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**Enabling the State: Estimating the Non Oil Revenue
Potential of State and Local Governments**

Southern Sudan

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Currency

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WEIGHTS AND MEASURE

Metric System

ABBREVIATIONS AND ACRONYMS

BPT	Business Profit Tax
CES	Central Equatoria State
CIFA	Country Integrated Fiduciary Assessment
CNPC	Chinese National Petroleum Corporation
CoA	Chamber of Accounts
CPA	Comprehensive Peace Agreement
FFAMC	Fiscal and Financial Monitoring Allocation Commission
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GNU	Government of National Unity
GOSS	Government of Southern Sudan
HIPC	Highly Indebted Poor Country
ICSS	Interim Constitution of Southern Sudan
IDA	International Development Agency
IMF	International Monetary Fund
INC	Interim National Constitution
JAM	Joint Assessment Mission
LBT	Local Business Tax
LTO	Large Taxpayer Office
LGC	Local Government Council
MDG	Millennium Development Goal
MICS	Multiple Indicator Cluster Survey
MOFNE	Ministry of Finance and National Economy
MTO	Medium Taxpayer Office
NPC	National Petroleum Commission
NSCSE	New Sudanese Centre for Statistics and Evaluation
ORSA	Oil Revenue Stabilization Account
PER	Public Expenditure Review
PFM	Public Financial Management
PIT	Personal Income Tax
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
SCCL	Sudan Cotton Company Ltd
SDG	Sudanese Pounds
SHHS	Sudan Household Health Survey
SPC	Sudan Petroleum Corporation
SPLA	Sudan People's Liberation Army
SPLM	Southern Sudan People's Liberation Movement
SSA	Sub-Saharan Africa
SSLA	Southern Sudan Legislative Assembly

TShs	Tanzanian Shillings
UNDP	United Nations Development Program
USAID	United States Agency for International Development
VAT	Value Added Tax
WSA	Wealth Sharing Agreement

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EXECUTIVE SUMMARY

1. The restoration of state capability for public administration and public services is critical to economic and social development in Southern Sudan. Essential functions, ranging from the maintenance of public security, to provision of public health services, to the provision of basic infrastructure for trade and commerce, rest with the government. And none of these would be possible or sustained without a corollary capability of the state to raise the revenue required to pay for the public administration and the services. This report analyzes and estimates the revenue potential for state and local governments in Southern Sudan by surveying two of the ten states (Central Equatoria and Lakes) and selected counties¹ in each state.

2. There is an element of the “chicken and egg problem” inherent in considering the revenue mobilization challenge in Southern Sudan. The legacy of a long civil war and the consequent retardation of economic development have created difficult initial conditions for revenue mobilization in Southern Sudan. The largely agrarian economy is hampered by poor land tenure arrangements, public infrastructure is almost non-existent and there is little by way of a financial sector to provide credit. These factors fundamentally constrain the development of markets and trade and economic activity and, therefore, the potential tax base. The government and its structures are being established and institutional capacity to define and implement a development policy remains weak and nascent. While the oil sector provides relatively easily tapped revenue flows at present, it is highly volatile and there are high risks of it being a resource curse rather than a blessing in a context of weak institutions to manage such revenues. Despite this rather difficult context, there is a rapidly growing informal economy consisting of a large number of small and micro businesses focused on retail trade, tourism and services. All of these features of Southern Sudan present significant challenges for state and local efforts to mobilize own source revenues.

3. Revenue mobilization also has to be understood in the context of a commitment to decentralization of the state in Southern Sudan. The process of fiscal decentralization is linked to the ongoing process of political and administrative decentralization and is expected to gain momentum after the recent elections are completed and a new government is in place.

4. There have been increasing levels of powers and responsibilities transferred to states since 2005. The formal basis for revenue collection and sharing is to be found in the Power and Wealth Sharing Protocols of the Comprehensive Peace Agreement and in the provisions of the Interim Constitution of Southern Sudan; the State Constitutions with subordinate legislation and the Local Government Act 2009. The Interim Constitution enshrines a decentralized system of governance in Southern Sudan at three levels with revenue raising powers and executive powers allocated to the Government of Southern Sudan, state governments and to the local governments. The provisions for sharing of the oil revenue are explicit between the Government of National Unity, Government of Southern Sudan and oil producing states in the South while the principles for sharing of oil revenue between GoSS and other states and for the sharing of other sources of revenues are implicit in the scheme of decentralization. The commitment to decentralization and the creation of a federal government at GoSS level, ten state governments and seventy eight county governments

¹ Yei River, Morobo and Kajo Keji Counties in Central Equatoria state and East, Central Rumbek and Wolo Counties in Lakes state.

impose a heavy administrative burden and sharply enhance the need for revenue generation just to finance the administrative structure of government at three levels.

