody>
</table>

          3. Ministry of Local Government

Sudan, as one of the least developed third world countries, shares the common characteristics of underdevelopment. One of the axiomatic assumptions in the underdeveloped countries, is the fact that, most people or the majority tend to live in the rural areas. For example 85% of population in Sudan live in rural areas (see Sidig Ahmad, 1983)[8]. If the country continues to divide the national...
revenue in the manner described above, it will likely aggravate the already existing dual economy. Regionalism should be conceived as a device for socio-economic mobilization not a device for achieving narrow political objectives.

5.3.2 Intergovernmental Transfers:

Central Grants Distribution to Regional Governments:

Now we have shown how the central revenue is divided between the two types of governments. The subsequent pages will be devoted to the explanation of patterns of interregional distribution of grants, as the light of the principles of equity in distribution of grants-in-aid among the various Northern regions during the study period.

Table (5.2)

(In Millions L. Sh.)

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>25.3</td>
<td>11.6</td>
<td>37.9</td>
<td>15.6</td>
<td>21.8</td>
<td>24.2</td>
<td></td>
</tr>
<tr>
<td>1981-82</td>
<td>36.4</td>
<td>63.2</td>
<td>10.7</td>
<td>27.6</td>
<td>29.8</td>
<td>36.8</td>
<td></td>
</tr>
<tr>
<td>1982-83</td>
<td>38.5</td>
<td>88.0</td>
<td>15.5</td>
<td>30.4</td>
<td>34.8</td>
<td>33.6</td>
<td></td>
</tr>
<tr>
<td>1983-84</td>
<td>32.1</td>
<td>72.6</td>
<td>52.0</td>
<td>37.1</td>
<td>38.0</td>
<td>47.5</td>
<td></td>
</tr>
<tr>
<td>1984-85</td>
<td>61.0</td>
<td>76.0</td>
<td>55.0</td>
<td>40.0</td>
<td>40.0</td>
<td>50.0</td>
<td></td>
</tr>
<tr>
<td>1985-86</td>
<td>89.1</td>
<td>86.8</td>
<td>55.0</td>
<td>41.5</td>
<td>40.0</td>
<td>63.1</td>
<td></td>
</tr>
<tr>
<td>1986-87</td>
<td>139.5</td>
<td>105.7</td>
<td>110.3</td>
<td>105.2</td>
<td>114.0</td>
<td>132.1</td>
<td></td>
</tr>
<tr>
<td>1987-88</td>
<td>136.4</td>
<td>234.9</td>
<td>135.9</td>
<td>116.3</td>
<td>135.4</td>
<td>104.8</td>
<td></td>
</tr>
</tbody>
</table>

-102-
Government

Sources: 1) Economic Survey, Section:

Ministry of Finance and Economic Planning

Using the information provided in Table (5.2) we can arrange regions in terms of their shares of grants. This can be done in descending order as follows:

<table>
<thead>
<tr>
<th>Region</th>
<th>1983 - 89</th>
<th>1988 - 90</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kordofan</td>
<td>155.3</td>
<td>101.2</td>
</tr>
<tr>
<td>Central</td>
<td>206.5</td>
<td>116.3</td>
</tr>
<tr>
<td>Northern</td>
<td>174.9</td>
<td>101.2</td>
</tr>
<tr>
<td>Eastern</td>
<td>144.9</td>
<td>101.2</td>
</tr>
<tr>
<td>Darfur</td>
<td>169.6</td>
<td>221.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>995.8</strong></td>
<td><strong>1011.1</strong></td>
</tr>
</tbody>
</table>

First: Central region with total share amounted LE 1731,000
Second: Kordofan region with total share amounted LE 1011,000
Third: Northern region with total share amounted LE 1011,000
Fourth: Eastern region with total share amounted LE 986,000
Fifth: Darfur region with total share amounted LE 986,000
Sixth: Eastern region with total share amounted LE 786,000

But this aggregation of regional shares does not explain anything concerning the equity of the distribution of central grants. The analysis of the system should be related to some factors, such as:

1. The population size
2. The region can produce revenue
3. Number of local councils prevailing in the region
4. The average household income in the region
The logic behind correlating the population size to the amount of grants is that, in a country like Sudan, where the public sector is the main provider of public services, regional expenditure should demonstrate equalization. Because people are entitled to similar services irrespective of their capability to raise local revenue. Since the regional governments' revenues cover only 20% of the actual expenditure, central grants should demonstrate some sort of expenditure equalization.

