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EXECUTIVE SUMMARY

1. This note is the latest in the series of GoNU budgets review notes by the World Bank. This note reviews 2008 budget execution and takes a preliminary look at 2009 implementation against plans for the first quarter. The analysis uses the context of earlier work on the first phase of the Post-CPA Interim Period (2005–2007) to look at the most recent information released by MoFNE, including data on 2008 execution as well as for the first quarter of 2009.

Overview

2. The GoNU fiscal performance in 2008 was strongly influenced by external factors, especially the oil revenue windfalls, reflecting high oil prices in the global markets and translating into higher than budgeted oil revenues. Savings into the Oil Revenue Stabilization Account (ORSA) drove accumulations to $1.4 billion by the end of 2008. However, 90 percent of the savings were subsequently withdrawn, or $1.3 billion withdrawn out of $1.4 billion deposited while oil revenues were 42 percent above budget. This was a costly missed opportunity. If properly managed, these savings would have dramatically lowered the fiscal impact of the global crisis on 2009 budget. Despite the over target revenue performance, budget credibility remains a challenge for federal transfers to northern states. Actual transfers to states continued to suffer lower execution rate - especially development transfers - relative to other GoNU categories. On the positive side, GoNU did manage to use some of the savings to pay off a significant amount of domestic arrears in 2008.

Revenue performance

3. The strong oil revenue performance through 2008 offset non-oil revenue shortfalls, specifically tax revenues. Expected gains from oil revenue were fully realized at 13 percent of GDP against 6.8 percent for non-oil revenues in 2008. The relatively weak performance of non-oil revenue was largely driven by a decline in tax revenue collection, from 8.2 percent of GDP in 2005 to 6.3 percent in 2008. Although levels of VAT collection did not decline in 2008, it is important to note that the VAT performance masks shortcomings and the overall picture need to be balanced. VAT collections were below expectations (2.4 in percent of GDP) taking into account that the standard rate went from 10 percent to 12 percent in June 2007, and to 15 percent in January 2008. The percentage point change in VAT standard rate (5 percent) between 2008 and 2005 was expected to generate more the realized outturn in 2008.

Expenditure performance

4. Excluding GoSS transfers which is highly influenced by oil revenue windfall, GoNU expenditure performance continued to reflect strict priority for release of funds to the federal government compared to northern states. This is largely due to the observed disproportionate redistribution in the budget priorities across all GoNU budget's categories which favor the federal government level and reflects under-performance for transfers to northern states specifically development transfers. In real terms, GoNU's

actual expenditure slightly shrank in 2008 (21.3 percent of GDP), but roughly maintained at the trend of 2007 outturns. On the same track, analysis of federal government expenditure showed steady downward trend, from 16.8 percent of GDP in 2005 to 11.8 percent in 2008. This is due to reclassification of central expenditure line items to the states (i.e. judiciary, police and higher education recurrent spending) and in some is due to low execution of development expenditure.

5. The national development receives far less attention in 2008, even though GNU revenues are above budget. Actual federal development expenditure are particularly off-track (76.8 percent of budgeted level), except for the energy sector, sectors deviations show that all sectors were far below budget. In real term, however, actual development expenditure declined from 4.9 percent of GDP in 2005 to 2.7 percent of GDP in 2008. This declining trend was largely due to shrinking share of national development compared to other federal budget categories, specifically in 2008, which was 22.6 percent of total federal government expenditure.

Pro-poor spending

6. GoNU poverty-reducing spending received relatively low priority in 2008 (5.2 percent of GDP) compared to 2006 (5.7 percent). This downward trend was accounted for by the associated declined in federal development spending on pro-poor projects from 1.4 percent of GDP in 2006 to just 0.6 percent in 2008. Looking into the composition of pro-poor spending, the share of GoNU spending on poverty reducing components in 2008 continued to reflect some progress relative to the historical weak poverty related efforts; there was a slight rise to 32 percent of total non-south expenditure in 2008 compared with around 29 percent over 2006–07. This progress is largely explained by increased pro-poor transfers to northern states from 15 percent of total non-south expenditure in 2005 to 21 percent in 2008. This, in part, reflects the government commitment to fiscal decentralization and reallocations toward pro-poor activities.

7. From an economic classification point of view, the bulk GoNU poverty reducing expenditure is allocated to recurrent items, which accounted on average for more than 60 percent through 2005 – 2008. Although at the federal level they were equally allocated, the picture is different at the state level, where poverty reducing expenditure is skewed toward recurrent more than development items (on average around two-third to one-third respectively). Pro-poor budget credibility remains a challenge and has even deteriorated over time, which has a serious implication for effective implementation of government's poverty reduction programs and development efforts more generally.

Budget Classification

8. Though the GFS budget classification is being used since 2008, yet the budget system does not provide actual executions of government expenditures according to their function and purpose as well as by administrative unit, remains making it difficult to apply international best practices in monitoring pro-poor spending in Sudan and provides insights into budget analysis in general.

GoNU 2009 Budget

9. The global financial crisis strongly influences GoNU 2009 budget projections. Aggregate revenue is projected at 13.2 percent of GDP, far less than 2005-08 trends, 20 percent on average. This is due to expected drop in oil revenue to less than the historical levels. To offset the expected oil revenue shortfalls; non- oil revenue collections projected to slightly increased to 7.5 percent of GDP compared with 6.8 percent in 2008 and to account-for the first time since 2000 – for more than half of total revenue (56.8 percent of total revenue). The increase in non-oil revenue is highly expected to be achieved from tax revenue through raising indirect taxes on goods and services including VAT and excise tax; which is likely to shrink the tax base (import and domestic production).

10. Tax revenue showed strong performance in the first quarter of 2009 against depressed oil revenue inflow which pushed total revenue to less than 30 percent of budgeted level. The major challenge through Q1 is the limited revenue stimulus to mitigate the adverse impact oil prices fall, including the ORSA, (virtually depleted through continuous withdrawals to remain at $26.01 million balance by end-March 2009 compared with $156.01 by end-Jan 2009), and foreign financing.

11. The direct influential effect of oil revenue shortfalls is obviously noted in GoNU expenditure estimates specifically GoSS transfers which declined from 5.0 percent f GDP to 2.3 percent. This, in turn, underscores improving oil revenue volatility management. Surprisingly, federal government expenditure – which is expected to shrink – is projected to increase to 12.3 percent of GDP compared with 11.8 percent in 2008, largely driven by directing more allocations to national development spending; from 2.7 percent of GDP in 2008 to 3.6 percent. Expenditure rationing has disproportionately hurt pro-poor spending component, with major declines in national development, development transfers to northern states and social benefits. Although 2009 budget promises slight increase in poverty reducing component (5.6 percent of GDP) compared with past actual levels; it is far less than its historical projections (around 7 percent of GDP).

INTRODUCTION

12. As a follow-up to the first Public Expenditure Review (PER)[1], this note reviews fiscal management by the Government of National Unity (GoNU) through 2008 budget performance[2], including pro-poor spending, and how do its main features compare to the fiscal management under the first phase of the Post-CPA Interim Period (2005-07)? The note also runs through the highlights of the key features of the GoNU 2009 budget and what has been the impact of the global crisis on the budget performance through the first quarter. The main objective is to highlight fiscal lessons for the remaining period of the Post-CPA Interim Period.

13. Several aspects of fiscal management are particularly relevant for assessing GoNU fiscal plans overall performance for 2008-2009. First, the fiscal management through 2008 reflects a strong emphasis on spending pressures due to the peace obligations (CPA, DPA, ESPA). The note looks at the shifts in total GoNU expenditures during 2008 relative to phase I (2005-07), across the three major parts of the GoNU budget – federal, transfers to Northern states and transfers to the autonomous regional Government of Southern Sudan (GoSS). Second, a breakdown of GoNU federal spending provides further insight into the authorities' priorities during 2008 compared with Phase I. Third, the note looks at GoNU's pro-poor allocations in 2008, and analyzes the trends in its composition relative to the Phase I. Fourth, the note takes a close look at GoNU's revenue management during the oil windfalls period of 2008. And last, the note presents an overview of the 2009 budget and actual outturns through the first quarter, which faces tremendous challenges that resulted from the global crisis. Key among them including: oil prices falls coinciding with non-oil exports slowdown, given the heavy dependency of the GoNU budget on oil revenue, which accounted for more than 50 percent since 2005.

14. The note is structured around the following six sections: review of the economic assumptions underlying the 2008 budgets, aggregate fiscal performance, revenue performance, expenditure performance, pro-poor spending, and the 2009 budget analysis followed by actual outturns through the first quarter.

REVIEW OF ECONOMIC ASSUMPTIONS UNDERLYING THE 2008 BUDGET

15. The GONU 2008 budget economic assumptions reflect continued macroeconomic stability with high growth and single-digit inflation, though they were pessimistic compared with those on which phase I (2005-2007) budgets were based (Annex Table 1). Real GDP was estimated to have grown 8 percent in 2008, down from double-digit gains in 2006 and 2007 but remaining well-above average for the Sub Saharan Africa region. The annual CPI inflation rate was projected to stay at 8 percent in 2008, virtually in line with the actual level contained during 2005-2007. The budget also projected an

[1] Sudan Public Expenditure Review (2007), report no. 41840-SD, World Bank.

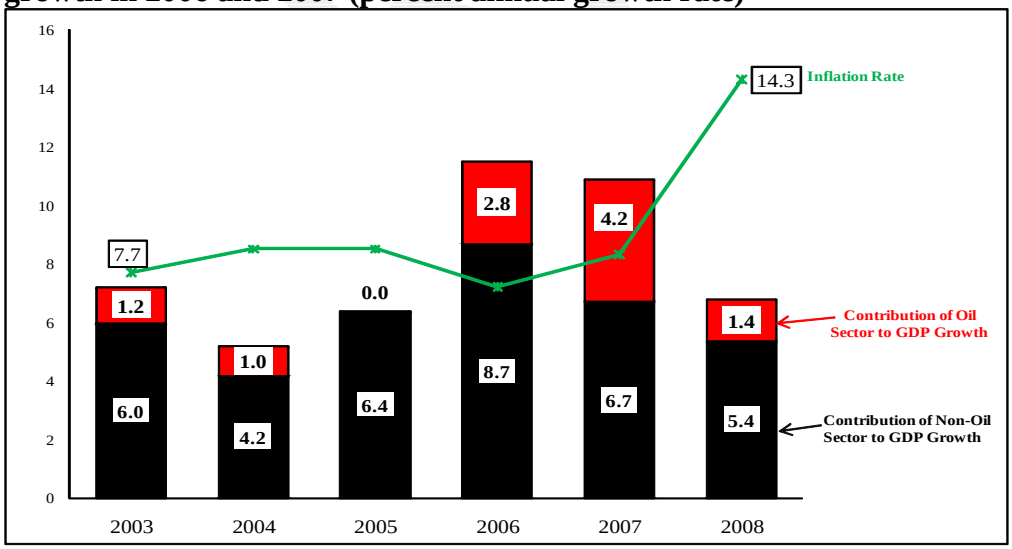
[2] The GoNU budget for 2008 is presented according to the GFS budget classification system for the first time as opposed to traditional economic classification "chapters". The newly adopted budget classification system provides more valuable insights, especially with regards to the intended functions of public expenditures.

appreciating local currency at 2.0 Sudanese pounds (SDG) per dollar; to remain close to the level that maintained in 2006 and 2007.

16. Actual economic growth in 2008 was significantly lower than forecast, with the real GDP growth rate at 1.2 percentage points below expectations (figure 1). This is well down from double-digit growth in 2006 and 2007, largely on the basis of continued declines in oil production and weakness in global oil markets. Contribution of oil sector to GDP growth declined from 4.2 percent in 2007 to 1.4 percent in 2008. The recent year-on-year decline in the growth rate heightens concerns for structural balance and strengthening of the non-oil sectors, which are essential for sustainable growth and poverty reduction efforts.

17. Actual inflation jumped significantly in 2008 to 14.3 percent; up sharply from single-digits during phase I (figure 1). This is the first time since mid-1999 that inflation has breached double-digit mark. As was the case in the rest of the world, rising food prices (cereals, rice, food oils, meat, vegetables and fruits) had driven inflation. The strong global oil prices increases during the first-half 2008 had a significant effect on imported consumer goods and also moderately affected the cost of locally produced ones (through higher cost of imported production factor inputs). A number of short-term policy measures to reduce inflation have been implemented recently. These include the removal of import duties and administrative fees for cereals. The Central Bank of Sudan has also asked the commercial banks not to provide finance or open letters of credit or renew letters of credit for export of sorghum.

Figure 1. Sudan growth performance in 2008 was well down from double-digit growth in 2006 and 2007 (percent annual growth rate)



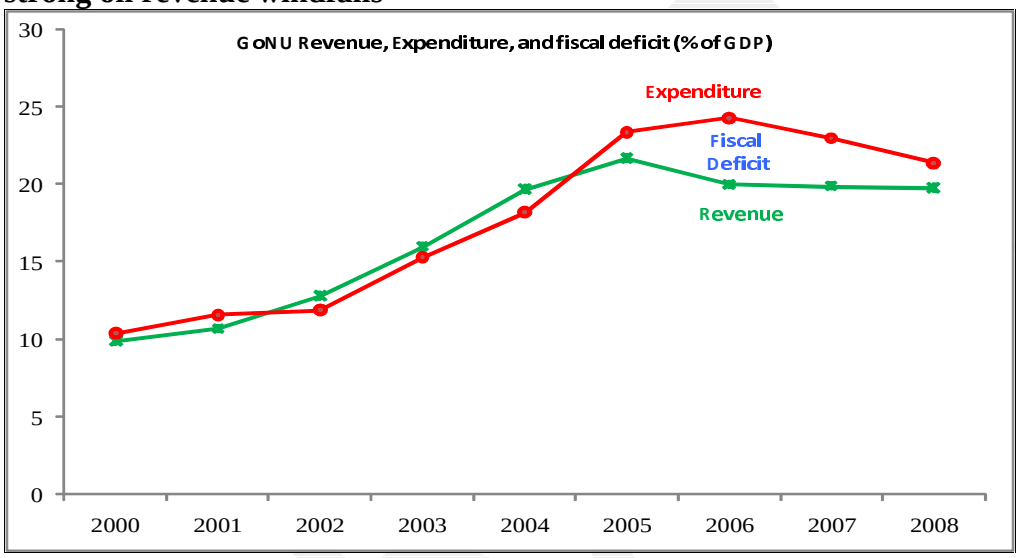
Source: World Development Indicators, IMF/WB Staff estimates

AGGREGATE FISCAL PERFORMANCE

18. The GoNU overall fiscal picture was improved in 2008 relative to 2005-2007, supported by strong oil revenue windfalls largely driven by exogenous factors in the oil

global market (figure 2). The actual fiscal deficit was narrowed to 1.3 percent of GDP on a cash basis, down from 3.9 percent in 2006 and 3.3 percent in 2007, according to the MOFNE figures. Total revenues outturns were at about 17.4 percent above budgeted plan of 2008, largely on the basis of oil inflows from exports and domestic refinery sales about 50 percent above budget targets. However, this revenue improvement was offset by less satisfactory non-oil revenue mobilization at about 12 percent less than expectations. Total GoNU expenditures outturns were virtually in line with expectations, comprised of larger (non-discretionary) oil revenue transfers to the South (56 percent above budgeted level).