5. At the state level the key sources of tax and non tax revenue are Personal Income Tax, Business Profits Tax applied to large² corporations, Rental Income Tax, Capital Gains Tax and Stamp Duties. There are also a number of fees and charges: Trading and Professional Licenses; State Service Tax on hotels; Fee on Contracts; Fee on the sale of various commodities.³ The proportion of expenditure financed from own source revenue generation varies significantly across states. Central Equatoria financed 38% of its expenditure from own source revenues whereas the proportion is negligible in Jonglei and Lakes states. The variation is explained by the maturity of the tax administration system with Central Equatoria being a well established state which was earlier a Regional Government while the administrative structures are under-developed in Lakes and Jonglei. The second feature is the level of urbanization. Central Equatoria has three well developed urban centers: Juba (the federal capital), Yei and Kajo Keji. Non tax revenue accounts for 20.6% of the states own revenues and it is telling that the largest source for non tax revenue is the Traffic Police with Housing coming second. In comparison Jonglei State is predominantly a rural based state and the urban population in Lakes State is minimal with very limited marketplaces and urban facilities.

6. At the level of Local Government in Counties the key sources of revenue are: Social Services (Head) Tax; Gibana; Land Tax; Annual Tax and Sales Tax. Local Governments also levy various charges and fees. Counties transfer 40% of their collections to the States and keep the remaining 60% for their own use. Such transfers account for around 16% of the own source revenues in the case of Central Equatoria State. However the share of own source revenue generation is very low and the bulk of the county expenses are met from transfers from the state. Yei River County in Central Equatoria State is one of the most developed Counties with a large market place; significant domestic population; well developed urban facilities including municipal electrical supply. However own source revenue generation from ground rents; licenses and parking fees provide only 9% of the expenditure of Yei River County. Rumbek Central County in Lakes State collected 20% of total revenues from its own sources mostly from fees on cattle auctions, a better performance than in Yei but still not sufficient for fiscal sustainability. The low levels of own source revenues call in question the fiscal sustainability of local governments as presently organized. The low rates of collection are however comparable with the collection patterns in neighboring counties. Local Governments in Tanzania on average collected only 6% of their revenue from own sources in 2004/05. The comparative number in Uganda during 2004/05 is 15%. In Ethiopia average collection form own sources at the local levels declined from 25.7% in 1994-95 to 18.7% in 2006/07

7. Because government does not collect and project revenue estimates, budget data is a poor guide for assessing the level of revenue collection. Central Equatoria State collects only 13 % of its budgeted revenue. Jonglei State lists a revenue collection of only SDG 1.5 million from Personal Income Tax and other tax and non tax revenue is not even listed. Lakes State

² The ICSS reserves tax on “medium” and “small” corporations for GOSS . Consequently it is asymmetric for state governments to levy tax on “large corporations”. However these terms: “large”, “medium” “small” have not been defined and the overlap is an example of less than adequate revenue assignment.

³ The Central Equatoria State Taxes and Fees Act lists 20 separate Fees for various kinds of licenses and 83 separate fees on various goods.

has not produced a budget for the last two years. Northern Bahr El Ghazal State estimates SDG 16.2 million as its revenue receipts with 37.5% coming from tax revenues. Actual collection would vary significantly. Data on revenue is scarce even at the State level. The quality and availability of data at the County level is worse though Yei River County in Central Equatoria and Rumbek Central in Lakes State had a data base comparable in quality to the state level. Revenue data is either maintained at a high level of aggregation rendering analysis difficult or availability is restricted and time trends unavailable.

8. To assess the tax potential the study assumed that data availability would be minimal given initial conditions in the country. Accordingly the methodology was adjusted to factor in non availability of data and the approach recognized the need to develop rough estimates through survey methods. A mixed household and enterprise approach was adopted on the pattern of a 1-2-3 Survey for gathering data on the informal sector. 156 households were surveyed representing 2014 people or approximately 0.11% of the population of the two states visited and corresponding to 0.024% of the population of Southern Sudan. A series of five focus groups were conducted with a selection of householders to gather information on household consumption, prices and procurement patterns to estimate the relative size of the formal and informal markets. The methodology used in the focus groups was designed to minimize reliance on literacy and language, using visual methods where possible. There was very strong participation from participants. Objective as well as subjective information was solicited which was systematically analyzed. Rapid surveys were also done of the major markets in the towns visited to get a sense of the prevalence of business activity. Price information was collected for daily consumption goods which were used in conjunction with the focus groups estimates of household consumption in physical terms to get an estimate of household consumption in value terms. Some key demographic trends which emerged are as follows: The household size is large averaging about 13 persons per household; the ratio of working age adults at 18% was much lower than the national average of 43.3% suggesting migration away from rural areas of working age adults.

9. Based on observed household living levels; reported patterns of food procurement and the prevalent prices the annual per capita consumption of food items was estimated at SDG 1562. The focus group methodology revealed that on average 42% of supplies were sourced from home while 14% are sourced from a formal shop. The turnover in the formal sector for any area is consequently the product of the population and 14% of the average per capita food consumption. This simple calculation provides the potential base of a possible business tax which might, in a future scenario, be levied at the local level in Southern Sudan. This base is considerable even as compared to current revenues from business taxes and, if utilized, even under very conservative assumptions of administrative efficiency, has the potential to yield significant revenues, well in excess of current tax collections.