Using information obtained from the table below, which ranks regions in terms of population size we can calculate per-capita actual share of each region and the expected per-capita shares.

Table (5.3)

<table>
<thead>
<tr>
<th>Regions</th>
<th>Population</th>
<th>Area (Km²)</th>
<th>% of Total Population</th>
<th>Interc of region Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Khartoum</td>
<td>1,802,237</td>
<td>20,400</td>
<td>11.8</td>
<td>5</td>
</tr>
<tr>
<td>Northern</td>
<td>1,083,621</td>
<td>147,000</td>
<td>7.0</td>
<td>6</td>
</tr>
<tr>
<td>Eastern</td>
<td>2,582,239</td>
<td>3,100,000</td>
<td>11.7</td>
<td>4</td>
</tr>
<tr>
<td>Central</td>
<td>4,812,543</td>
<td>1,121,000</td>
<td>28.2</td>
<td>1</td>
</tr>
<tr>
<td>Northern</td>
<td>3,992,204</td>
<td>284,000</td>
<td>20.2</td>
<td>3</td>
</tr>
<tr>
<td>Harar</td>
<td>3,092,069</td>
<td>271,000</td>
<td>20.2</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>15,202,000</td>
<td>1,858,203</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Department of Statistics, Third Population Census 1983; Preliminary Results, Khartoum.

Dr Economic Survey, June 1990.
Information obtained from Table 5.3 shows the ranks of the six Northern regions in terms of population as follows:

First: Central Region
Second: Darfur Region
Third: Kordofan Region
Fourth: Eastern Region
Fifth: Sharioum Region
Sixth: Northern Region

Using information from Table 5.2 and 5.3, per capita regional shares during the study period (1980 - 1990) are as follows:

1. Northern Region with per capita share 1.4 933.6
2. Kordofan Region with per capita share 1.8 553.1
3. Central Region with per capita share 1.8 406.7
4. Eastern Region with per capita share 1.8 356.4
5. Kordofan Region with per capita share 1.8 353.0
6. Darfur Region with per capita share 1.4 293.8

For calculating average per capita, we bring the total amount of grants allotted to regions during the study period, and then divide it by the total population of the regions, it equal to 120.3 L.S.

While the summary measures in terms of population show that the Northern region is ranked the least. But it receives more grant per capita. Not only this but it received 513 L.S above the average grants per capita. On the other hand, Darfur was harmed by the financial arrangements throughout the study period. It received the least amount of grant per capita. Not only that but the difference between it and other regions, especially Northern one is very significant. Darfur received far below the average by 120.5.
For best understanding of the system of grants allocation, the concept of proportionate equity will be used here. By proportionate equity we mean the configuration between the actual and expected shares of regions interim of per capita. Thus proportionate equity is a yardstick against which deviations in regional shares can be measured. Using information obtained in tables (5.2) and (5.3) we can calculate the expected shares and then compare them with actual ones, to know which region or regions more benefited form the system.

Table (5.4)

Actual and Expected Per capita Shares of Regions

<table>
<thead>
<tr>
<th>Region</th>
<th>Population</th>
<th>% of Reg. pop. to total pop.</th>
<th>Actual shares</th>
<th>Expected shares</th>
<th>Actual per capita</th>
<th>Expected per capita</th>
<th>Expected per capita share</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td>1,960,300</td>
<td>0.7</td>
<td>192.1</td>
<td>220.7</td>
<td>106.0</td>
<td>112.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cent.</td>
<td>1,631,945</td>
<td>0.6</td>
<td>152.9</td>
<td>169.4</td>
<td>95.7</td>
<td>103.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>East</td>
<td>2,209,629</td>
<td>0.8</td>
<td>230.9</td>
<td>295.5</td>
<td>125.5</td>
<td>131.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>West</td>
<td>1,053,721</td>
<td>0.4</td>
<td>105.0</td>
<td>128.8</td>
<td>62.7</td>
<td>64.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>South</td>
<td>1,109,329</td>
<td>0.4</td>
<td>111.0</td>
<td>130.5</td>
<td>65.5</td>
<td>65.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>5,579,598</td>
<td>1.0</td>
<td>555.1</td>
<td>660.0</td>
<td>282.5</td>
<td>284.3</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Calculated by the researcher using information obtained from tables (5.2) and (5.3)

(1) (+) indicates above average expected value
(2) (-) indicates below average expected value

\[
\text{Average per capita share} = \frac{\text{Total grants allocated}}{\text{Total population}} = \frac{420.3}{106} = 4.56
\]
Using the assessment of proportionate equity in distribution of grants, we can rank the regions in terms of expected shares, according to information obtained. Table (5.5) match or compares the shares and then ranks regions in terms of per capita.