Figure 2. GoNU aggregate fiscal performance was improved in 2008, supported by strong oil revenue windfalls



Source: MOFNE, WB Staff estimates

19. The bulk of the fiscal deficit in 2008 was domestically financed, especially by bond sales in the domestic non-bank sector. Domestic deficit financing was more than three-quarters of total deficit financing in 2008, declined from an average of 90 percent during 2005-2007. The bulk of domestic financing was non-bank sector borrowing (e.g. Government Musharka Certificates or GMCs, and Government Investment Certificates or GICs and Sukuk), which accounted for 69 percent and 54 percent of total deficit financing in 2005 and 2006 respectively. The predominated borrowing from the non-bank sector has serious implications on investment and resource allocation through its impact on the cost of finance and the amount of credit available to the private sector.

REVENUE PERFORMANCE

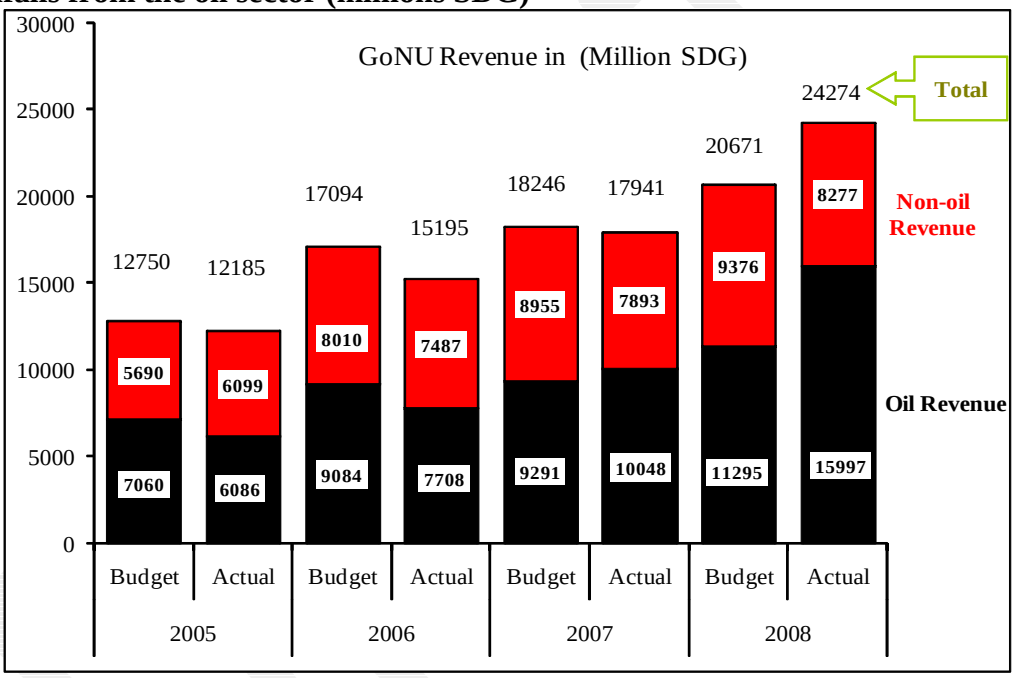
Aggregate Revenue

20. GoNU revenue performance through 2008 was well above budgeted targets due to revenue windfalls from the oil sector (figure 3). Expected gains in oil revenue were fully realized in 2008, led to a growing dependency on oil as spurious implication of windfalls. The Oil revenue windfalls in 2008 outstripped the budget plans due to strong world prices

and more favorable performance of Dar blend production and price realizations.[3] The oil sector has grown roughly at par with the economy, keeping oil revenues at 13 percent of GDP in 2008, compared with roughly 10 percent over 2005-2007.

21. While there has been poor performance of non-oil sector, keeping non-oil revenues roughly at 6.8 percent of GDP in 2008, compared with about 9 percent over 2005-2007. This is mainly driven by a decline in tax revenue collection from 8.2 percent of GDP in 2005 to 6.3 percent in 2008 as a result of significant decline in customs revenue collection (from 3.7 percent of GDP to 1.6 percent respectively).

Figure 3. GoNU revenue performance in 2008 was well above budget due to revenue windfalls from the oil sector (millions SDG)



Source: MOFNE and WB Staff estimates. *Note: Total Revenue excludes grants

Oil Revenue

22. The actual revenue performance of 2008 reflects the growing dependence on the oil sector for public finance (figure 3). Oil revenue contribution was 66 percent of total revenue, against 50 percent in 2006 and 56 percent in 2007 outturns. However, the sector has shown considerable volatility, underscoring the risks associated with the growing importance of oil to the fiscal policy. Actual revenue was more than 11 percent below expectations in 2006, with significant oil revenue shortfalls on account of lower production and sales prices of the new Dar blend crude. Oil revenue illustrated a strong performance in the first half of 2008, largely driven by more favorable domestic oil

[3] Dar crude is a new blend produced in block 3 and 7 located entirely in the South. Initially there were very few refineries which processed this product, but experience over the latter part of 2007 shows it is now more widely accepted. The price of this blend has increased from an initial low of $9/bbl to over $100/bbl, and markets have expanded in 2008.

production and strong world oil prices, led to annual revenues well-above budget plans. Actual revenues were 117.4 percent of 2008 plans, with oil revenue 141.6 percent of expectations – including ORSA - compared to 84.9 percent and 108 percent relative to the 2006 and 2007 budget's goals respectively. This urges for improving oil revenue volatility management as a basis for budget credibility and better expenditure management, which underscores the need for enhanced revenue estimation, with scenario planning and conservative cash management practices.

23. Oil Revenue Stabilization Account (ORSA) accumulated $1426.1 million through 2008 compared with $532.8 million in 2007, strongly influenced by oil windfalls. However, there were substantial withdrawals through 2008 of $1270.1 million (90 percent) out of $1426.1 million deposited in ORSA leading to a balance of $156 million, while oil revenues were 42 percent above budget. A major missed opportunity for saving, and completely against the objective of the ORSA; if saved, this would have dramatically lowered the fiscal impact of the global crisis and current foreign exchange shortage. Thus the speed in which the ORSA was depleted causes concern for its longer term usefulness. Reserve accumulation and credible management through a transparent governance structure is needed, along with accelerated progress on non-oil revenue reforms.

Non-oil Revenue

24. GNU non-oil revenue mobilization is low by regional and international standards, and has continued to decline, from 10 percent of GDP in 2005 to 6.8 percent in 2008. This was mainly driven by a decline in tax revenue collection from 41 percent of total revenue in 2005 to 31.6 percent in 2008 as a result of significant decline in customs revenue collection (from 18.4 percent of total revenue to 8.1 percent respectively). This reflects a continuation of the relatively thin tax base and possibly due to the impact of the Common Market for Eastern and Southern Africa (COMESA) and the Arab Zone customs unions. Non-oil revenue share falls to 34 percent of total revenue in 2008, against about 49 percent in both 2006 and 44 percent in 2007 actual levels.

25. Sudan's non-oil revenue mainly relies on indirect tax; significant revenues are raised through a VAT. Indirect taxes accounted for 82 percent of tax revenue raised in 2008, relative to 65 percent and 69 percent in 2006 and 2007 respectively. This underscores the importance of a prudent non-oil revenue policy for Sudan through a tightening of tax exemptions and implementation of structural measures related to non-oil revenue administration, given a weakness made possible by continued gains from the oil sector.

26. Revenue collections from VAT increased from 1.4 percent of GDP in 2005 to 2.4 percent in 2008, largely explained by increased standard rate from 10 percent to 12 percent in June 2007, and to 15 percent in January 2008. However, VAT performance masks shortcomings and large amounts of foregone revenue. A recent IMF report

concluded that Sudan's VAT yield to GDP ratio (i.e., the VAT efficiency ratio) is the lowest in the region[4].

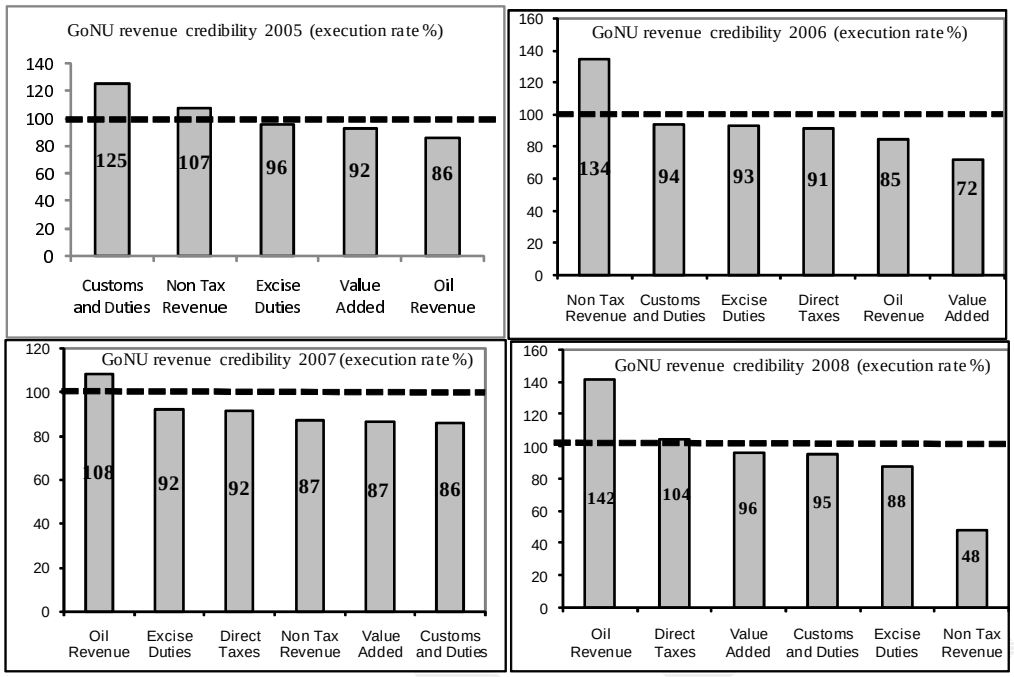
Revenue budget credibility

27. The GoNU 2008 budget planned for revenue mobilization at 19.2 percent of GDP, consistent with 2006 and 2007 actual outturns levels. Interestingly, this has fully been realized, thanks to external factor (e.g. oil windfalls). The following highlights 2008 actual revenue outturns relative to the budgets goals and how do they compare to 2005-2007 budget credibility.

- Figure 4 shows revenue sources performance have generally revealed strong credibility in 2008 relative to 2005-2007, except excise duties and non-oil-non-tax revenues (12 percent and 52 percent lower-than budgeted levels respectively).
- Continuing from late 2007, substantial oil revenue windfalls were experienced in the first half of 2008, reinforcing the growing importance of oil to the fiscal policy (at more than half of total revenue since 2005), though it is spurious implication given the potential of non-oil resources.
- Strong tax revenue performance in 2008, specifically from direct tax and VAT, led to annual tax revenues near budget plans. Actual tax revenues were 95 percent of budget 2008 plans - with direct tax revenue 4 percent above expectations - compared to only 86 percent and 88 percent relative to the 2006 and 2007 budget's goals respectively (figure 4). Favorable direct tax performance in 2008 was largely driven by a new development tax imposed in January 2008 at 3 percent of net profits of exempted persons (companies and individuals) as well as abolishing tax exemption on business profits.
- Another positive side on 2008 revenue mobilization performance is the improved VAT collection, which was around 96 percent of 2008 budget target, compared to 72 percent of revenue goals reflected in the 2006 actual outturns (figure 4). This is partly due to the increased standard VAT rate from 10 percent to 15 percent in January 2008.

Figure 4. Strong oil revenue credibility through 2008 relative to 2005-2007

[4] IMF (Feb 2009) "*Strengthening Tax and Customs Administration*", Fiscal Affairs Department, IMF.



Source: MOFNE and WB Staff estimates.

EXPENDITURE PERFORMANCE[5]

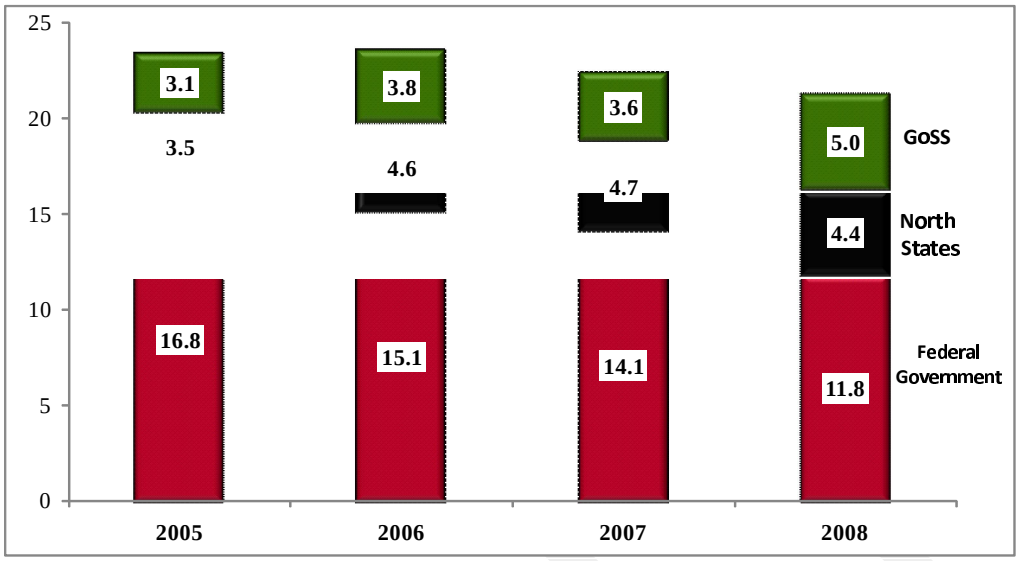
Aggregate Trends

28. GoNU actual expenditures in real term slightly shrank in 2008, but roughly remains in line with the overall trends of 2007 outturns (figure 5), largely explained by declined federal expenditures and transfers to the northern states. Federal expenditures declined from 16.8 percent of GDP in 2005 to 11.8 percent in 2008, largely reflects steadily cuts on federal development spending to 2.7 percent of GDP in 2008 relative to over 4.9 percent in 2005. Federal transfers to the northern states slightly declined in 2008 relative to 2006-2007, albeit increased from 3.5 percent of GDP in 2005 to 4.4 percent in 2008. More insight analysis will follow in the subsequent sections to understand the nature of these cuts on both federal development and transfers to northern states.

Transfers to sub-national governments, especially GoSS, have significantly increased in 2008, from 3.1 of GDP in 2005 to 5.0 and 5 percent. This increase explained largely by higher world oil prices and to a raising share of Southern Sudan in oil total production (Dar Blend).

Figure 5. Depressed federal expenditures and transfers to states over 2008 (Percent of GDP)

[5] Since 2006, Sudan's national budget is presented to the National Assembly in three parts-Part I includes federal recurrent and capital expenditure, Part II covers transfers to the GOSS, and Part III covers transfers to northern state governments. In 2008 the same budget line items were mapped into new GFS template without changing in federal government spending responsibilities.