10. The business tax base was also estimated using the results of the rapid market surveys. The number of shops and stalls was crudely estimated by counting the number of shops in a given block and measuring the frontage of the shops. The length of the street was measured by driving along them and recording the mileage. Informal traders and stalls were measured by counting the number in a selected measurable area and calculating the square meters occupied by each. The circumference of the informal market was estimated by walking or driving along it. Using the total square area occupied by the market and the space occupied by each trader the number of traders were estimated. This crude technique was, given the time and resource constraints, the only practical method to check the credibility of the official records which were generally found to be considerably lower than the estimated

numbers. Turnover of traders was estimated through interviews; average turnovers were SDG 200 per day per shop in Juba and Yei and SDG 120 per day per shop in Rumbek Central, Rumbek East and Kajo Keji and SDG 30 per day per stall in all locations. Average turnover applied to the number of assessed shops and stalls as surveyed gives the estimated market turnover which is the tax base.

11. Using simple modeling techniques, it is demonstrated that a feasible rate of improvement in administrative efficiency over a five year period will yield a very significant improvement in revenues collected. Tax collection is assumed to be a function of the extent of transactions conducted in the formal sector; the levels of tax payer registration; assessment and collection efficiencies. Expenditure in the formal sector (from which tax is collected) is modeled to increase from an average current estimate of 14% of all transactions to 20% of all transactions. Tax payer registration efficiency is modeled to increase from 50% to 80%. Assessment efficiency is modeled to increase from 50% to 90% and collection efficiency from 50% to 75%. Under these assumptions the revenue from a 5% business tax on business turnover alone could increase from a base estimated potential level of SDG 11.19 million for all of Southern Sudan to SDG 82.01 million in five years. This demonstrates that a local tax based on business turnover can make a very significant contribution to empowering state and local government with its own revenue sources even when the vast majority of business activity takes place in the informal economy. This is true even at poor rates of administrative efficiency which can be expected from a nascent state such as GoSS.

12. Field observations confirm that there is a significant level of under-collection of business related taxes. In Yei River County against an official record of 1921 shops the survey revealed around 3500 shops and 2000 stalls. In Rumbek East against the official estimate of 40 shops the survey revealed around 200 shops and 500 stalls. In Juba trading licenses have been issued to less than 200 shops. The market survey in just two markets in Juba (Munuki and Gudele) revealed around 1800 shops and 3000 stalls. With estimated collections of SDG 200 daily per shop in Juba and Yei and SDG 120 per day in Rumbek Central and Rumbek East and an estimated collection of SDG 30 per day per stall the annual turnover in just two markets in Juba is SDG 135 million.

13. While the focus of the study was on estimation of the revenue potential of states and local governments in the course of the field visits certain issues related to revenue assignments, tax simplification and tax administration came to light. These three major themes which inhibit the mobilization of own source revenues by state and local governments are discussed in more detail below. However the recommendations are summary in nature and need to be strengthened through additional study and analysis.

A. Poor Revenue Assignment across levels of government.

14. There are serious overlaps and conflicts between levels of government regarding rights to collect taxes or service fees. Legislation does not provide sufficient clarity, and results in conflict between branches of government. There may similarly be the need for harmonization of revenue assignments between the Government of the Republic of Sudan and the Government of Southern Sudan which have not been studied by this report. However within its own revenue assignments under the ICSS GoSS has fiscal autonomy. Under the ICSS and the State Revenue Act 2008 of Central Equatoria the state government is empowered to issue vehicle license plates. However GoSS has also started issuing license plates and charging fees for that service. There is a similar overlap in the issue of birth

certificates with the health authorities in GoSS and at the state level issuing such certificates. Similarly, both state and GoSS issue import and export licenses. The state claims jurisdiction from Article 186 (i) of the ICSS which empowers the states to raise revenue from “border trade charges or levies in accordance with national legislation”

15. Tensions and conflicts between state, county and GoSS collectors were apparent. Higher levels of government frequently practice “cherry picking”, reserving the easier parts of the tax base for themselves (e.g. the salary based part of the Personal Income Tax). This erodes the tax base available to lower levels, and incentivizes resistance to formalization. Duplication of capacity was also apparent, as both local and higher levels of government attempt to mobilize the staff necessary to contest the tax base.

16. First, each level of government has the responsibility, and obligation, to abide by the framework laid out in the CPA, INC, ICSS and state constitutions. In addition a careful re-examination of local revenue assignment must be carried out, in consultation with representatives of states, counties, payams, town councils and bomas. Legislative amendments will be needed to clarify assignment and prevent overlaps. Where overlaps remain, a single revenue authority should act as a collecting agent for the authorities which share the base.

B. Excessive Complexity

17. The legislative and institutional framework encouraged local officials to take many different approaches to the same taxes, applying different rates and different administrative methods for the same base. The net effect of multiple points of taxation on a single tax base has the effect of raising the effective tax rate to 33% thereby increasing costs to consumers and enhancing the incentive for evasion. A complex tax system also increases the difficulty of tax administration and cannot be justified in a low capacity context.

18. A plethora of different taxes and rates was identified and are evidence for illustrating the problem. Tax collectors interviewed were inadequately informed on the laws and policies. The consequences of these complexities are:

- Data and revenue transparency is poor. Taxpayers cannot predict their liability or see how the funds are being used.
- Complexity opens the way to ad hoc rebates, exemption and holidays, which narrows the base, and invites corruption.
- Complex tax systems are difficult and costly to administer, requiring a high level of training and re-training for officials, and complex systems and procedures for them to follow.
- Complex tax systems are associated with high levels of evasion.
- Complex tax systems generate uncertainty which is an important constraint to development.