**Table (5.5)**

**Matching Between Actual and Expected Shares and Ranking Regions Interns of Shares. Period (1980 - 90)**

<table>
<thead>
<tr>
<th>Region</th>
<th>Rank</th>
<th>Expected Shares (Million L.S)</th>
<th>Actual Shares (Million L.S)</th>
<th>The difference between expected and actual (Million L.S)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central</td>
<td>(1)</td>
<td>1684.0</td>
<td>1631.9</td>
<td>(1) -52</td>
</tr>
<tr>
<td>Darfur</td>
<td>(2)</td>
<td>1304.8</td>
<td>958.6</td>
<td>-396.0</td>
</tr>
<tr>
<td>Kordofan</td>
<td>(3)</td>
<td>1298.3</td>
<td>1091.9</td>
<td>-206.4</td>
</tr>
<tr>
<td>Eastern</td>
<td>(4)</td>
<td>925.5</td>
<td>786.9</td>
<td>-138.6</td>
</tr>
<tr>
<td>Khartoum</td>
<td>(5)</td>
<td>758.4</td>
<td>996.8</td>
<td>(2) + 238.4</td>
</tr>
<tr>
<td>Northern</td>
<td>(6)</td>
<td>456.0</td>
<td>1011.1</td>
<td>+555.1</td>
</tr>
</tbody>
</table>

(1) = indicates below expected share
(2) = indicates above expected share.

Source: Information obtained from table (5.1).

Now we can clearly observe violation of the principle of equity. The disparity between actual and expected shares is very pronounced. It favours two regions, namely, Northern and Khartoum. Northern region received 555,100,000 L.S above the expected share. Darfur on the other hand is the recipient of the least interns of actual share which falls below the expected share by 396,000,000 L.S. Kordofan...
region is next. Its actual share falls below the expected one by 296,100,000 L. S. Central and Eastern regions are slightly harmed by the system. But as will be seen later from table (5.6); the two regions managed to cover the differences by their own home produced revenue.

Table below displays the regional home produced revenues during the study period.

<table>
<thead>
<tr>
<th>Region</th>
<th>Khartoum</th>
<th>Northern</th>
<th>Central</th>
<th>Eastern</th>
<th>Kordofan</th>
<th>Darfur</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>327.4</td>
<td>90.1</td>
<td>103.8</td>
<td>215.8</td>
<td>196.7</td>
<td>123.1</td>
</tr>
</tbody>
</table>

Source: Local government section,
Ministry of Finance and Economic Planning.

From above table, and with information obtained concerning regional population, we can calculate per capita share for each region. The logic behind it, is that, the local citizens in the country are entitled to average minimum public services. These minimum services are provided by the average per capita grants, which was estimated to be 420.3 pounds. Those regions with per capita shares of grants below the average, are expected to have higher per capita home produced revenues, which may compensate the difference.

Per capita home produced revenue equals to the sum of the actual home produced revenues during the study period, divided by actual population of the region. Using this formula the following figures are obtained:
Combining the actual per capita grants with home produced per capita shares and matching them with average per capita grants, we come out with the table below.

**Table (5.7)**

**Combining the Actual Per Capita Grants with Actual Per Capita Home Produced Revenues and Matching with Average Per Capita**