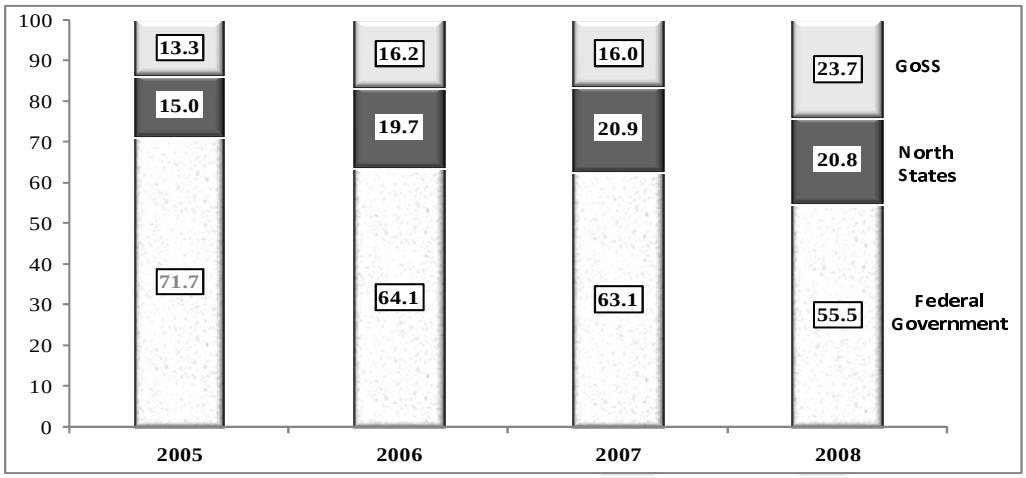
Source: MOFNE and WB Staff estimates.

GoNU Expenditure Structure

29. Consistent with the CPA, the composition of GoNU expenditures continues to reflect large increases in new obligations to the GoSS and fiscal decentralization transfers to the Northern states, reducing the federal government share of total spending (Figure 6). The federal spending share dropped from 71.7 percent of total GoNU spending in 2005 to 55.5 percent in 2008, with transfers to GoSS increasing sharply from 13.3 percent of total GoNU spending to 23.7 percent in the context of expanding oil revenue as a result of world oil prices surge. Transfers to Northern states increasing sharply from 15 percent of total GoNU spending in 2005 to around 20 percent since 2006. This is consistent with the INC devolving responsibility for basic service delivery to sub-national governments; though partially is due to reclassification of responsibilities.

30. These overall resources allocation shifts are of interest as an instrument to address regional disparities and support decentralized delivery of basic services, given that most states are heavily dependent on federal transfers to finance more than one-half of budgetary assignments in wages and salaries. This in turn stymies pro-poor spending, as enacted in the INC, shifts expenditure responsibilities for most of the public sector activities that directly benefit the poor – primary health, basic education, and water – to the state and local levels. However, these overall resources allocation shifts also underscores the critical importance of addressing deficiencies in effective expenditure management at lower levels of government. With increased resource flows to sub-national levels increased concern for effective decentralization and resource use at the sub-national level that is subject to improvements in public financial management.

Figure 6. Growing obligations to sun-national governments, 2005-2008 (percent of GoNU expenditures)



Source: MOFNE and WB Staff estimates.

Specifics on Budget Credibility

31. Budget credibility, as defined by the degree to which actual expenditures deviate from budgeted levels, is important for effective implementation of government's poverty reduction programs and development efforts more generally. GoNU aggregate expenditures budget credibility from approved budget was relatively strong in 2008 relative to 2005-2007 (figure 7). Actual expenditure in 2008 experienced a higher execution rate (98.3 percent) due to oil revenue windfalls. Budget credibility was constantly high for federal expenditures; over spending in 2005 and 90 percent of budgeted level throughout 2006-2008.

- Federal expenditures continue to reflect the strict priority for release of funds to these spending categories. Federal expenditures persistently enjoyed over 90 percent of budgeted levels since 2005. The strong budget credibility on the federal government expenditures is largely due to the observed disproportionate redistribution in the budget priorities across the budget's three main parts, which favors the federal government level and reflects the significant under-performance especially for transfers to northern states and development transfers.

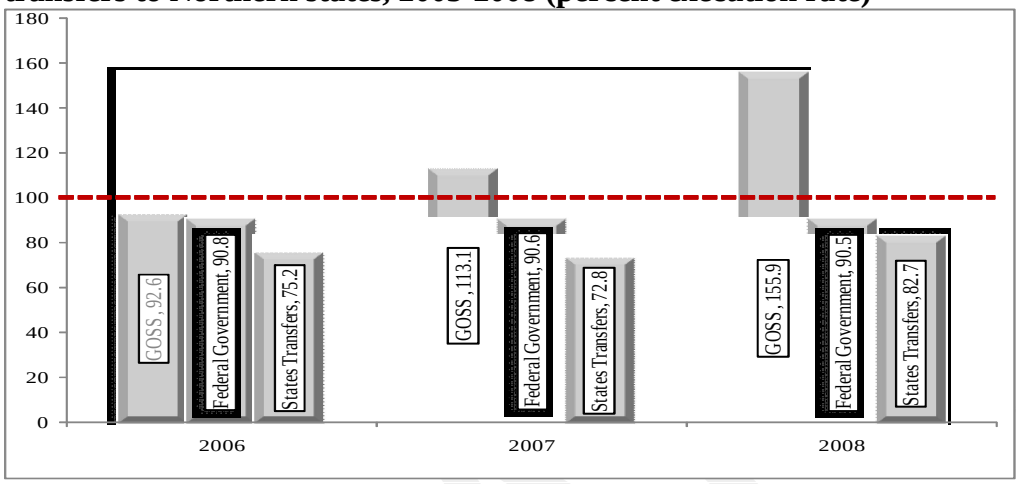
32. Budget credibility was high for transfers to the GoSS since 2007 (55.9 percent higher-than expectations in 2008). This recent improvement was mainly due to the world oil price surges during this period. GoNU transfers to GOSS from oil revenue are dictated by rules established in the CPA, and are not subject to discretion of the GoNU.

33. Weak budget credibility continues as a serious challenge for federal transfers to Northern states; albeit slightly improved in 2008. This context implies a lower likelihood to protect transfers to lower levels of government during resource envelope shortfalls, with development transfers the hardest hit area. This reflects a continuation of a major issue presented in the PER that budget credibility remains a major obstacle to effective fiscal decentralization.

34. Weak budget credibility has a devastating effect for state budgets which rely on central transfers for a significant share of revenues. Without a predictable flow of resources to the states, execution of spending plans is hampered, and of particular

concern, are the effects on financing of capital transfers. The Interim National Constitution (INC) established responsibility for much of the public sector spending that directly benefit the poor – primary health, basic education, and water – to the state and local levels.

Figure 7. Continued weak budget credibility as a serious challenge for federal transfers to Northern states, 2005-2008 (percent execution rate)



Source: MOFNE and WB Staff estimates.

FEDERAL GOVERNMENT OPERATIONS

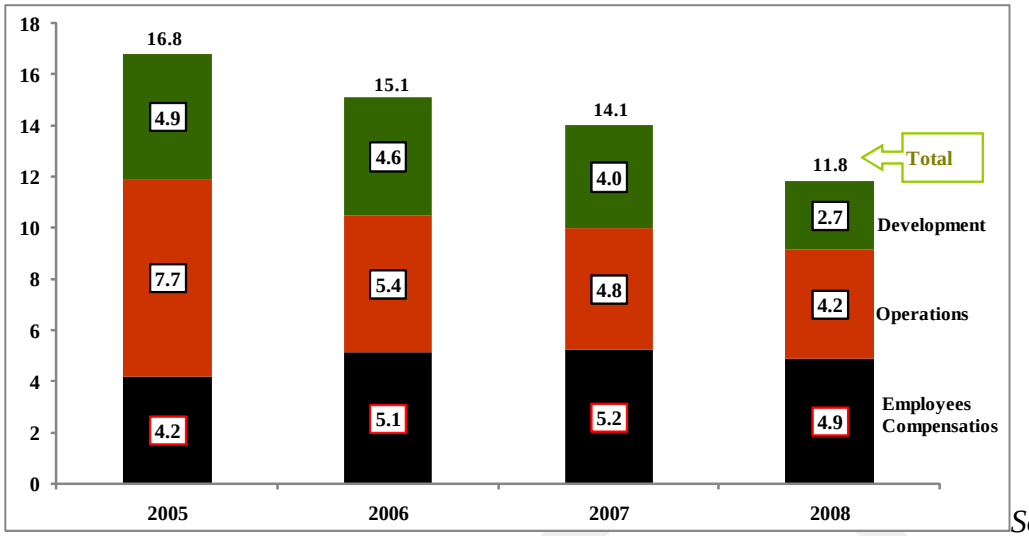
Aggregate Trends

35. Actual federal expenditures illustrate a steady downward trend in real terms since 2005 (figure 8), largely due to significant cuts on federal development and slightly downward operations spending. Government operations expenditure was steadily cut from 7.7 percent of GDP in 2005 to 4.2 percent in 2008.

36. Federal development spending has significantly declined to 2.7 percent of GDP in 2008 relative to over 4.0 percent during 2005-2007. This decline is largely explained by reducing development spending on agriculture from 1.7 percent of GDP in 2007 to 0.9 percent in 2008 due to cutting back spending on Merowe Dam (from 1.5 percent of GDP in 2007 to 0.89 percent in 2008). This downward trend reduced the share of development spending from 29 percent of federal expenditures over 2005-2007 to less-than 23 percent in 2008.

37. These overall federal resource allocation shifts have significant implications for federal expenditures as an instrument to support diversified pro-poor economic growth, given tremendous infrastructure needs (e.g. irrigation, roads, railways, airports, power, agriculture and livestock services, etc) especially in production and rural areas.

Figure 8. Steady downward trends on obligations to federal government, due to shrinking development and operations spending (percent of GDP)



Source: MOFNE and WB Staff estimates. * Compensations of employees include (i) wages and salaries, (ii) social contribution (pensions and social insurance and privileges), and (iii) compensations of employees' services. ** Operating includes (i) financing cost (i.e. obligation towards internal and external debt), contribution to the international and regional organizations, (ii) goods and services, and (iii) social subsidies.

Federal Current Expenditures

38. Federal recurrent expenditures on wages and operations are by far the largest items at the federal level, increased from70 percent of total federal expenditure during 2005-2007 to 77 percent in 2008. This increase is largely driven by increased "wages and salaries" share from 25 percent of total federal expenditure in 2005 to 41 percent in 2008, implying a growing trend over time including a 20 percent wage increase for all public employees in April 2006.

39. The observed sustained growth in wages and salaries took over significant share of the federal resources. Consequently, serious commitments for development projects are extremely limited, which in turn implies low federal capacity for maintaining basic infrastructure or even to undertake vital development projects required for creating favourable environment for private sector as general. Further investigation is needed to tackle this, the largest of the federal budget items.

40. A major drag to the federal government expenditure was the cutback to operations expenditure from 45.8 percent of total federal expenditures in 2005 to 36 percent in 2008. Nonetheless, operations expenditure remains the second largest item of the federal expenditures. Among the government operations expenditure items, purchase of goods and services and financing cost (which includes external debt repayment and repayment of government *Musharka* Certificates) are the largest line items, accounted for around 57 percent of the operations spending.

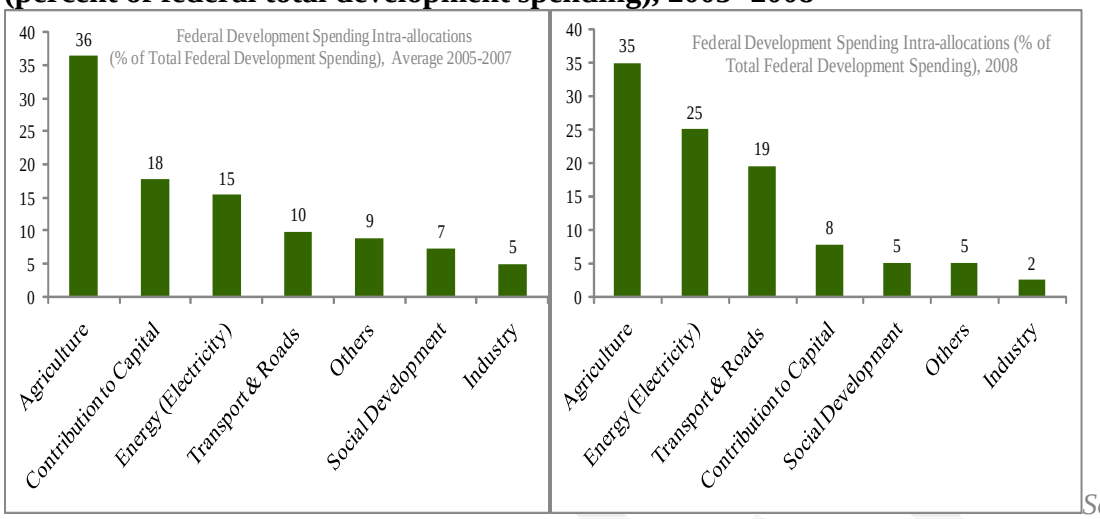
Federal Development Expenditures[6]

41. Federal development spending has significantly declined in real terms in 2008 relative to 2005-2007, though Sudan enjoyed significant oil windfalls during the first-half of 2008. Figure 9 presents federal development expenditure intra-allocations in 2008 relative to 2005-2007. The highlights are as follows:

- Federal development spending on agriculture sector[7] declined from 1.7 percent of GDP in 2007 to 0.9 percent in 2008, reflecting cutting back spending on Merowe Dam from 1.5 percent of GDP to 0.89 percent respectively. This decline pushed the share of agriculture sector from 46 percent of total federal development expenditure in 2007 to 35 percent in 2008, though agriculture sector remains constantly the largest item.
- All federal development spending on agriculture sector virtually went to irrigation projects, remaining limited room for agriculture and livestock. Irrigation projects alone accounted for 97.5 of development spending on agriculture, irrigation and livestock in 2008 compared with 2.5 percent for both agriculture and livestock projects (of which 1.6 percent for agriculture and 0.9 was for livestock). Interestingly, Merowe Dam accounted for 92 percent of federal development spending on agriculture sector in 2008 compared with an average of 80 percent during 2005–2007.
- Federal development spending on energy (electricity) slightly increased from 0.5 percent of GDP in 2005 to 0.7 percent in 2008, to remains the second largest item at the federal level, accounting for 25 percent of total federal development expenditure in 2008, compared with 11 percent in 2005.
- Social development sectors (which includes education, health …etc) and water supply is limited at the federal level, declined to 5 percent of total federal development expenditure in 2008, compared with 7 percent during 2005–2007, partially due to the growing trend of decentralization of responsibilities. However, this way is below what is needed to meet the MDGs, especially given the eroded state of social development infrastructure in the country.
- The share of transport and roads virtually double in 2008, increased from 10 percent of total federal development expenditure over 2005-2007 to 19 percent in 2008.
- Capital contribution was significantly cut in 2008, declined from 18 percent of total federal development expenditure over 2005-2007 to less than 9 percent in 2008. The share of industry revealed a dramatic decline, dropped from 5 percent of total federal development expenditure over 2005-2007 to 2 percent in 2008.

[6] Federal development spending includes national development projects as well as contributions to capital, support to development financing institutions and agriculture subsidies.
[7] Agriculture sector includes agriculture, irrigation, and livestock.