19. The process of rationalizing and simplifying the revenue system should initially include the following:

- One option, which can be considered in the medium term, is to simplify the structure for tax collection at the local government by creation of a single tax collection authority at the level of GoSS through a tax law to reduce the number of tiers (state,

county and payam) for physical tax collection and reduce the costs associated with operating multiple tax administrations. It is likely the creation of a single tax collection agency would require the consent of state governments which have independent taxation powers. Some states (e.g. Central Equatoria) have already created their own Revenue Authorities which would have to be subsumed in the proposed central agency. The advantages of a single tax authority are likely to an improvement in the consistency and coordination of tax collection and tax collection costs as a ratio of tax collected is likely to reduce.

- simplify the income tax to make implementation easier. Some states already have up to three layers of rates at which income tax is charged.
- simplify the tax code making it easier to understand and administer.
- develop a taxpayer master list for various revenue sources.

However the creation of single Revenue Authority should be preceded by a thorough cost benefit analysis of this and other administrative options in the context of the environment in Southern Sudan marked by low taxpayer numbers and the likely high set up costs, as was pointed out by the FAD Tax Policy Mission in January 2009.

20. Given the weak administrative capacity in Southern Sudan and the acute revenue needs the major focus of tax reform should be on reinvigorating the existing tax administration rather than the introduction of new surcharges at the state and local levels. A simplified tax system will need to be devised even as compared to the existing complex system and could conceivably have the following components :

21. **Personal Income Taxes.** This is an existing tax which should apply for all formal employees, on a withholding basis, at a common and simple proportion of income above an appropriate threshold level defined to exclude low income earners.

22. **Local Business Tax.** With administrative variations this will incorporate and consolidate a number of existing taxes and fees. The methods of collection can be tailored to suit large businesses which could pay taxes on profits, medium scale businesses which could pay tax on presumptive basis and thereby avoid the complexities of maintenance of detailed accounts (the presumptive tax rate being tailored to provide an incentive to move from presumptive to actual tax payments) and small businesses like kiosks which could purchase standardized tax coupons.

23. **Property Tax.** This is a tax which can be considered over time. It is possible to implement a property tax in areas where there are no well developed real estate markets and where there are various land tenure systems, which seems to characterize most communities in Southern Sudan. Such an approach is based on an area based assessment, with adjustments derived in partnership with the local community. Such a property tax could be implemented in Southern Sudan so that a property tax can start to be developed. Such a tax, if well designed, can generate significant amounts of revenue at relatively low rates, and cement a closer relationship of accountability between the community and the authorities.

24. **Taxes on Consumption.** Existing internal excise taxes such as gibana should be phased out, and replaced with conventional taxes on consumption. Ideally a national VAT plus a local state or county level surcharge, all administered by the national VAT revenue authority would be the best option. However given the under-developed and agrarian character of the economy in the south, such a tax can only emerge over time as the economy

expands and more economic activity is brought into the formal economy and it is not a near term possibility.

25. **Automobile Taxes.** State and local governments can generate significant revenues from various types of taxes on automobiles.

26. **Fees and User Charges:** The development of local services such as water, electricity, refuse removal, sanitation, roads, livestock auctions, abattoirs, produce markets is crucial for the development of a vibrant private sector, and for the alleviation of poverty. Such services are best funded by realistic user charges. However a caveat which needs to be flagged is the need to significantly improve the level and quality of services before government will have sufficient credibility and legitimacy to start charging for these services. At best this is a medium term intervention.

27. **Sales and Leases of Public Property.** Resources which are held in traditional commons are being transferred to private ownership. Local Governments should control such transfer, and capture part of the value in the form of ground rents and royalties.

28. In the case of revenue from natural resource based assets like forests an issue which needs to be debated and clarified is the appropriate share of the host state in the revenues raised from such natural resources by the GoSS on the same pattern as is clearly laid out in the ICSS for oil based revenues, where state governments earn a share of oil revenues generated in their areas.

29. **Intergovernmental Grants.** It will be essential to develop a system of intergovernmental grants which will support the many local areas which do not have the local economic base on which revenue mobilization depends.

C. Poor Revenue Administration

30. The organizational scorecard of revenue administration agencies in Southern Sudan is very low.

- There are many unregulated freelance tax collectors
- There is frequent unilateral “withholding” of revenue collections to cover unpaid salaries.
- Communication with collectors in the field is very poor.
- There are large numbers of poorly trained revenue personnel.
- Record keeping is very poor, not mechanized, and not amenable to analysis or the preparation of standardized reports for management and oversight. Such reports are not available.
- Computer systems were not used in revenue collecting services.
- Security of cash collected is very poor.
- A culture of efficiency and probity among officials needs to be seriously enforced.

31. The consequences are that tax bases are consistently under-estimated, tax liabilities are under-assessed, and collection of taxes due is low. Reform of the revenue system could, according to our models, raise the revenue collection at local level very considerably.