<table>
<thead>
<tr>
<th>Region</th>
<th>Actual per capita shares</th>
<th>Expected per capita shares</th>
<th>Difference between (2 &amp; 3)</th>
<th>Per capita shares of home rev.</th>
<th>Home of (4 &amp; 5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern</td>
<td>L.5 933.6</td>
<td>L.5 420.3</td>
<td>L.5 513.3</td>
<td>L.5 82.2</td>
<td>L.5 596.5</td>
</tr>
<tr>
<td>Khartoum</td>
<td>553.7</td>
<td>420.3</td>
<td>132.8</td>
<td>181.2</td>
<td>314.5</td>
</tr>
<tr>
<td>Central</td>
<td>406.7</td>
<td>420.3</td>
<td>- 13.6</td>
<td>102.1</td>
<td>88.5</td>
</tr>
<tr>
<td>Eastern</td>
<td>356.1</td>
<td>420.3</td>
<td>- 63.9</td>
<td>87.7</td>
<td>33.3</td>
</tr>
<tr>
<td>Kordofan</td>
<td>352.0</td>
<td>420.3</td>
<td>- 67.3</td>
<td>65.6</td>
<td>- 3.7</td>
</tr>
<tr>
<td>Darfur</td>
<td>293.8</td>
<td>420.3</td>
<td>-126.5</td>
<td>40.5</td>
<td>-26.0</td>
</tr>
</tbody>
</table>

(1) + indicates above average  
(2) - indicates below average  

Source: Calculated by the researcher using information obtained in the proceeding tables.
From this table we came to realize that the Northern system, in the most extreme case, that to say most privileged bining the actual per capita grants with home produced and comparing with the expected per capita grants, it is still 311.5 L. S above the average. Whereas central and Eastern regions are managed to offset the effect of the system by their home produced revenues. They now are above the average by 88.5 L. S and 33.8 L. S respectively.

The only regions failed to reach the average are Darfur and Kordofan. Darfur is significantly affected by the system; it is still 86 L. S below the average per capita grants, which exemplifies the most unique and extreme case. Kordofan on the other hand only 3.7 L. S below the average this mean that only these two regions suffer from the hardship of the system.

For answering the question of why Darfur and Kordofan regions are the least privileged? We can correlate the grants distribution system with the number of councils available in the regions. Table below displays this.
### Table (5.8)

**Number of Local Government Councils in the Regions**

<table>
<thead>
<tr>
<th>Regions</th>
<th>Number of Area &amp; District Councils</th>
<th>Number of Town Council</th>
<th>Number of Rural Council</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central</td>
<td>21</td>
<td>43</td>
<td>85</td>
</tr>
<tr>
<td>Kordofan</td>
<td>9</td>
<td>9</td>
<td>43</td>
</tr>
<tr>
<td>Darfur</td>
<td>12</td>
<td>5</td>
<td>43</td>
</tr>
<tr>
<td>Northern</td>
<td>7</td>
<td>9</td>
<td>19</td>
</tr>
<tr>
<td>Eastern</td>
<td>17</td>
<td>10</td>
<td>29</td>
</tr>
</tbody>
</table>

* Khartoum was divided into 4 districts following the administrative arrangement of 1983.


Even if we considered the number, the size and the dimension of councils are the base upon which distribution of grants depends; Figures in table 5.8 do not justify such disparities appeared in the allocation system. Especially the unique and extreme case of the Northern region and the least privileged, most discriminated against case of Darfur region.

Through these practical analysis, it became clear that, the current fiscal and financial policies, especially in the area of grants distribution manifested a high degree of incoherence and chaotic budgetary policies. In fact it is arbitrary, unjust and can not be justified on any ground. This imperfection and injustice of the system had been explored by many scholars (see Meshir Omer 1981).
It is not enough to recognize such facts. But we must ask questions:

i) Why is there variation or disparity in grants allocations?

ii) Why Darfur region always least privileged, recipient of least and most discriminated against?

iii) Why the Northern region is most privileged, represents the positive extreme case?

Viewing individual regions as a unit of analysis does not aid us in promoting an adequate answer to these questions. This makes or necessitates to look for explanations beyond the regional budgets.

In trying to understand the determinant factors behind the variations in regional shares, we may recall some economic theories, as well as other interpretations to confirm, whether the system can be justified on pure economic basis or any other basis.

There are two economic theories, which may call for unequal treatments or preferential treatments to particular regions. These are:

i) Concentration and maximum growth Theory which calls for the concentration of efforts in regions potential capabilities or maximum productive potentialities. Hence maximum efficiency principles demand such disparities, hoping that such regions can produce more, which may be distributed among the other regions. However, when the process started it will never be prevented. But in our case
this theory does not function. First, because grants are not for economic investment, they are mainly for provision of public services. So their redistribution is not possible. Secondly the Northern region which seemed most privileged is hardly qualified as a productive region, of possessing potential capabilities.

ii) The core-periphery theory argues that: There should be core region(s) which is served by the periphery ones. By providing cheap labour force and cheap raw materials. If we consider the privileged regions as core regions and under privileged as peripheral ones, the central regions and to lesser degree Eastern region as a core, but the Northern region also violates the presumption.