Figure 9. Agriculture enjoyed high priority in federal development expenditures (percent of federal total development spending), 2005- 2008



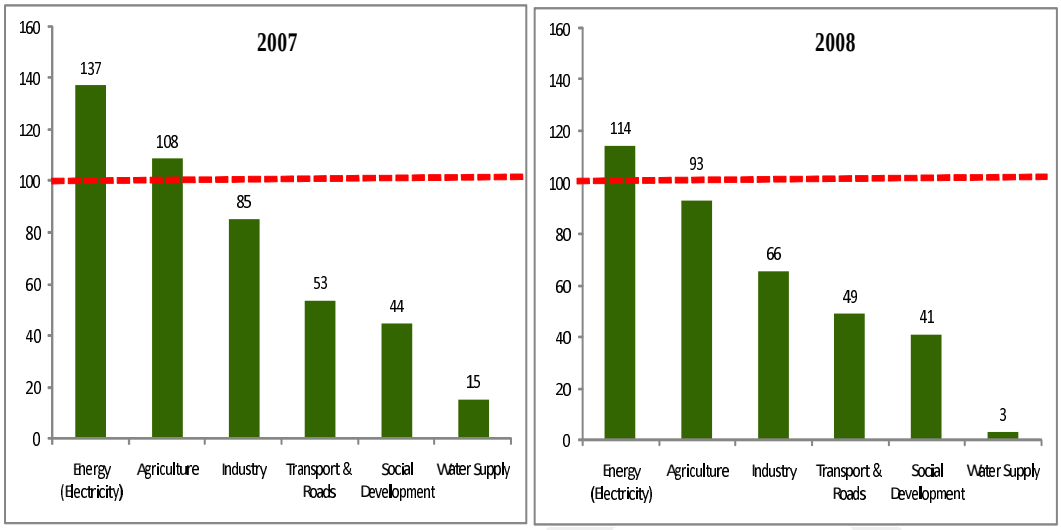
Source: MOFNE and WB Staff estimates.

42. Weak budget credibility continues as a serious challenge for federal development spending, even during resources windfalls. Actual federal development expenditure in 2008 experienced weak budget credibility (76.8 percent of budgeted level) in spite of the significant performance of the combined expenditures on GoNU overall expenditures. Figure 10 shows the magnitude of execution variation across federal development sectors. As identified by the PER, federal development spending suffers chronic adjustment in the budget priorities across the projects.

43. The observed significant variations in development budget execution, especially social development policy implementation, slow the achievement of a genuine increase in poverty-reducing expenditures, albeit recent budget allocations are beginning to reflect some progress relative to the historical weak poverty related efforts. This budgeting practice undermines budget allocations (how much is spent and on what) as a key instrument to realize both economic development goals and providing an opportunity to increase progress in human development and reduce disparities in access to social services in all parts of Sudan.

44. Realizing these commitments, however as documented in the PER, depend on setting clear poverty reduction goals and strategies, reorienting national budget allocations towards pro-poor expenditure priorities, reforming public expenditure management systems towards pro-poor service delivery, and ensuring accountability on the use of resources. This underlines the value of strengthening PFM systems as key anchor to ensure that budget allocations are well implemented and adequate funds are allocated to pro-poor spending and are targeted toward poverty-reducing activities and used efficiently.

Figure 10. Weak budget credibility was a serious challenge for federal development spending, (budget execution rate percent) 2005- 2008



Source: MOFNE and WB Staff estimates.

TRANSFERS TO THE NORTHERN STATES

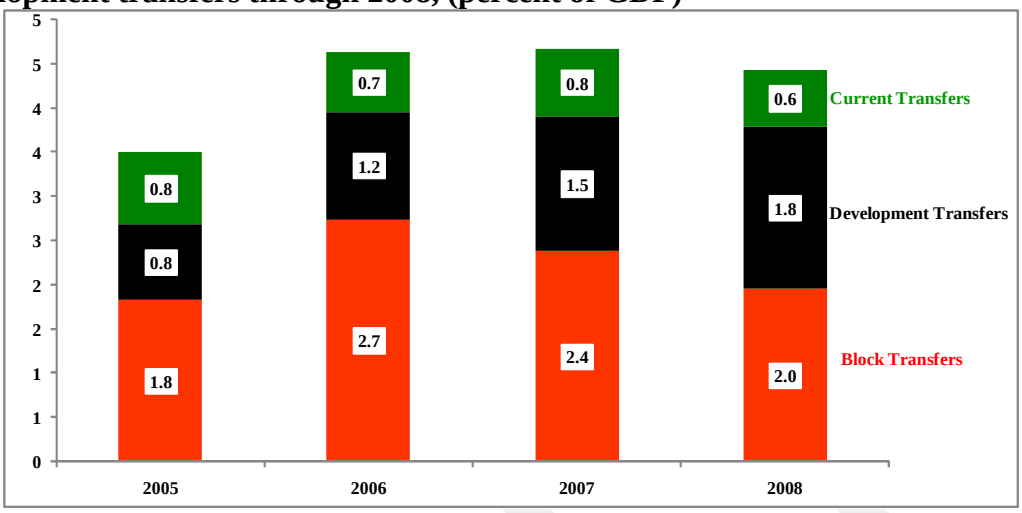
45. Federal transfers to the Northern states are discretionary in the sense that while the CPA commits to decentralization and pro-poor development, there are no clear and transparent formulae enshrined in the INC. Likewise, monitoring and institutional arrangements to ensure that transfers are made fairly and consistently as planned, as provided for in the CPA by the Fiscal and Financial Monitoring Commission (FFAMC), still remain a challenge. At the same time, the GoNU committed in the JAM to support pro-poor efforts and the main vehicle is transfers to the states.

46. Federal transfers to Northern states slightly shark from 4.7 percent of GDP in 2007 to 4.4 percent in 2008, albeit continues to reflect a risen trends from historical levels relative to levels enjoyed 2005 (figure 11). The downward trend in federal transfers is driven by declines in both block and current transfers, decreased from 3.4 percent of GDP in 2006 to 2.6 percent in 2008. Further work is needed to review the type and horizontal distributions of transfers across northern states in more detail.

47. There has been a distinct shift away from current transfers (for salaries and non salary recurrent) toward development transfers (Figure 11). Federal development transfers significantly increased from 0.8 percent of GDP in 2005 to 1.8 percent in 2008, largely driven by improved earmarked development transfers, increased from 0.8 percent of GDP in 2005 to 1.7 percent of GDP in 2008.

48. The share of development transfers has been nearly doubled between 2005 and 2008, increased from 24.2 percent of total transfers in 2005 to 41.4 percent in 2008 against a declining share of both block and earmark transfers from an average of 54 percent and 18 percent during 2005–2007 to 44 percent and 14 percent of total transfers in 2008 respectively. The increased development transfers apparently reflects continued shift in resources to basic infrastructure at sub-national levels. Further work is needed to understand the nature of the increases in this type of transfers - whether this increase is at least partially due to reclassification of national projects as regional development.

Figure 11. Declined federal obligations to northern states, but increased development transfers through 2008, (percent of GDP)



Source: MOFNE and WB Staff estimates.

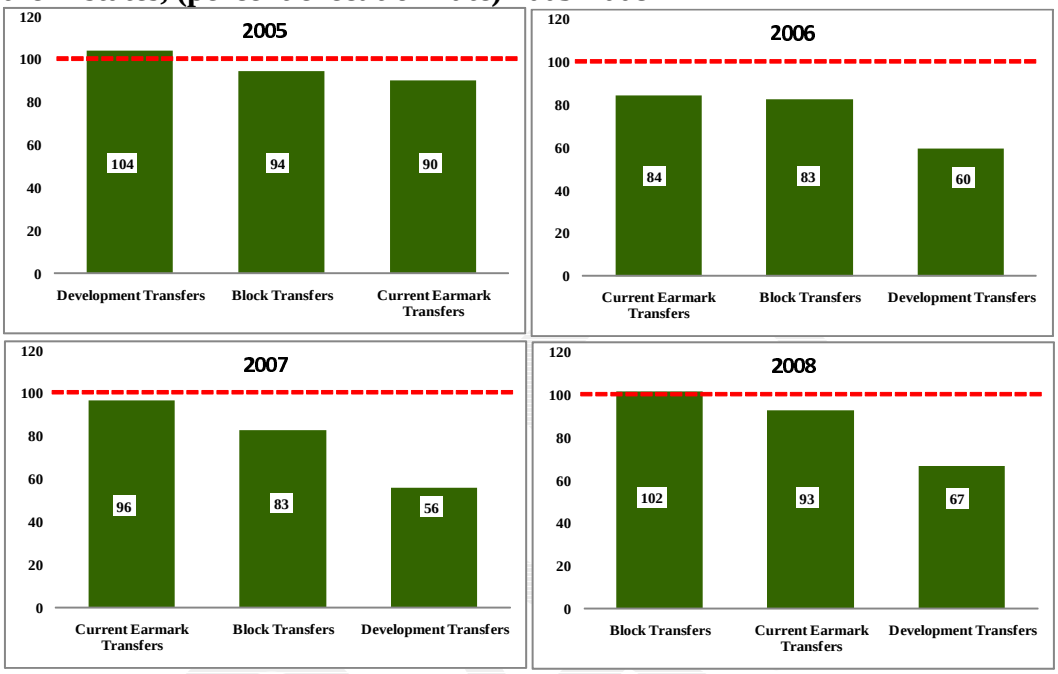
49. There have been relatively large increases in transfers to oil producing states, rose from 6.6 billion SDG in 2005 to 61.5 billion SDG in 2008, consistent with the thrust of the CPA and INC. However, federal transfers to the Three Areas (Blue Nile, South Kordofan and Abeyei) appear to have been under-financed relative to needs (see the JAM), and have especially suffered from under-financing in budget execution and lower share. Federal transfers to reconstruction Funds and the Three Areas increased from 2 percent of total federal transfers in 2006 to no more-than 4 percent in 2008. Improved services delivery to the war-affected areas requires large development spending, given the poor basic infrastructure in these areas (roads, bridges, energy, electricity, etc.). This urges actions that aim at improving resources reallocation, given the fact that the primary responsibility for basic services delivery lies with the state governments.

50. The execution rate of federal transfers to the northern states continues to demonstrate very weak budget credibility, even though GoNU total revenues was specifically above budgeted level in 2008 (figure 12). The execution rate of federal transfers to states was 83 percent of expectations, albeit has slightly improved relative to 2006-2007 (figure 7). Current earmark transfers were relatively better executed, reflecting higher priority for wages and salaries in terms of budget execution (a finding confirmed by the state case studies in the PER).

51. A major concern is the very disappointing development transfers disbursements for the states, especially for the Three Areas. Actual development transfers to the northern states ran significantly short of plans: only around 66 percent of the budgeted levels was actually transferred in 2008 compared with less-than 60 percent in 2006 and 2007. The continued weak execution in federal transfers, especially for development, has significant implications upon the budget planning and execution of the states. Shortfalls in transfers have serious repercussions for the state's entire budget process, overestimating its

revenues, overvaluing its expenditure commitments and consequently performing below its expectations.

Figure 12. Disappointing federal development transfers disbursements for the northern states, (percent execution rate) 2005-2008



Source: MOFNE and WB Staff estimates.

GONU PRO-POOR SPENDING

Primary Motivations for Focusing on Pro-poor Spending

52. The recent Sudan's PER underlines the value and importance of setting clear poverty reduction strategies and reorienting national budget allocations towards pro-poor expenditure priorities. Primary motivations for focusing on pro-poor spending in Sudan are two-fold:

1. Expectation of peace dividend for sustaining peace urge addressing underlying structural causes of conflict and underdevelopment in Sudan. Finding additional fiscal space is not the only constraint. Recent state studies underline that reorienting budget allocations towards pro-poor expenditure priorities and service delivery is a critical constraint to progress.
2. The weak national record on human development outcomes, relative to income per capita. Findings on some non-income poverty outcomes are now available from the nationally-representative Sudan Household Health Survey (SHHS), conducted in 2006. Outcomes on a number of individual MDG-related indicators show Sudan's low achievements relative to other countries at the same income level and even much lower income levels. There appears to be little evidence of over time improvements in social indicators such as educational enrolment or infant mortality.

53. A best understanding of pro-poor spending in the relevant international experience is that pro-poor spending refers to "*spending that benefits the poor more than the non-poor; spending that actually reaches the poor; and spending expected to have an impact on the welfare of the poor over time*". However, there are several challenges that make it difficult to apply many international best practices in monitoring pro-poor spending in Sudan. Identifying pro-poor spending is seriously constrained by:

- Quality of budget data and the classifications used. Though the GFS budget classification is being used since 2008, yet the budget system does not provide actual executions of government expenditures according to their function and purpose as well as by administrative unit, remains making it difficult to apply international best practices in monitoring pro-poor spending in Sudan and provides insights into budget analysis in general.
- Decentralization system of service delivery and absence of a consolidated budget. Responsibility for providing basic services lies at the sub-national level, while the federal level still controls the majority of government resources and states have limited revenue-raising authority. In the absence of a consolidated budget, it is difficult to clearly identify the amount of resources dedicated to specific functional line items across the local, state, and federal levels.
- Lack of data on outcomes and culture of accountability. This includes outcomes at the sectoral level (e.g. primary completion rates) as well as monitoring at the aggregate level (e.g. reduction in the poverty headcount). There is very little data on development outcomes and poverty levels and dynamics for Sudan.
- Sudan does not yet have a full PRSP, so it is not possible to point to a coherent set of policies that would anchor a definition of poverty-reducing allocations.

54. The recent years have witnessed data improvements and better information on public expenditures have become available, allowing for an improvement in identification of pro-poor components relative to the JAM. Based on international experience and these recent data improvements, it is possible to derive a feasible definition of pro-poor expenditure for the GoNU (Box 1).[8] This definition includes both federal expenditures (recurrent and capital) and central transfers to the Northern states, but excludes the possible pro-poor content of transfers to the GoSS. The analysis is focused on non-South GoNU expenditure to emphasize GoNU discretionary spending policy and practice. Transfers to the GoSS are excluded since these are determined by the CPA. Analysis of pro-poor content of GoSS transfers is treated separately.

Box 1. Definition of Pro-Poor Spending in Sudan

[8] Given the PER's focus on public sector finance, the definition does not cover the significant financial assistance to pro-poor efforts made by the Chamber of Zakat, NGOs, or off-budget external support. As Sudan improves its focus on spending efficiency and effectiveness, a detailed study of these efforts may provide useful coordination benefits with public sector efforts, especially Zakat which is quasi-public sector controlled.

The definition of pro-poor expenditure for the GoNU includes:

- Federal recurrent—recurrent spending on basic health care; primary education; water supply and sanitation; parts of agriculture, irrigation and livestock; infrastructure (roads and bridges); energy and electricity; and the social subsidy.
- Federal development—local financing of select projects based on broad international experience (in lieu of beneficiary information); this includes basic education, primary health, and drinking water and sanitation expenditure, parts of agriculture, irrigation and livestock; infrastructure (roads and bridges); energy and electricity. Excludes Merowe Dam.
- State—three-quarters (75 percent) of current and block transfers to northern states, plus all locally-financed regional development projects, rough assumption based on observed expenditures at state level (case studies, final accounts, etc.).
- Total development transfers to the Three Areas, which are accorded by the CPA.

Source: PER.