32. *Potential solutions.*

- Pass a comprehensive set of legislation and regulations governing, in detail, the management of all public money, with special focus on the collection and recording of taxes, and detailed processes and procedures regarding the supply chain management process. The range of revenue laws adopted in South Africa, particularly the Public Finance Management Act, and the Municipal Financial Management Act are good models to use, along with the considerable body of regulation, guidelines and training materials that accompanies them. These laws are uncompromising in their stipulations regarding a standardized, centrally legislated set of processes and procedures. Little scope is left for local or state level variations, although such variation is allowed, providing it is fully consistent with the national laws. They do not neglect to stipulate who is responsible and to stipulate severe penalties for infringement or failure to comply. This step is a crucial part of the central strategy to eradicate corruption and restore public and international trust in all levels of the government as a revenue collecting entity.
- Intensive GoSS-wide campaign to train officials and politicians in the specifics of this Law.
- Capacity building of revenue officials must be on-going, with frequent re-training and refresher programs.
- Ensure that all public entities are subjected to an annual audit the results of which must be communicated widely.
- Create an entity to professionalize tax administration. Given the paucity of private tax professionals in the initial stages this entity would likely be dominated by public sector tax professionals. However despite such public sector dominance it is likely to be very effective in standardization of tax approaches and methods and in the regulation of tax administration. Over time it can evolve into a self regulatory body of lawyers, accountants and public sector professionals in the area of taxation.
- Informal tax agents must be accredited and receive compulsory training. They must work within a system which automatically checks their performance, such as a coupon system.
- Creation and rapid expansion of a communication and record keeping infrastructure, based on appropriate technology.
- Conduct a serious registration campaign, to register all potential tax payers
- An anti-corruption strategy must be drawn up and implemented.
- Develop meaningful audits
- Increase penalties for failure to remit taxes owed.

33. The estimate for non oil revenue potential is fairly significant in Southern Sudan. Deliberate and sequenced initiatives to formalize business and simultaneously improve tax administration will enhance the potential and the capacity of the state to harness this potential. The measures required to achieve this objective require harmonization of regulatory powers across the levels of government and functional allocation of tax administration to improve the efficiency of operations. Capacity development is a significant challenge. A cadre of tax collectors will need to be developed from the ground upwards to provide the human resource base to implement tax reform. Institutional capacity development is also necessary to make the tax collections efforts more efficient and harmonious. Regulatory reform and formalisation of public financial management arrangements across the levels of government is a key area for immediate action. Formalising a code of conduct for public

servants in the revenue area is a priority and institutionalization of anti corruption efforts is urgently required to control deviant behavior from the start. The GoSS would have to lead this effort because of the need for a harmonized system. State governments look to GoSS for providing the lead and are willing to work within the overall leadership of GoSS. The revenue system under the Interim Constitution of Southern Sudan is a decentralized one. However the forthcoming referendum may offer an opportunity to review the limits of revenue decentralization on the basis of functional efficiency.

1. INTRODUCTION & OVERVIEW OF INSTITUTIONAL ARRANGEMENTS FOR REVENUE MOBILIZATION IN SOUTHERN SUDAN

1.1 Poverty alleviation and improving human welfare depend critically on the provision of key services like public security, primary health services, education services and such infrastructure services as clean water, sanitation and energy. It is generally agreed that responsibility for insuring the delivery of such critical services lies with government and that to achieve high levels of efficiency and effectiveness calls for active participation by local government. Government plays an essential role in addressing inequities that exist across regions in terms of income and access to adequate services.

1.2 As governments around the world reexamine how to organize government to improve the delivery of services, there is a “silent revolution” taking place as more and more countries embrace the principles of decentralization. [Broadway and Shah, p. vii] Decentralization is a complex phenomenon that means different things to different people, but fundamentally it is concerned about the relationship between the central government and subnational governments along a number of different dimensions – e.g., fiscal decentralization, political decentralization, administrative decentralization. Initiatives for decentralization along each of these dimensions proceed at their own pace and each has its own objective. While this report is concerned with revenue mobilization which is closely related to fiscal decentralization, it is difficult to separate it from the other dimensions of decentralization. In addition, issues of fiscal decentralization cannot be divorced from issues of fiscal management. Public fiscal management involves understanding the political economy of public finance and looks at the institutional arrangements – budgets, service delivery, revenue performance, debt management, risk management and civil service reform – as they impact the level and quality of services provided and governmental accountability and legitimacy. [Shah, p. xi-x] Thus, while this report is the first effort to estimate the actual revenue raising capacity of state and local governments in Southern Sudan, it is only one piece of the mosaic that makes up a system of fiscal federalism.

1.3 The process of political decentralization is likely to accelerate now that the first democratic elections have been held in Southern Sudan. These elections represent a critical step in the development and implementation of a system of fiscal federalism in the south because state and local governments will be formed which have a popular mandate unlike the nominated status of the executive and the legislatures today.

1.4 Decentralization is likely to remain a key theme of the new government. The process of administrative decentralization is gradually being enhanced. In successive budgets the scope of financial and human resources available to the state and local governments in being enhanced. In 2009 for the first time there was a direct devolution of grants from the GoSS to local governments in recognition of the service delivery responsibilities of these institutions.