Philip Abbas (1973)(9), considered ethnicity as a key factor for grants allocation in Sudan. He consciously described the regional agitators "Darfur and Kordofan" as "non-Arab", non assimilated "Blacks". Dominated by the privileged Arabs. The domination is manifested by mal distribution of powers and material goods and services. However, this view was rejected by Adam Azzin (1980)(10) on the ground that "Arabian" in Northern regions of the country is a self proclamation. So it is hard to tell who is an "Arab" and who is "non-Arab".

Another scholar, A. Z. Berima (1981)(11), shares similar views with Abbas, his argument based on assumption that in the establishment of "new national identity", (Sudan after independence), some people are excluded, and once the
primary group becomes the base for discrimination. The "discrimination" interpreted in terms of distribution of powers and revenues among different regions. What is difficult here, is to correlate between the base group and privileged regions. Some regions may be considered as privileged, but at the same time contain groups the most backwarded pocket, e.g. "Angasina" in the central region.

The most comprehensive answer to this question was that of Adam Azizia. He argues that the earlier educated Sudanese were drawn chiefly from these privileged regions. Mainly the "Northern region", which had the first contact with colonial invaders. Then followed by Khartoum and Central region. They are the earliest Sudanese natives to occupy the positions of decision making. They might have benefited their home regions. This made the system favouring certain regions when distributing benefits. Then the process continued. Especially public policy in Sudan, is typically based on incremental approach. By incrementalism we mean here that, past levels of regional shares determine future levels. In other words, previous levels of expenditure determines future levels. Thus incrementalism is primarily based on changes in appropriations rather than contemplating the entire budget for each year. As a consequence the started better off regions will continue to benefit, and regions disadvantaged will lag behind. In fact incrementalism is a key factor for grants allocation in Sudan. This is not a speculation but it is a proven fact, by data obtained in the records of the Sudanization of Civil services.
8.4 Conclusion

So far we have seen how central grants are allocated among different regions. And have also shown that the process or the system is unjust and biased towards some regions.

Even though no conscious efforts were made here to correlate regional tensions and unrest prevailing nowadays, with grants allocation; it is safe to say that, the present distributional methods do not help to consolidate and reintegrate the different regions in the country. Sudanese culture values equity and egalitarianism. But the present structure of inequality does not favour future chances of national unity which is already shaken by regional discontent and regional tensions. Thus without provision of judicious distributive formula for resources allocation the country may head towards fragmentation.

Due to the importance of the issue concerned we may propose some reforms in the coming chapter, concerning financial and fiscal relations and try to recommend a distributional formula which may be simple, clear and more equitable than the present one.
Notes and References


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CHAPTER SIX
CHAPTER (vi)

Conclusion and Recommendations

6.1 Conclusion

Finance is the life-blood of any successful regional government. Without it regional authorities are no more than cheer political bodies. However, the preservation of financial autonomy is the most essential requirement of any progressive regional government. Nonetheless, the core problem of regional governments in the Sudan is the lack of financial resources. Thus whatever the reasons given, the fact remains that regional authorities are always short of funds. Under this unsatisfactory financial position the main findings of this study will be listed:

1) The central government recorded deficit in its budgets throughout the whole study period (1980 - 1990). This ailing and staggering financial position alone confirms the fact that the time at which regionalism had been enacted was not suitable, since regionalism imposes new expenditure commitments.

2) Even when regionalism was enacted and became a reality, the central government retained with its tax jurisdiction, the most lucrative sources of revenues, leaving regional bodies with direct taxes, which are income inelastic and administratively non-bouyant. This creates the problem of fiscal gap, that is why regional governments are always short of finance.

3) The unco-ordinated patterns of regional governments' expenditure served to defeat the main objectives behind the
introduction of regional government Act of 1980. That is the bulk of regional expenditure went to chapter one, which represents payments on wages and salaries. It is surprising to find that the actual revenues collected in the regions did not cover the expenditure on chapter one. This fact alone explains that regionalization Act of 1980 was not built on secure financial base and accordingly the socio-economic considerations play very minor role.