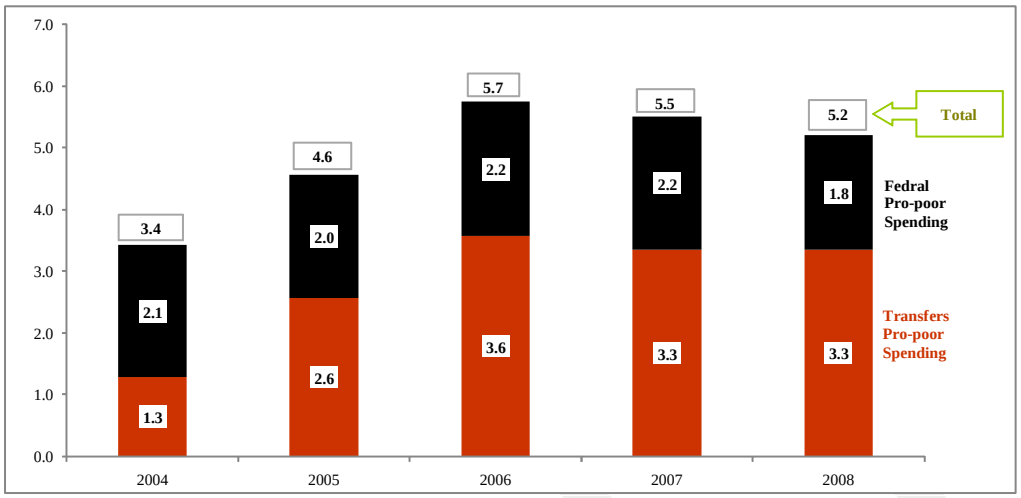
Overall Trends and Patterns in Pro-Poor Spending

55. We use the above definition to estimate levels and trends in pro-poor expenditure under the Post-CPA Interim period through 2005-2008 relative to prior period (2004). Actual non-South expenditure during the prior period underlines that poverty reducing expenditure has received relatively low priority. Annex Table 7 shows that GoNU non-poverty reducing expenditure was 16.5 percent of GDP, while pro-poor spending was just 3.4 percent in 2004. This is accounted for the very low level of pro-poor transfers to north states, which were 1.3 percent of GDP.

56. GoNU poverty-reducing spending slightly shrank in 2008 relative to the first phase of the Post-CPA Interim period; declined from 5.7 percent of GDP in 2006 to 5.2 percent (Figure 13). This decline is largely explained by shrunken federal spending on pro-poor projects, from 2.2 percent of GDP in 2006 to 1.8 percent in 2008. This downward trend is largely explained by declined federal development spending on pro-poor projects from 1.4 percent of GDP to 0.6 percent respectively (figure 15).

57. Nonetheless, GoNU poverty-reducing spending increased significantly (albeit remains low) over the Post-CPA Interim period relative to the prior period, increased from 3.4 of GDP in 2004 to more than 5 percent of GDP since 2006 driven by significant increases in pro-poor transfers to north states (Figure 13) reflecting a satisfactory shift in expenditure allocation toward pro-poor efforts. This is accounted for significant resources shift in favour of pro-poor transfers to north states, increased from 1.3 percent of GDP in 2004 to 3.3 percent in 2008. Federal pro-poor spending has virtually remained constant around 2 percent of GDP since 2004. These slight shifting priorities of government are welcomed; nonetheless serious potential reallocations are needed given the country's lower level of development and records on meeting MDGs.

Figure 13. Reversed downward GoNU poverty reducing efforts (percent of GDP), 2004-2008



Source: MOFNE and WB Staff estimates.

Composition of Pro-poor Spending

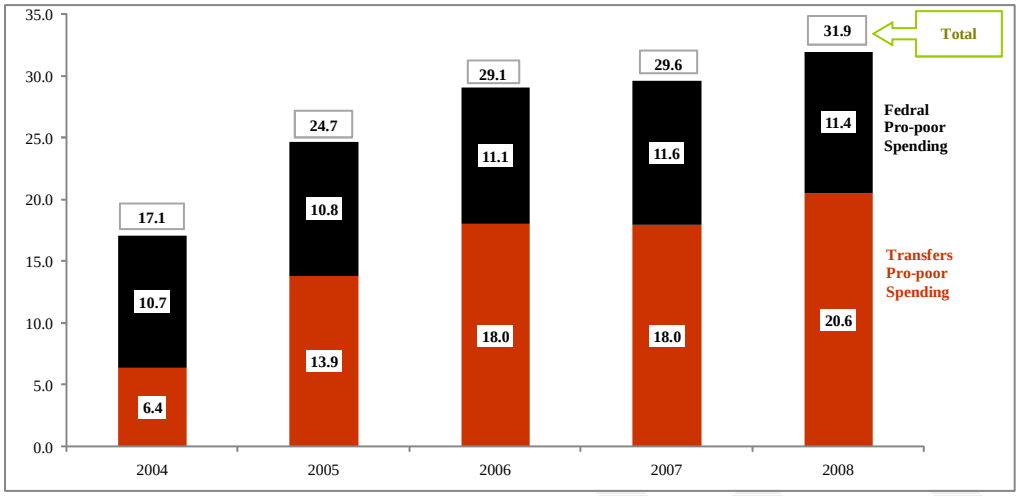
58. The following discussion analyzes the composition of pro-poor spending to determine the underlying factors to the aggregate trends noted above. Specifically, two aspects are analyzed – level of government (federal vs. state expenditure), and economic classification (current vs. development expenditure.

59. **By level of government.** The share of non-poverty reducing spending was much larger and possibly grown more rapidly during the prior period (82.9 percent of non-south total expenditure against 17.1 percent for poverty reducing spending in 2004). However, the Post-CPA Interim period budget allocations are beginning to reflect some progress relative to the historical weak poverty related efforts, consistent with the CPA (Annex Table 7). This increase is largely explained by higher pro-poor transfers to Northern states.

60. The share of GoNU spending on poverty reducing sectors in 2008 continues to reflect some progress relative to the historical weak poverty related efforts, albeit slightly rose to 32 percent of total non-south expenditure in 2008 compared with around 29 percent over 2006-2007. The share of federal pro-poor spending has remained constant at just over 10 percent of total non-south expenditure over the entire period.

61. The increasing pro-poor share in 2008 is largely explained by increased pro-poor transfers to Northern states, which increased from 15 percent of total non-south expenditure in 2005 to 21 percent in 2008 (figure 14). The increase in transfers reflects the government's commitment to fiscal decentralization and reallocations toward pro-poor activities. GoNU transfers to Northern states increased from 3.5 percent of GDP in 2005 to 4.4 percent of GDP in 2008. This was mainly driven by increases in development transfers (from 0.8 percent of GDP in 2005 to 1.8 percent of GDP in 2008), albeit still lag well behind commitments laid out in the JAM.

Figure 14. Increased GoNU spending on poverty reducing share relative to the historical weak poverty related efforts (percent of non-south expenditures) 2004-2008



Source: MOFNE and WB Staff estimates.

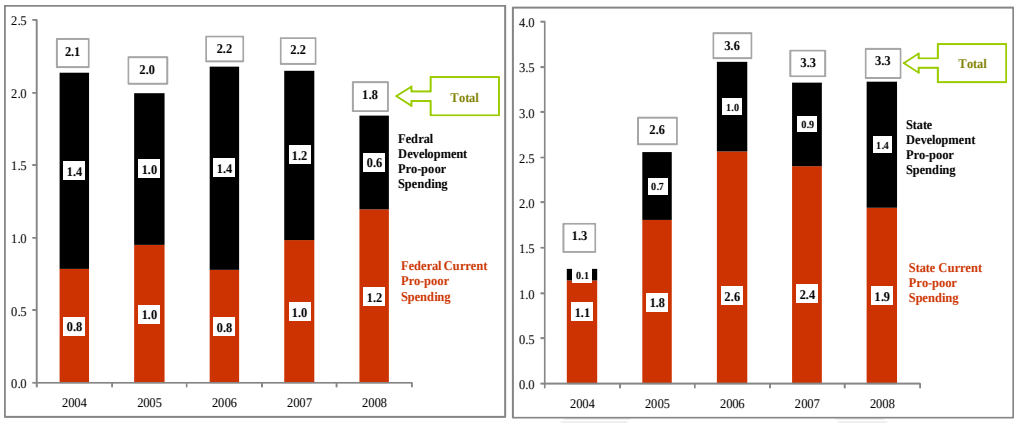
62. **By economic budget classification.** The breakdown of pro-poor spending into current (60 percent) and development support (40 percent) has been roughly constant over the period. Development spending accounted for 39.3 percent of total GNU pro-poor spending in 2005 against 39.4 percent in 2008 (Annex Table 7). However, looking at the economic classification within federal pro-poor spending and pro-poor state transfers reveals a significant difference (figure 15).

63. Development consistently declined from around 60 percent of federal pro-poor spending over the Post-CPA Interim first phase to less than 36 percent in 2008. Development spending on electricity, agriculture, roads and other spending shrank from 53.8 percent of federal pro-poor spending in 2004 to 40.5 percent in 2008. While Federal allocations on development pro-poor spending for education, health and drinking water infrastructure declined from 0.1 percent of federal pro-poor spending in 2004 to 0.03 percent in 2008.

64. By contrast, current expenditures comprise the large majority of pro-poor state transfers over the period, with the gap widening over time. The bulk of recent transfers are allocated to block items, in particular current block transfers, and relatively little share, albeit increasing, for pro-poor capital spending on drinking water, basic health, education, and basic infrastructure. The share of current pro-poor in total pro-poor transfers to Northern states declined from 89.4 percent in 2004 to 58.3 percent in 2008.

65. The share of development pro-poor transfers increased steadily from 11 percent of total pro-poor transfers to Northern states in 2004 to around 28 percent over 2005-2007, before significantly jumped to 42 percent in 2008. While these increases are welcomed, sufficient development transfers to sub-national governments become key instruments for effective poverty reduction efforts, given the shifted expenditure responsibilities for most of the public sector activities that directly benefit the poor – health, education, water – to the state and local levels.

Figure 15. Current vs. development pro-poor spending at federal and state levels (percent of GDP), 2004-2008



Source: MOFNE and WB Staff estimates.

Enhancing Pro-Poor Budget Credibility

66. Budget credibility is important for effective implementation of government's poverty reduction programs and development efforts more generally. Pro-poor budget credibility has been relatively deteriorated and remains a challenge and even deteriorated over time. Actual GoNU pro-poor spending in real terms has much less than projected level in 2008, and as a share of non-south spending, remains at about the same level as in 2006-2007 despite the oil revenue windfalls enjoyed in 2008 (Figure 16). GoNU pro-poor spending had fallen short to less than 82 percent of budgeted plan in 2008 to remain at about the same level as in 2005 albeit improved relative to 2007.

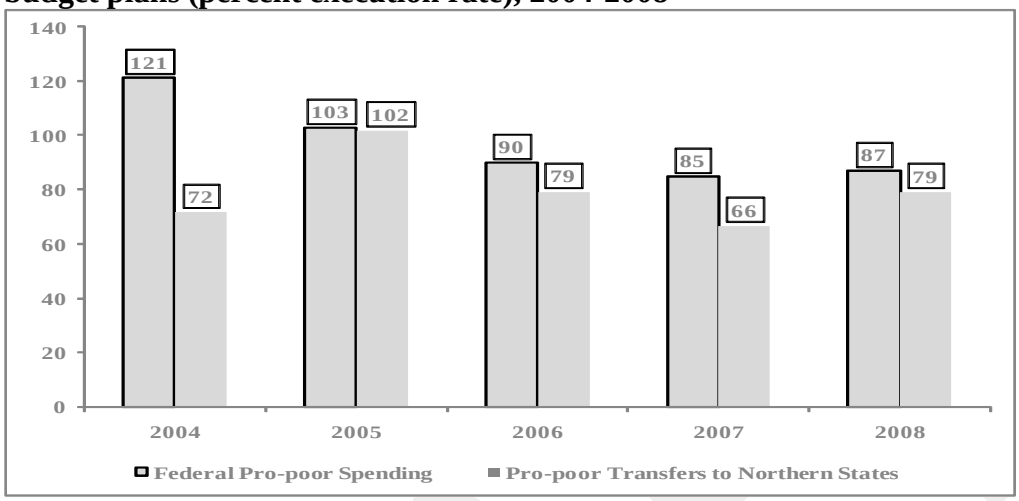
67. The observed weak budget credibility is largely explained by the shortfall on pro-poor development transfers to the states and the very negligible transfers to the Three Areas (Annex Table 6 and Figure 14). Pro-poor development transfers to the states had fallen far short to less than 64 percent of budgeted plan in 2008, albeit improved relative to 2007. Indeed of most concern is the very negligible transfer to the Three Areas, fallen far short to less than 36 percent of expectations. In response to their special development challenges, the Three Areas were allotted special transfers in the CPA, especially given the eroded infrastructure and weak public financial management in these areas.

68. Just as importantly, the observed expenditure pattern confirms an overall trend in pro-poor spending which is skewed toward the federal level, suggesting under-funding of poverty-reducing expenditure at the state, and local levels, where basic services are financed and delivered.

69. It should be noted that the JAM had only spelled out annual estimates of pro-poor spending over the post-CPA first phase (2005-2007) against the prior period (2004). This doesn't allow ensuring whether pro-poor spending developments in 2008 are in line relative to the commitments in the JAM. Under the JAM, it was agreed that the key for the GNU is to increase pro-poor spending over time, through a combination of executing current plans, reallocating funds from other types of spending, and increasing revenue

utilization. In the JAM, the national government had committed to specific levels of pro-poor spending, against which actual can be compared.

Figure 16. Weak commitments to GoNU poverty reducing spending relative to budget plans (percent execution rate), 2004-2008



Source: MOFNE and WB Staff estimates.

THE GONU 2009 BUDGET

70. This section reviews the GoNU 2009 Budget through the first quarter execution, which is the fourth budget prepared within the context of the CPA implementation, and as a second one that is reported by functional classification (GFS). The GoNU draft 2009 budget was approved by the Council of Ministers on November 11, 2008, presented to the National Assembly on November 16, 2008, and passed on November 24, 2008. The GoNU 2009 budget was prepared under the Interim National Constitution INC; the CPA; the Darfur Peace Agreement DPA; the East Peace Agreement; the Five-Year Plan 2007-2011; and the general framework of poverty reduction strategy draft.

71. The GoNU budget 2009 is facing tremendous challenges resulted from the global financial crisis. Key among them include: oil prices fall[9] coincidently with non-oil exports slowdown, given the heavily dependency of the GoNU budget on oil revenue, which accounted for 66 percent over 2008; increased spending pressures due to peace obligations (CPA, DPA, ESPA); and ensure making investments in pro-poor development to realize the shared goal of poverty eradication in accordance with the CPA vision.