1.5 In view of the continued progress on both political and administrative decentralization in the south, it is imperative that progress be made in the area of fiscal decentralization as well. State and local governments must have the resources to meet the political and administrative responsibilities being devolved to them.

1.6 Growth and employment in Southern Sudan is crucially dependent on the provision of infrastructure by the government and the commencement of productive activities by the

private sector. Developing the private sector while simultaneously developing domestic fiscal resources can be perceived as a contradiction. However moderate, transparent and simple taxation which avoids distortions is necessary for the development of local autonomy and the development of a social pact between the citizens who pay taxes and the government which provides them public services. Taxation levels need to be moderate to take into account the reconstruction phase that Southern Sudan is going through and must not impede private sector development. Developing a framework for state and local taxes is therefore one of the key elements in the strategy of governance reform in Southern Sudan.

1.7 After decades of war in Sudan, a precarious peace has been negotiated, based on the principle of decentralization. The concept of decentralization provides the foundation upon which the CPA signed in January 2005 is based. The CPA includes two elements critical to framing decentralization in Sudan – the Power Sharing Protocol and the Wealth Sharing Protocol. The Power Sharing Protocol sets out the institutional framework for Sudan in the interim period and after. In addition, the protocol sets out guiding principles for the distribution of powers and the establishment of governmental structures.

1.8 In the context of this study, the most important feature of the Power Sharing Protocol is the statement that the signatories to the protocol agree “There shall be a decentralized system of government with significant **devolution** of powers, having regard to the National, Southern Sudan, State and Local levels of government.” (Section 1.5.1.1, emphasis added)

1.9 In addition to the Power Sharing Protocol, the CPA also includes a Wealth Sharing Protocol. One of the guiding principles in the agreement is that “revenue sharing should reflect a commitment to devolution of power and decentralization of decision-making in regard to development, service delivery and governance.” There is no explicit link however between this general principle and the actual sharing of revenues among levels of government.

1.10 Section 6 of the Wealth Sharing Protocol assigns non-oil revenue sources to specific governmental units including the National Government, the Government of Southern Sudan, and states/regions. The explicit assignment of revenue sources to states is detailed in the Interim National Constitution (Section 195) and the Interim Constitution of Southern Sudan (Section 186). There is no explicit discussion of local own-source revenues in this protocol.

1.11 The list of revenue sources available to the Government of Southern Sudan (GoSS) and the states/regions include significant overlap in the individual revenue sources available to GoSS and the states, especially in view of Section 6.2.2 which states that GoSS has access to “Revenue from any of the sources listed as state/region revenue sources referred to in paragraph 6.3.”

1.12 In addition to revenue assignment, the other key issue in designing a system of fiscal decentralization is the assignment of spending responsibilities to different tiers of government. The Interim National Constitution (INC) and the Interim Constitution of Southern Sudan (ICSS) include schedules which enumerate the explicit responsibilities of state governments; but no mention is made of service delivery responsibilities assigned to local governments. This was left to the GoSS Local Government Act of 2008 which explicitly enumerates the powers and responsibilities of local governments in Southern Sudan. The following table (table 1.1) lists the enumerated powers of state and local governments in Southern Sudan according to the ICSS and the Local Government Act of

2008. Two important conclusions can be drawn from this comparison. First, the assignment of responsibilities to state and local governments in Southern Sudan is not entirely clear and there appears to be significant overlap in service responsibilities. For example, responsibility for fire protection, primary schools, pollution control, town planning and ambulances, among others, are assigned to both state and local governments in Southern Sudan.

1.13 Second, state and local governments in Southern Sudan, as in most other countries, are primarily responsible for the plethora of public services that have a direct impact on the daily quality of life of their citizens. They have responsibility for an extensive set of services critical to the functioning of the community and local economy.

Table 1.1: Assignment of Expenditure Responsibilities

Expenditure Responsibilities of State Governments in Southern Sudan, Source: ICSS	Expenditure Responsibilities of Local Government, Source: GoSS Local Government Bill, 2008	
State police and prisons	Police and prisons	Sewerage and drainage
Social welfare including pensions	Fire protection	Refuse collection
State land and natural resources	Civil and criminal justice	Slaughter houses
Cultural matters within the state	Pre-school	Environmental protection
Provision of health care including hospitals	Primary school	Libraries and museums
Regulation of businesses, trade licenses	Adult education	Culture, sports and leisure facilities
Registration of marriage, divorce, births, deaths	Primary health care	Parks and open spaces
Management of state natural resources	Housing	Land allocation
Primary and secondary schools	Town planning	Markets
International and national airports	Feeder roads, roads and bridges	Regulation of financial institutions
Intrastate public transport and roads	Water and sanitation	Regulation of businesses
Pollution control		
Town and rural planning		
State public utilities		
Vehicle licensing		
Fire fighting and ambulance services		
Recreation and sports within the state		

1.14 There is, therefore, a critical need to clarify the assignment of both service delivery and revenue raising responsibilities between state and local governments in Southern Sudan in a clear and unambiguous manner.