4) In distributing revenue collected nationally between central government and regional ones, the central government retained almost 80% of the total revenue, passing or allotting very meager revenue to regions in terms of grants-in-aid. The percentage is far below than that in many countries sharing similar characteristics prevailing in the Sudan.

5) The bulk of regional revenues comes from the central grants. In fact central grants approximately represent on average 80% of regional total revenues.

6) Central government grants-in-aid allocation system manifested a high degree of inconsistency and irregular budgetary policies. The system is arbitrary, unjust and cannot be justified on any ground. It opens a window to geographic, personal and political bias.

7) Throughout the study period, analysis of budgetary records show that Darfur and Kordofan regions were the least privileged, recipient of least and most harmed by the central grants allocation system.
6.2 Recommendations:

The proposed suggestions cover the following three areas.

i) How can regional revenues be increased in order to lessen increasing dependence on central government grants-in-aid.

ii) How can a simple, clear, judicious and predictable grant-in-aid formula be developed to overcome the difficulties encountered in distributing central grants-in-aid.

iii) How can a sound and comprehensive centre-region fiscal and financial relations be achieved.

Concerning the first question, the study suggests that, there must be a periodic review of regional sources of revenues so as to keep in touch with current conditions of regional governments and to assure their compatibility, elasticity and buoyancy, i.e. to satisfy the canons of taxation. In addition to this, central government must transfer some taxes, especially indirect taxes from its tax jurisdiction to regional ones. This may help to mitigate the problem of financial dependency of regional bodies on central government and hence an achievement of some degree of regional financial autonomy.

The second and third questions clearly tell us the extreme significance of financial adjustments, between centre and regional governments. The study suggests as many
other scholars in the field of public finance proposed, an establishment of a separate "statutory body" to cater for such financial relations between the two levels of governments. The prime responsibility of such body, which may be called "a Finance Commission" is to undertake continuous investigations of centre-region fiscal and financial relations. And try to overcome the problems of intergovernmental financial relations. The commission must be vested with a reasonable authority to determine the size and dimension of funds needed by each region. The decision of the commission must be bound to all levels of governments and it should be based on well specified and clear methods of allocations. The task of the commission is in fact very difficult, so it requires a high degree of technical knowledge in order to achieve satisfactory results. Hence the finance commission needed to include people representing all different regions prevailing in the country. Not only this but they must be acquainted with knowledge in area of socio-cultural, socio-economic and politics of the country. Assigning such responsibility to an ad-hoc political body will violate the entire purpose behind the system.

It is the responsibility of the commission to determine the size and dimension of funds needed by each region. This will be done through using a scientific and accepted formula for central grant-in-aid allocation. The proposed formula must take into consideration the following socio-economic factors as already proposed by Beshir Omer, these are:

1) Population size
2) Relative backwardness

-120-
3) A measure of tax efforts
4) Special locational and social characteristics
5) Commitment to major national schemes.

Each of these factors has its special weight and relative importance, e.g. Population size arguments are very simple that regions with larger population should receive relatively more funds than one with smaller population size.

The logic behind this is that, the core of central government's grants, is the provision of more public services for the social welfare of local citizens to ensure that all people in the regions enjoy the same level of services irrespective of their tax base. Central government should pay grants on population base to ensure equal treatment. Also the second factor, which is the relative backwardness, stems from the fact that regions which economically less developed, should receive more revenues than that relatively more developed one. The other elements or factors also have their reasons so each of this elements should be given special weight and considerations, so as to come out with a complete distributional formula, which may help to mitigate the difficulties encountered nowadays in distributing central grants.

Recently some scholars in the field of public finance, namely in the field of regional finance, recommended the notion of "revenue-sharing", as one possible way for the solution of difficulties encountered, in the distribution of central grants. However, the empirical evidence obtained from the available financial data of home produced regional
revenues, indicate that such proposal is not likely to produce effects. The problems of regional disparities are very significant. Uneven socio-economic development is a marked phenomenon in many regions. Some regions are relatively well-off, while others are far lagged behind. Given these realities if revenue-sharing is recommended, without actually knowing the regional taxable objects and regional disparities it will further aggravate the existing regional disparities. So for the time being such proposals should be suspended. This is not meant recalling decentralization of the fiscal and financial policies. But at the present, fiscal decentralization as a policy must take into consideration many factors if it is intended to serve a positive purpose.
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