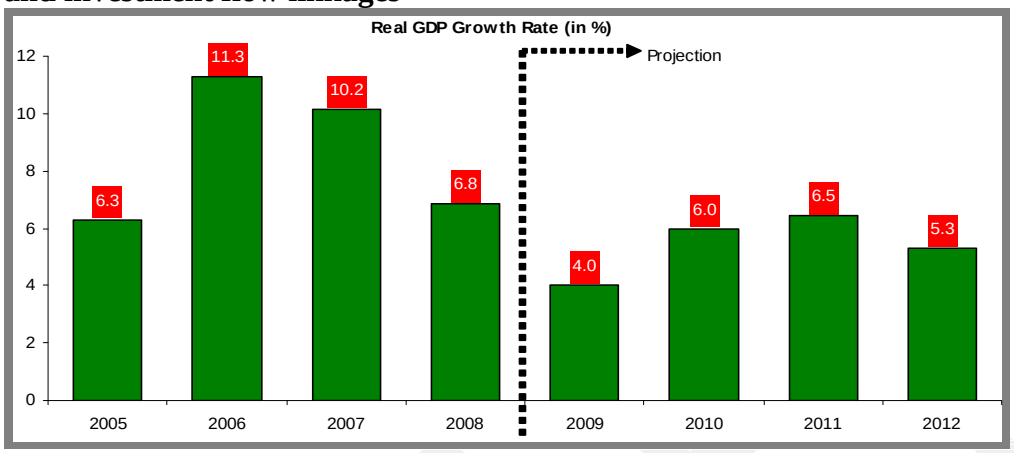
Global financial crisis impact on the 2009 budget key assumptions

72. The fiscal impact of the global crisis on Sudan is considerable, largely through the mechanism of lower oil prices and shrinking resources. Since the second half of 2008, particularly since October, the world economy is entering a major downturn because of

[9] The rapid decline in global oil prices largely due to international demand shrink, increased oil stocks for some industrial countries, decreased speculations in oil market.

the global financial crisis along with reduced commodity prices. Sudan is of those countries which hit hard by falling export prices and demand in addition to the contraction of private capital flows expected in the second round effects.

Figure 17. Sudan's economic growth is slowing predominantly through the oil sector and investment flow linkages



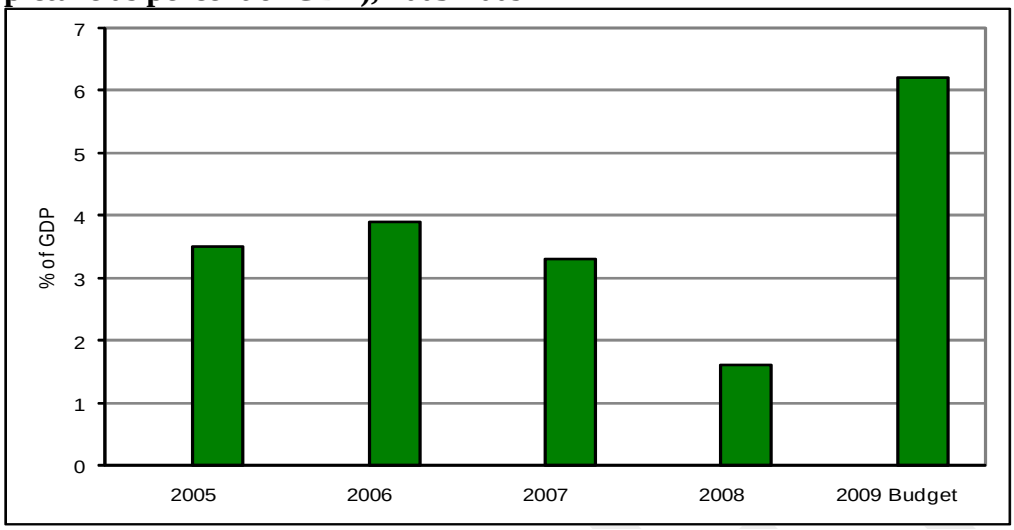
Source: World Bank and IMF Staff projections

73. The economic assumptions underlying the GoNU 2009 budget are significantly pessimistic compared with those on which the last four years budgets were based, reflecting the adverse impacts of the global financial crisis and continuing oil prices shrinking. Projected real GDP growth in 2009 is likely to be around 3-4 percent (EIU Country Report, IMF), following double-digit growth in 2006-2007 and 6.8 percent in 2008 (Figure 17). This largely reflects stagnation in near-term domestic oil production, lower oil prices in global market, and slowdown in government spending. The annual CPI inflation rate is projected at 8 percent this year, which is significantly lower than the actual level contained in 2008 (14.3 percent); reflecting lower food prices. Nominal exchange rate is expected to depreciate compared to the level that projected in 2008 (2.2 SDG per dollar); reflecting a terms of trade shock associated with the subsequent sharp drop in oil export earnings, declined foreign direct investment, and slowdown in remittances.

Aggregate fiscal picture for 2009

74. The global crisis weakened the GoNU 2009 fiscal outlooks largely on the basis of continued weakness in global oil markets and stagnation in near-term domestic oil production. The GoNU 2009 budget indicates a significant drop in total revenue resulting in planned large fiscal deficits of 6.2 percent compared to 1.6 percent of GDP in 2008 (figure 18). Revenue falls is more likely threaten the sustainability of fiscal finances, given the insufficient fiscal space to implement increased spending pressures due to peace obligations (CPA, DPA, ESPA) and significant domestic and foreign arrears. The proposed level of expenditure – 19.4 percent of GDP – could even further lead to a much higher deficit in the event of revenue out-turns below expectations that could result from further oil prices decline below the budget benchmark ($50 for Nile Blend and $30 for Dar blend).

Figure 18. The global crisis weakened the GoNU 2009 fiscal outlooks, (overall fiscal picture as percent of GDP), 2005-2009



Source: MOFNE and WB Staff estimates.

Financing

75. GoNU own revenue and grants projected to financing 68 percent of total expenditures. The rest is expected to be received from external borrowing (17.3 percent), domestic borrowing (5.5 percent), and banknote financing (9.2 percent). The budget assumes that the bulk of the overall fiscal deficit will be financed through external borrowing (3.4 percent of GDP), while domestic borrowing is 2.8 percent of GDP. Budget indications are that foreign loans and grants are projected at $1.484 billion, of which $1.240 billion for loans and $244 million as grants. More than two-third of this external financing will be made by China ($1.023 billion), compared with India ($100 million), Development Islamic Bank ($80 million), MDTF ($224 million) and Turkey ($22.4 million). The monetized financing from the Central Bank is projected to increase to 1.08 percent of GDP (SDG 1.5 billion) and to remain significantly higher than the actual level of 2008.

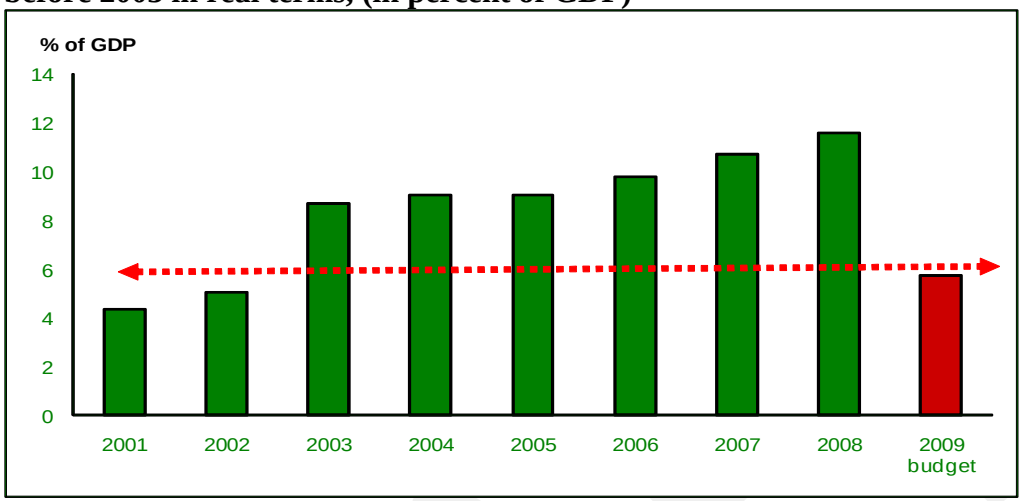
GoNU Revenue for 2009

Revenue projections

76. Total GoNU revenue is projected at 13.2 percent of GDP compared with around 20 percent of GDP since 2005. This is largely explained by significant expected drop in oil revenue to 5.7 percent of GDP relative to more than 13 percent in 2008 (figure 19). Oil revenue is more likely to fall back to its historical levels in real terms revealed before 2003, leading to a downward dependency on oil from 66 percent as a share of total revenues in 2008 to 43 percent. This reflects the adverse impacts of the global financial crisis and lower oil prices in global market – in particular Dar blend crude – and downward in near-term oil production outlooks. Non-oil revenue collections projected to slightly increase to 7.5 percent of GDP compared with 6.8 percent in 2008, and to account - for the first time since 2000 - for more than half of total revenue (56.8 percent of total

revenue). This is largely on account of excepted higher tax collections, especially indirect tax on goods and services – including VAT and excise tax.

Figure 19. Oil revenue is more likely to fall back to its historical levels revealed before 2003 in real terms, (in percent of GDP)



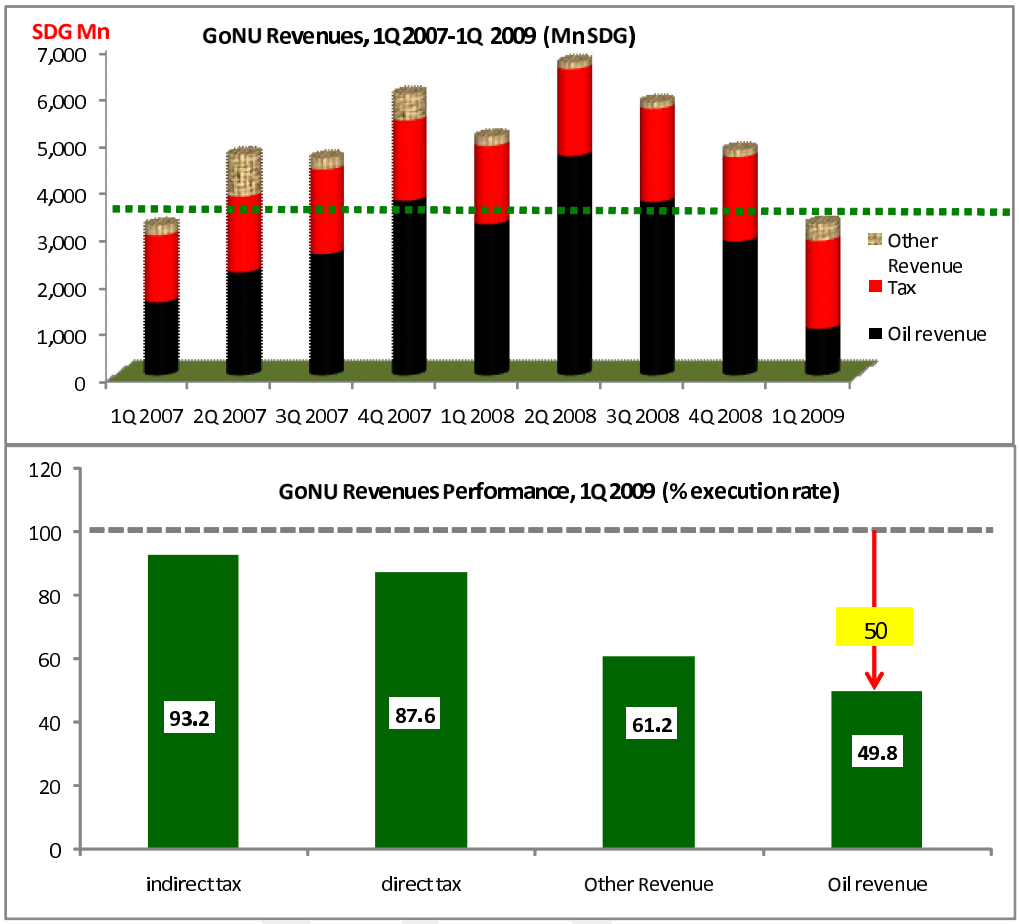
Source: MOFNE and WB Staff estimates.

Revenue Execution through 1Q 2009

77. The first quarter GoNU revenue execution of the 2009 budget was put under immediate pressure due to less-than-budgeted oil revenue inflows (figure 20). Depressed oil revenue inflows pushed total revenues 30 percent less than budgeted levels, reflecting lower oil prices and downward oil production of (Nile blend and Dar crude oil) by an average of 40 million barrel/day. Oil revenue inflows for the quarter were less than one-half budgeted levels; to remain equivalent to its historical levels in 2007 first quarter, underscoring immediate fiscal adjustments to bring spending levels in-line with cash and financing inflows. This has pushed the share of total revenues coming from the oil sector to low levels not seen since 2000 (31 percent of total revenue relative to more than 50 percent since 2003). Thus, developing non-oil revenue sources, including tightening tax collection efforts, should be a priority.

78. The price of Sudan crudes remains below the budget reference of $50 per barrel for Nile and $30 per barrel for Dar, exposing the 2009 budget to more high risk and instability. This urges for improving oil revenue volatility management as a basis for budget credibility and better expenditure management, which underscores the need for enhanced revenue estimation, with scenario planning and conservative cash management practices.

Figure 20. Disappointing oil revenue performance in the first quarter 2009



Source: MOFNE and WB Staff estimates.

79. Tax revenue showed strong performance in the Q1, specifically from indirect tax, and led to quarterly revenues near budget plans (92 percent of budgeted level). Strong tax performance is largely explained by favorable VAT and excise duties collections that led to quarterly revenue above budget plans (103 percent and 101 percent of budgeted levels respectively). This has pushed the share of total revenues coming from the non-oil sector to high levels not seen since 2000 (69 percent of total revenue relative to less-than 50 percent since 2003).

80. Favorable indirect tax revenue performance is largely a result of the undertaken tax measures over the first quarter, including:

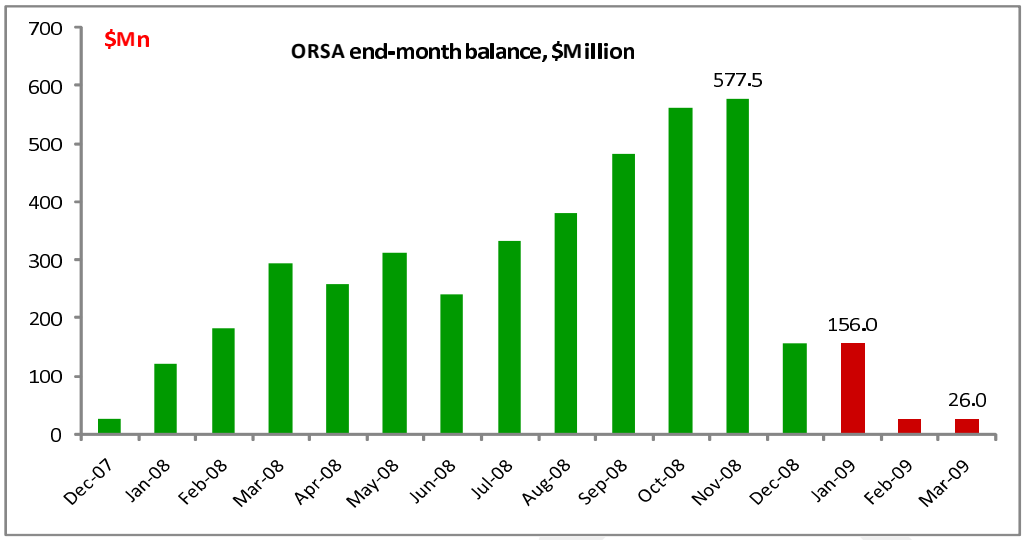
- Increase VAT on communication services from 15 percent to 20 percent.
- Impose a new tax "development tax" on taxed imports, at a tax rate of 5 percent, excluding agricultural and industrial imported inputs.
- Increase excise tax on domestically produced vehicles, from "10 percent to 20 percent" and from "40 percent to 60 percent".
- Increase additional tax on Companies and Agencies imported vehicles, from "40 percent to 50 percent" for less than 1000c.c vehicles and from "50 percent to 60 percent" for more than 1000c.c vehicles.