1.15 A number of international organizations operating in Southern Sudan are addressing a variety of issues related to fiscal decentralization. Bearing Point/USAID (now Deloitte) has been associated with the GoSS Revenue Directorate over the past three years and has assisted the government to formulate the recently passed Taxation Act of Southern Sudan. The African Development Bank, in association with GoSS and state and local governments in the south, recently completed a study of the administration and collection of non oil revenues at the GoSS, state and local level. In addition, UNDP is associated in the general area of strengthening administrative support for revenue mobilization because they provide training and ground level support to states and to local governments in the area of budgeting and planning. The bulk of the ongoing efforts are on development of the regulatory system, situational analysis of the revenue system and capacity building at GoSS and state government levels. This report is the first effort to address the critical issue of state and local

revenue mobilization by providing an initial estimate of the revenue raising capacity of state and local governments in Southern Sudan which provides the basis for setting revenue mobilization priorities. This objective while making the report unique also limits the scope of the report since the broader issues of appropriate fiscal architecture, tax administration reform and inter governmental fiscal relationships have been dealt with in a summary manner and much more intrusive work would be necessary before offering recommendations in these areas,

IMPLEMENTING FISCAL DECENTRALIZATION IN SOUTHERN SUDAN

1.16 A major concern in implementing a system of fiscal decentralization in Southern Sudan, including the mobilization of own-source revenues by state and local governments, is the extraordinary degree of reliance on oil revenues to fund public expenditures. Overall, state and local governments in the South depend on oil revenues for over 90 percent of their total revenues. These are channeled primarily through intergovernmental transfers from GoSS.

1.17 Such dependence on oil revenues raises several critical concerns. Specifically, according to the December 2007 Public Expenditure Review of Sudan by the World Bank, the discovery of oil has been both good and bad for Sudan. The report concludes:

“The large boost to revenues may have weakened incentives for expenditure management and fiscal reforms. Accountability is undermined by the lack of transparency that severely hampers the ability to properly manage the oil sector (in terms of natural resource management) and to adequately forecast and manage revenues, which in turn compromises overall fiscal policy. Volatility and over-estimation of oil revenues . . . has undermined budget credibility, forced expenditure rationing, caused complete elimination of the stabilization fund built up with past savings, and presently threatens the macroeconomic stability sustained over the past ten years.”⁴

1.18 Dependence on oil revenues has prevented state and local governments in Southern Sudan from making the hard choices needed to gain control over spending and to mobilize own-source revenues. State and local governments in Southern Sudan must face a hard budget constraint which will force them to set priorities and make hard choices about spending and revenue-raising.

1.19 The fiscal architecture of a country has two key elements – demographics and economics.

Demographics

1.20 The demographic makeup of a country, or state or local government, directly impacts service needs and the ability to raise revenues as a result of differences in such key variables as:

- Population size and growth
- Age distribution
- Family size and composition
- Urban/rural character of the population

⁴ World Bank, 2007, *Sudan Public Expenditure Review: Synthesis Report*, The World Bank, Washington DC, December, p. 12.

- Education levels of the population
- Health status of the population.

1.21 The following table lists the population of each state in Southern Sudan along with the number and share of population that is school age or pre-school age.

Table 1.2: Population of States

State	Total Population	Pct of Total Pop in Southern Sudan	Population 0-16	Pct of Pop 0-16 in Southern Sudan	Pct Pop 0-16
Upper Nile	964,353	11.7%	475,419	11.7%	49.3%
Jonglei	1,358,602	16.4%	665,521	16.4%	49.0%
Unity	585,801	7.1%	311,477	7.7%	53.2%
Warrap	972,928	11.8%	496,041	12.3%	51.0%
Northern Bahr El Ghazal	720,898	8.7%	371,586	9.2%	51.5%
Western Bahr El Ghazal	333,431	4.0%	155,474	3.8%	46.6%
Lakes	695,730	8.4%	334,352	8.3%	48.1%
Western Equatoria	619,029	7.5%	266,744	6.6%	43.1%
Central Equatoria	1,103,592	13.4%	517,385	12.8%	46.9%
Eastern Equatoria	906,126	11.0%	453,450	11.2%	50.0%
Southern Sudan	8,260,490	100.0%	4,047,449	100.0%	49.0%
Northern Sudan	30,894,000		14,414,910		46.7%
All of Sudan	39,154,490		18,462,359		47.2%

Source: Southern Sudan Commission for Census, Statistics and Evaluation, *5th Sudan Population and Housing Census – 2008: Priority Results*, April 8, 2009.

1.22 The population of states in the south range from 1.4 million in Jonglei to 333,431 in Western Bahr El Ghazal. While population is a first estimate of expenditure need, actual needs vary with the general characteristics of the population. For example, pre-school and school age populations range from 53.2 percent of state population in Unity State to just 43.1 percent in Western Equatoria, indicating substantial differences in the need for providing education services across states.

1.23 The legacy of the 20 year civil war has left the people of Southern Sudan severely disadvantaged in terms of social development, and thus in greater need of the programs and services delivered by public expenditure. Data in the following table on Millennium Development Goals suggest that the people in Southern Sudan face more serious social and developmental challenges than the average for the world, the average for Sub-Saharan Africa and for Sudan as a whole.