- Increase additional tax on individuals imported vehicles, from “40 percent to 55 percent” for less than 1000c.c vehicles and from “50 percent to 65 percent” for more than 1000c.c vehicles.

81. Unfortunately, limited appropriate revenue stimulus are available to mitigate the adverse impact of oil prices fall on revenues, including the Oil Revenue Stabilization Account and foreign financing. Indications are that funds in the Oil Revenue Stabilization Account are largely exhausted through the large amount of withdrawal continues especially in Feb 2009 in light of both lower oil prices and production in existing fields (figure 21). By end-March 2009 the account balance was virtually depleted to remains at $26.01 million balance compared with $156.01 million balance by end-Jan 2009. This implies that the current oil savings fund has failed to provide a sustained buffer from the inevitable volatility faced by an oil economy such as Sudan; underlining the importance of reserve accumulation and credible management of the oil savings account through a transparent governance structure, along with accelerated progress on non-oil revenue reforms.

82. Lack of foreign financing for the budget is emerging as a major issue, as expected in the current global environment. Foreign financing is not materializing. Actual funding from foreign loans and grants was only $210.4 million for the first quarter compared with 2009 budget assumption of $1.8 billion. Funding from China was only $20 million for the first quarter with budget assumption of $824 million (while repayments were $8.4 million).

Figure 21. Funds in the Oil Revenue Stabilization Account are virtually exhausted



Source: MOFNE.

GoNU Expenditures for 2009

Expenditure Projections

83. ***Expenditure trends***: GoNU budget indicates a slight cut in total spending, projected at 19.4 percent of GDP compared with 21 percent actual level in 2008. This cut is largely driven by strong shrink in the transfers to GoSS from 5.0 percent of GDP in 2008 to 2.3 percent, mainly driven by higher oil price falls. This downward reverses the share of GoSS to fall from 23.7 percent of total GoNU spending in 2008 to 12 percent. GoNU transfers to GoSS are non-discretionary and dictated by the oil revenue sharing protocol of the CPA. This underscores improving oil revenue volatility management, as a basis for better expenditure management, which is particularly relevant for the GoSS given its nearly complete dependence on oil revenues.

84. Transfer to northern states is projected to slightly increase to 4.7 percent of GDP relative to 4.4 percent in 2008. This improvement in federal transfers to northern states is driven by expected increase in development transfers from 1.8 percent of GDP in 2008 to 2.0 percent in 2009. While getting more money to the state governments is welcome, effective budget execution and monitoring is highly needed - particularly on development transfers to sub-national governments – on the event of further revenue falls. The execution rate of transfers has been very weak, of the order of only 70 percent. The brunt of weak budget credibility is always borne by northern state transfers, especially development transfers.

85. Surprisingly, federal government expenditure - which is expected to shrink - is projected to increase by 12.3 percent of GDP compared with 11.8 percent in 2008, largely driven by getting more allocations to national development spending from 2.7 percent of GDP in 2008 to 3.6 percent. Development expansion is driven by getting more allocations to electricity and roads (together account for 44 percent of federal spending in

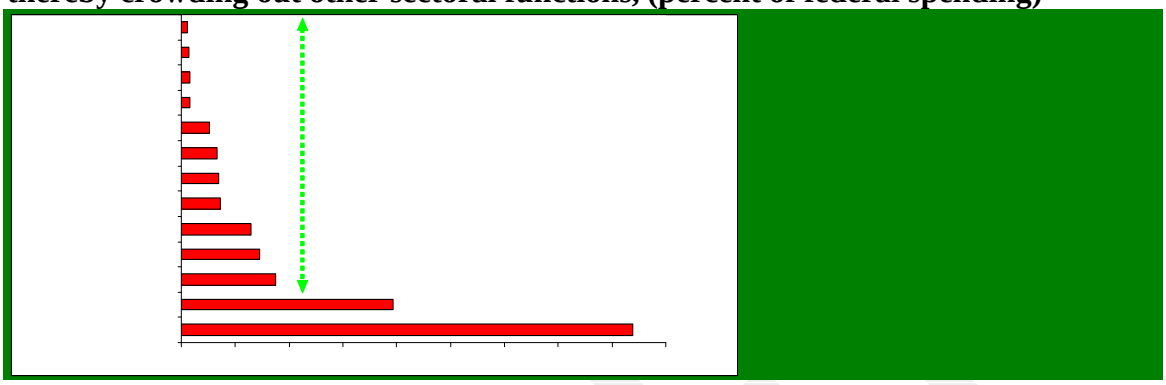
2009). This increase push the federal spending share to increase from 56 percent of total GoNU spending in 2008 to 64 percent in 2009, getting back to its historical shares in 2006. This reverses the trend that the share of central spending in the total has rapidly declined in the past couple of years, from 91 percent in 2004, to 72 percent in 2005 and 56 percent in 2008.

86. ***Federal government operations- sectoral distributions***. While these overall shifts are of interest, a functional classification of the federal spending provides more valuable insights, especially since we are interested in 'pro-poor spending'. While the conventional Part I "federal expenditure" of the GoNU budget is now reported by functional classification since 2008 budget, reporting actual expenditures by GFS classifications is not yet available. Thus, the classifications presented here are budget projections. Figure 22 presents federal level spending in functional terms for 2009 budget. However it should be noted that comparisons across years are complicated by the fact that spending has been presented in economic classification 'chapters' terms, which obviously affects the level and inter and intra sectoral shares of federal expenditures. The highlights are as follows:

- Federal allocations on defence, security & police sector and miscellaneous are projected to account virtually for two-thirds of the federal total budget (62 percent).
- Expenditure on defence, security and police is by far the largest sectoral item at the federal level, leaving very little room for other vital sectors (social services, agriculture, electricity, etc.). Federal spending on defence, security and police projected to account for 42 percent of the federal budget, and rising from 3.9 percent of GDP in 2008 budgeted level to 4.1 percent in 2009. Further analysis is needed to understand the size of the military budget. The Sudan PER Indicates that defence spending declined sharply at the end of the North/South conflict in 2005, to 1.2 percent of GDP in 2005 from roughly 2.3 percent of GDP in 2001-2003. Subsequently, defence spending has reportedly increased sharply in 2006, nearly 30 percent of all federal current expenditures or 2.9 percent of GDP. This increase is consistent with the authorities' reporting of new spending on demobilization efforts and support of the Joint Forces since the CPA. Defence spending has also shown increases in other post-conflict situations, in support of DDR programs.
- There is a significant allocation for "miscellaneous functions"; rank second; accounts for one-fifth of the federal budget (19.7 percent). Further analysis indicates that one-third of miscellaneous is advocated for the upcoming national elections. Reserve items (e.g. emergency reserve, purchase of goods & services reserve, development reserve; centralized reserve, and strategic reserve) are projected to account for 19 percent of federal miscellaneous allocations.
- Spending on the social sectors (e.g. health, education) is limited at the federal level, consistent with the decentralisation of responsibilities, and remains 3.6 percent and 3.3 percent of the federal total budget for education and health respectively.

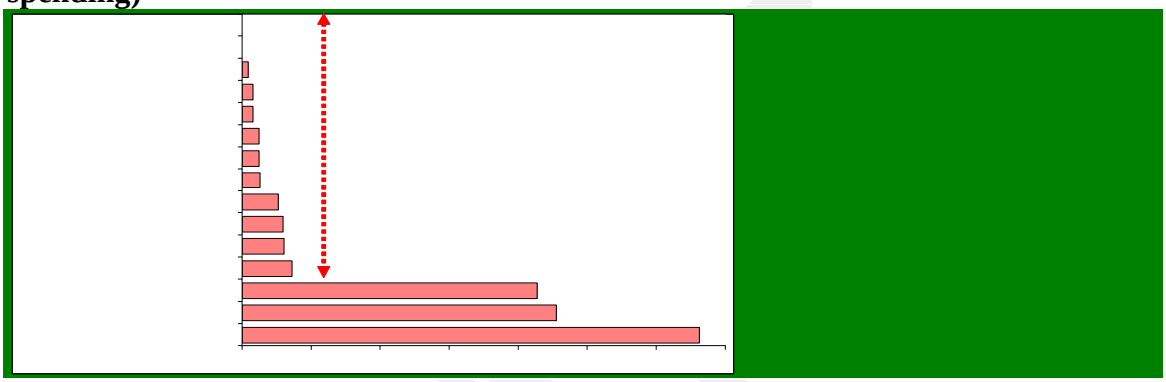
- Similarly, federal spending on economic services (agriculture, industry, transport & communications, and energy & mining) is limited and they all projected to account for about 30 percent the federal total budget.

Figure 22. Defense, security and police receiving priority in federal budget for 2009, thereby crowding out other sectoral functions, (percent of federal spending)



share of national development spending. However, this is way below what is needed to meet the MDGs, especially given the eroded state of social development infrastructure in the country. Whereas even in practice actual spending on these social development projects is dramatically below budgeted allocations.

Figure 23. More than three-fourths of federal development spending goes to three sectors (agriculture, electricity, and transports), (percent of federal development spending)



Source: MOFNE and WB Staff estimates.

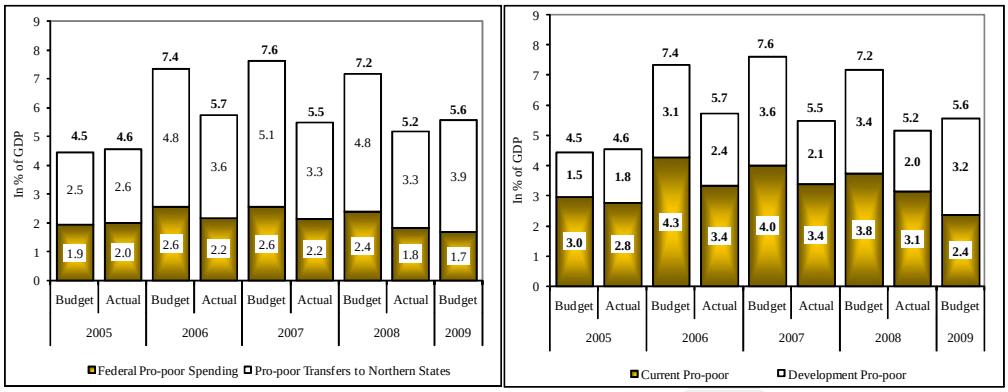
GoNU Pro-Poor Spending for 2009

89. ***Overall Trends and Patterns:*** While the 2009 budget shift toward development (both national and development transfers to northern states) is of interest, a pro-poor classification of GoNU spending provides more valuable insights, especially since we are interested in 'pro-poor spending'. Therefore, the subsequent analysis provides further work to understand whether the nature of the increases in development spending is in favour of pro-poor.

90. 2009 budget promises a little increase in poverty reducing spending relative to the past actual levels, to remain 5.6 percent of GDP compared with 5.2 percent in 2008 actual outturns (figure 24). This slight increase is driven by pro-poor transfers to Northern States, projected to increase to 3.9 percent of GDP relative to 3.3 percent in 2008, reflecting increased development transfers plan from 1.4 percent of GDP in 2007 to 2.1 percent in 2009.

91. It is notable that poverty reducing expenditure is historically projected above 7 percent of GDP, to remain around 5 percent of GDP as actual outturns. On the basis of lower historical budget credibility on pro-poor line-items combined with the expected shortfalls in resource envelope, 2009 actual poverty reducing expenditure is more likely reduced to its historical levels of 3–4 percent of GDP before 2005.

Figure 24. Lower GoNU projected pro-poor efforts relative to historical budgeted targets (percent of GDP), 2005-2009



Source: MOFNE and WB Staff estimates

92. ***Composition of Pro-poor Spending:*** GoNU 2009 budget allocations show a slight shift toward poverty related activities. The share of poverty reducing spending in non-south expenditure is projected to slightly increase to 33 percent of total non-south spending compared with 32 percent in 2008. This shift is driven by the increased share of pro-poor transfers to Northern States, projected to increase from 21 percent of non south expenditure in 2008 to 23 percent, reflecting increased share of development transfers from 8.1 percent to 2 percent respectively.

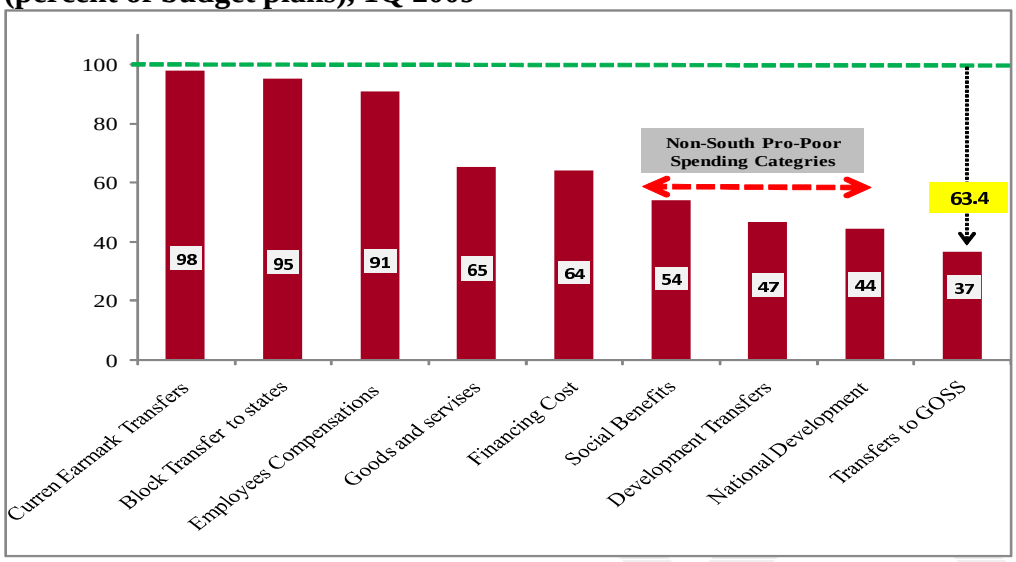
Expenditure Executions through 1Q 2009

93. ***Expenditure aggregate executions:*** Depressed oil revenue inflows and the exhausted Oil Revenue Stabilization Account are causing financing shortages for the 2009 GoNU budget, led to overall lower than planned expenditures (63 percent of 1Q 2009 plans) with transfers to GoSS getting proportionally less resources than other spending categories (figure 25). Actual transfers to the GOSS was 63.4 percent less-than first quarter plans, though this allocation is presumably a non-discretionary function of lower oil production in the South and follow the oil wealth sharing protocol.

94. As mentioned, Sudan spent most of the oil revenue in the past years and hence will have to reduce its public spending more drastically in coming months (figure 21). This depressed financing underscores fiscal adjustments to bring spending levels in-line with cash and financing inflows.

Figure 25 illustrates the disproportionate adjustments in the GoNU budget priorities. Expenditure rationing has disproportionately hurt pro-poor spending components, with major declines in national development, development transfers to Northern states and social benefits. This has resulted in a distribution of outturns between the GoNU budget priorities that favors recurrent spending categories (e.g. current transfers to states, federal wages/salaries, and operations). Federal development and development transfers the hardest hit, at less than one-half (44 percent and 47 percent) of budget. This supports the PER conclusion that budget credibility remains a major obstacle to effective fiscal decentralization. This in turn stymies, pro-poor spending as most of the public sector activities that directly benefit the poor—health, education, water—are under the responsibility of sub-national governments. Inter-sectoral development distribution is further discussed below to understand the nature of these disproportionate adjustments.

Figure 25. Shortfall of actual relative to budgeted GoNU expenditures categories (percent of budget plans), 1Q 2009



Source: MOFNE and WB Staff estimates

95. ***Federal development spending executions***. The 2009 budget planned for increased share for federal development spending, however this has not been realized. Federal development spending had fallen short to less than 44 percent of budgeted plan in 1Q 2009 to remain at about 19 percent of total federal expenditures, a share never seen before since 2005. Some part of the aggregate shortfall may be attributed to external financing at levels that were less than expected.

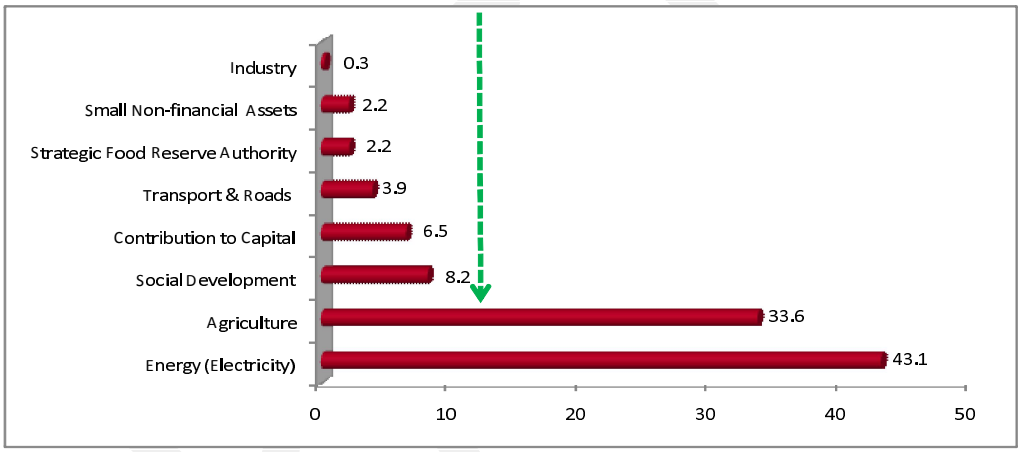
96. Figure 26 presents actual federal development expenditure allocations for 1Q 2009, some interesting patterns emerge. The highlights are as follows:

- Federal development spending on energy (electricity) shows strong budget credibility relative to other categories (84 percent of plans), to remains the largest item at the federal level, accounting for 43 percent of total federal development compared with 22.8 percent as budgeted share for 2009. This improvement is largely explained by over budget executions on rehabilitation of El-Rousoris electricity station (817 percent of plans) and electricity headquarter of Darfur cities (248 percent of plans).

- Federal development spending on agriculture was less-than half of budgeted levels (45 percent of plans), though remains the second largest item, accounted for almost the same targeted share (33.6 percent of total federal development expenditure). This financing shortfall is largely explained by under-funding for both livestock projects (12 percent of plans) and agriculture (16 percent of plans) compared with 52 percent of plans for irrigation projects. Federal development spending on irrigation accounted for 94 percent of federal development spending on agriculture (79 percent for Merowe Dam); leaving very little room for other agricultural subsectors; in particular rain-fed and livestock where the majority of the poor live.

- The share of social sectors (e.g. education, health and water supply) has slightly improved relative to targeted plans due to better execution on health, though remains limited and declined at the federal level compared with 10 percent in 2006. Actual spending on water and high education projects is dramatically below budgeted allocations (4 percent and 2 percent of plans respectively). This implies a way below what is needed to meet the MDGs, especially given the eroded state of social development infrastructure in the country. Actual spending on water and high education projects is dramatically below budgeted allocations (4 percent and 2 percent of plans respectively).

Figure 26. Over three-fourths of federal development spending went to two sectors (electricity, and agriculture), (percent of actual federal development spending), 1Q 2009



Source: MOFNE and WB Staff estimates.

ANNEX

Annex Table 1: Sudan: Selected Macroeconomic Indicators 2005-2008

	2005		2006		2007		2008	
	Budget	**Actual**	**Budget**	**Actual**	**Budget**	**Actual**	**Budget**	**Actual**
Real GDP Growth, %	7.5	8	10	10.3	10	10.5	8	7
CPI Inflation Rate, %	7.5	9.5	8	7.2	8	8.3	8	14.3
Money Supply Growth, %	28	23	30	43.2	34	7	24	16.3
Average Exchange Rate	2.5	2.44	2.25	2.17	2	2	2	2
Exports, Mn US$	4339.9	4859	2559	5624.7	7132.9	8840	9386.4	11671
Imports, Mn US$	4714	5946	3390	7494.2	7872.3	7518	9022.3	8229.4
Trade Balance, Mn US$	-374	-1087	-832	-1870	-739.4	1322	364.1	3441.1
	(GNU Fiscal Operations in % of GDP)							
Revenue	21.3	19.9	23.4	19.6	19.6	19.1	16.9	19.9
Expenditure	24.3	23.4	28.6	23.5	25.3	22.4	21.5	21.2
Overall Fiscal Balance	-3	-3.5	-5.2	-3.9	-5.7	-3.3	4.6-	2.0-

Sources: Ministry of Finance and National Economy (MOFNE) and Bank of Sudan.

Annex Table 2: GNU Revenue Performance Compared to Plan 2005-2009 (SDG Million)

ITEM	2005		2006		2007		2008		2009
	Budget	**Actual**	**Budget**	**Actual**	**Budget**	**Actual**	**Budget**	**Actual**	**Budget**
Revenue (1+2)*	**12,750.0**	**12,184.9**	**17,094.0**	**15,195.0**	**18,246.0**	**17,940.6**	**20,670.8**	**24,273.9**	**18,391.1**
(1) Non Oil Revenue	**5,690.0**	**6,098.9**	**8,010.0**	**7,487.0**	**8,954.8**	**7,893.0**	**9,375.8**	**8,277.2**	**10,453.3**
Tax Revenue (a+b)	**4,674.0**	**5,008.8**	**6,760.0**	**5,809.0**	**7,394.8**	**6,529.5**	**8,123.5**	**7,680.3**	**8,106.5**
(a) Direct Taxes	950.0	951.0	1,050.0	960.0	1,194.8	1,097.1	848.4	884.7	914.4
(b) Indirect Taxes (i+ii)	3,724.0	4,057.8	5,710.0	4,849.0	6,200.0	5,432.4	7,275.1	6,795.6	7,192.1
Customs and Duties	1,796.0	2,241.0	2,135.0	2,010.0	2,540.0	2,188.7	2,079.0	1,977.8	2,207.3
Excise Duties	990.0	949.8	1,210.0	1,129.0	1,260.0	1,162.2	2,146.1	1,883.7	1,929.6
Value Added	938.0	867.0	2,365.0	1,710.0	2,400.0	2,081.5	3,050.0	2,934.1	3,055.2
Non Tax Revenue	**1,016.0**	**1,090.1**	**1,250.0**	**1,678.0**	**1,560.0**	**1,363.5**	**1,252.3**	**596.9**	**2,346.8**
(2) Oil Revenue	**7,060.0**	**6,086.0**	**9,084.0**	**7,708.0**	**9,291.2**	**10,047.6**	**11,295.0**	**15,996.7**	**7,937.8**

Source: MOFNE *Note: excludes grants

Annex Table 3: Actual GoNU Expenditures Performance Compared to Plan 2005-2009 (SDG Million)

ITEM	2005		2006		2007		2008		2009
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
Federal Government	9,520.0	10,283.0	12,878.0	11,688.0	14,604.6	13,233.0	15,929.1	14,412.8	17,411.3
GOSS	2,742.0	1,902.5	3,194.0	2,957.0	2,962.0	3,351.5	3,952.3	6,161.1	3,227.2
Northern States Transfers	2,248.0	2,147.9	4,778.0	3,594.0	6,023.2	4,386.5	6,545.4	5,410.8	6,271.7
Total GNU Expenditure	14,510.0	14,333.4	20,850.0	18,239.0	23,589.8	20,971.0	26,426.8	25,984.7	26,910.2

Source: MOFNE.

Annex Table 4: Actual Federal Expenditures Performance Compared to Plan 2005-2009 (SDG Million)

Item	2005		2006		2007		2008		Budget
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	2009
Total Federal Government	9,520.0	10,283.0	12,878.0	11,687.0	14,604.6	13,234.0	15,929.1	14,412.8	17,411.3
Employee Compensation	3,010.0	2,592.0	4,183.0	3,957.0	5,208.4	4,901.4	6,050.0	5,968.8	6,847.4
Operations	3,786.0	4,713.0	5,042.0	4,190.0	5,454.9	4,537.6	5,902.4	5,184.8	5,603.9
Fixed capital depreciation					233.0	227.0			
Acquisition of Financial and NFA	2,724.0	2,978.0	3,653.0	3,540.0	3,941.2	3,568.0	3,976.7	3,259.2	4,960.0

***Source*:** MOFNE.

Annex Table 5: Federal Transfers to the Northern States, 2005-2009 (SDG Million)

ITEM	2005		2006		2007		2008		2009
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
Northern States Transfers	**2248.0**	**2148.0**	**4778.0**	**3593.8**	**6023.0**	**4386.5**	**6545.4**	**5410.8**	**6273.6**
Current Earmark Transfers	**555.0**	**501.8**	**626.0**	**527.5**	**750.5**	**723.1**	**836.4**	**777.2**	**900.0**
Wages Transfers	479.0	479.0	488.0	461.3	600.0	638.0	643.0	595.7	648.0
Goods & Services Transfers	76.0	22.8	78.0	25.1	42.0	20.7	54.4	39.8	66.0
Social Subsidies	0.0	0.0	60.0	41.1	108.5	64.4	139.0	141.7	186.0
Block Transfers	**1193.0**	**1126.2**	**2576.0**	**2127.3**	**2705.5**	**2234.0**	**2351.0**	**2391.3**	**2547.6**
Current Transfers	900.0	874.6	1248.0	1075.9	1347.6	1205.4	2030.0	2069.8	2234.4
Agricultural Taxes Compensations	280.0	245.0	225.0	222.6	240.0	229.7	260.0	260.0	276.0
Transfers to Other Oil Producing States	13.0	6.6	53.0	49.6	48.7	46.8	61.0	61.5	37.2
VAT Transfers	0.0	0.0	1050.0	779.2	1069.2	752.1			
Development Transfers	**500.0**	**520.0**	**1576.0**	**939.0**	**2567.0**	**1429.4**	**3358.0**	**2242.3**	**2826.0**
State Earmark Development	390.0	515.3	1416.0	866.5	2047.0	1367.2	2398.0	2028.8	1456.8
Local Finance	272.0	497.5	921.0	693.3	1247.0	811.9	1806.4		
Foreign Finance	118.0	17.8	495.0	173.2	800.0	555.3	576.6		
Reconstruction Funds	30.0	4.3	0.0	0.0	340.0	49.6	710.0	124.0	860.0
Transfers to Three Areas	80.0	0.4	160.0	72.5	180.0	12.6	250.0	89.5	509.2
Development Transfers to Nuba Mountains and Blue Nile	50.0	0.0	100.0	67.5	120.0	12.6	190.0		
Development Transfers to Abeyi Area	30.0	0.4	60.0	5.0	60.0	0.0	60.0		

Source: MOFNE.

Annex Table 6: National Development Expenditures by Sector 2005 -2009 (SDG Million)

SECTOR	2005		2006		2007		2008		2009
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
Agriculture Sector	741.6	939.8	1,027.2	1,111.6	1,505.4	1,629.9	1,735.4	1,172.7	1,649.2
Industrial Sector	74.0	73.7	76.2	323.6	131.7	112.0	160.9	79.7	147.1
Transportation, Roads & Bridges Sector	311.3	348.0	432.7	336.2	545.8	291.1	683.3	635.4	1,064.7
Energy Sector (Electricity)	209.2	323.8	368.4	410.4	609.1	833.5	711.9	813.2	1,132.6
Social Development Sector	375.0	140.3	686.8	344.6	580.1	256.8	400.2	163.7	504.7
Water's Projects financed through loans and grants	17.8	5.7	4.2	0.0	7.4	1.1	3.0	0.1	2.5
Peace and Settlement Programs									
Development reserves/contingencies	10.0	27.6	28.2	1.2	20.0	30.5	5.0	0.0	126.7
Development project feasibility studies			13.7	33.9	8.5	1.6	11.4	2.6	13.8
Small Non-financial Assets							272.0	140.9	153.0
Strategic Food Reserve Authority									180.7
Total National Development	**1,739.0**	**1,858.9**	**2,637.2**	**2,561.5**	**3,408.0**	**3,156.5**	**3,983.1**	**3,008.2**	**4,975.0**
Payment of Agricultural Financing Commitments						130.5			
State's Development									
Development of Financial Institutions						20.6			
Onlending and capital contribution	**985.0**	**1,118.9**	**1,015.2**	**979.0**	**533.0**	**260.4**	**265.6**	**252.7**	**476.3**
Chapter 4 (Total)	**2,724.0**	**2,977.8**	**3,652.4**	**3,540.5**	**3,941.0**	**3,568.0**	**4,248.7**	**3,260.9**	**5,451.3**

Annex Table 7: GNU Poverty Reduction Spending 2005-2009 (SDG Million)

ITEM	2005		2006		2007		2008		2009
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
Total Expenditures (a + b + c)	**14,510.0**	**14,333.5**	**20,849.2**	**18,239.1**	**23,588.7**	**20,744.9**	**26,426.8**	**25,984.7**	**26,910.2**
a. Poverty Reducing (I + II)	**3,000.8**	**3,066.7**	**5,364.6**	**4,448.8**	**7,094.8**	**5,149.8**	**7,762.2**	**6,330.8**	**7,789.7**
I.Federal Pro-poor Spending	**1,307.8**	**1,343.6**	**1,882.1**	**1,691.7**	**2,385.8**	**2,020.8**	**2,590.3**	**2,252.0**	**2,379.5**
Federal Current Pro-poor Spending	681.8	640.3	720.3	607.4	1,156.6	928.2	1,660.4	1,459.7	731.7
Federal Development Pro-poor spending 1	626.1	703.3	1,161.8	1,084.3	1,229.2	1,092.6	929.9	792.3	1,647.8
II.Pro-poor Transfers to Northern States	**1,693.0**	**1,723.1**	**3,482.5**	**2,757.1**	**4,709.0**	**3,129.1**	**5,172.0**	**4,078.9**	**5,410.2**
5% of Current & block Transfers	1,311.0	1,220.9	2,401.5	1,991.3	2,592.0	2,255.0	2,390.6	2,376.4	2,584.5
Locally Financed Regional Development Spending on	272.0	497.5	921.0	693.3	1,937.0	861.5	2,531.4	1,613.0	2,743.1
Total Transfers to the Three Areas	110.0	4.7	160.0	72.5	180.0	12.6	250.0	89.5	82.6
b. Transfers to Government of Southern Sudan	**2,742.0**	**1,902.5**	**3,194.0**	**2,957.3**	**2,962.0**	**3,351.5**	**3,952.3**	**6,161.1**	**3,227.2**
c. Non Poverty Reducing	**11,509.2**	**11,266.8**	**15,484.6**	**13,790.3**	**16,493.9**	**15,595.0**	**18,664.6**	**19,653.8**	**19,120.5**
Non South Total Expenditures	11,768.0	12,431.0	17,655.2	15,281.8	20,626.7	17,393.4	22,474.5	19,823.6	23,683.0

Source: MOFNE and WB staff estimates.