Table 1.3: Millennium Development Goals

Millennium Development Goals*	The World (2007)	Sub-Saharan Africa (2007)	Sudan (2007)	Southern Sudan** (2004)
1. Malnutrition (% children under 5 who are under weight)	23.2	26.6	38.4 (2000)	48
2. Primary education completion rate (% of eligible population)	86	60	50	2
3. Ratio of female to male students in primary and secondary school	95	84.5	89.5	35
4. Under 5 mortality rate per 1,000	68	146	109	250
5. Maternal mortality rate per 100,000 births	400	900	450	1,700
6. Incidence of tuberculosis per 100,000	139	369	243	325
7. Access to improved water (% of population)	86	58	70	27
8. Access to improved sanitation (% population)	60	31	35	15

* <http://ddp-ext.worldbank.org/ext/GMIS/home.do?siteID=2>

** New Sudan Centre for Statistics and Evaluation, *Towards a Baseline: Best Estimates of Social Indicators for Southern Sudan*, In Association with UNICEF, NSCSE Series Paper 1/2004, May 2004.

1.24 The situation on the ground is underscored by preliminary, and somewhat incomplete, data collected by the Southern Sudan Fiscal and Financial Allocation and Monitoring Commission, which reveals that there are very limited amounts of paved roads or water wells across the ten states, relatively few primary and secondary educational institutions with very limited intake rates. There is thus a substantial backlog in service needs across all states in Southern Sudan. The challenge for these states will be to generate the revenues necessary to improve the level and quality of services available to their citizens.

Economic and Institutional Issues

1.25 The economic base of Southern Sudan is not well developed. According to the *Southern Sudan Livelihood Profiles* (July 2006) prepared by the Southern Sudan Center for Census, Statistics and Evaluation, very little cash has been circulating in the economy of Southern Sudan over the last 20 years because of the war. The report also argues that the success or failure of all livelihood systems in Southern Sudan rest on the ability of people to move and to trade. These two essential factors have been severely constricted as a result of 20 years of war. As a result, livelihoods in Southern Sudan are limited to reliance on cattle rearing, crop production, fishing, wild food collection and barter/exchange as a basis of livelihood. The report concludes that

“Post-conflict planning will need to take these important socio-economic relationships into account to avoid a possible over-emphasis on supporting increased local crop production rather than restoring trade, developing new markets, and promoting the exchange opportunities that are part of a functional economy.” (p. 24)

1.26 A 2006 *Diagnostic Trade Integration Study* concludes that exports of agricultural products, which generate income for the rural poor, have declined in Sudan while manufacturing exports have remained stagnant. Despite relative resource abundance, the agriculture sector has been undermined by 20 years of war. According to the report, casual observation indicated that exports from Southern Sudan have been minimal, but imports into the South have grown substantially since the signing of the CPA. As a result, like many developing economies, the distribution of income in Southern Sudan is becoming increasingly disparate as few benefit directly from the changes taking place in the south.

1.27 Finally, the south is just starting the process of developing the institutions necessary for a well functioning system of fiscal federalism. Not only do institutions for revenue administration need to be strengthened, but there needs to be improvements in a system of postal addresses so tax billing and collection can be improved, there needs to be better accounting for tracking tax bills and payments and there needs to be a functioning judicial system to resolve tax appeals.

Expenditure Needs

1.28 The World Bank identifies lack of infrastructure and services as a key factor to be addressed in order to support sustainable and broad based growth:

“Ensuring access to a minimal basic level of infrastructure services and connectivity is essential to support basic livelihoods of the population. Most areas in Sudan, including conflict-affected areas and rural areas, lack access to affordable basic services and connectivity between regions. This implies the need for some level of investment on life-sustaining infrastructure, particularly in the lagging regions. Beyond providing access to basic infrastructure, there may be

a need to address areas where infrastructure deficiencies present constraints to growth in areas with strong economic potential, particularly in agriculture. Weak efficiency of existing infrastructure services, even when they are available, hinders overall productivity in the country.

⁵

1.29 Clearly, the task of mobilizing funds to support the financing, operation and maintenance of basic infrastructure is essential to the growth and development of the economy, and its necessary diversification away from the potentially constricting dependence on oil.

Informal Economy

1.30 The focus groups conducted for this study, described below in chapter 4 document the importance of the informal economy in Southern Sudan, which is by far the dominant form of economic activity. This makes it particularly difficult for state and local governments to generate revenues from such activity.

Excessive Burden of Government

1.31 As a result there is a very basic concern about the ability of state and local governments in Southern Sudan to generate adequate revenues to finance the cost of government, much less address the tremendous backlog of service needs. This concern is particularly important given the structure of government in Southern Sudan which involves the GoSS, ten state governments and 78 county governments. All three tiers of government have a foundation in the CPA and in the ICSS, and the immediate concern is how the costs of these various governments and the resulting executive and legislative branches will be financed.

1.32 Jonglei state has 11 counties ranging in population from 221,106 to just 65,588. Similarly, Central Equatoria has 6 counties ranging in population from 372,413 to just 89,315; while Western Bahr-El-Ghazal has just 3 counties with populations as low as 54,340. From a purely practical perspective, there are legitimate concerns about how adequate resources can be generated by such small populations to fund the executive and legislative branches in these state and local governments. It appears clear that the per capita cost of maintaining such structures will inevitably be well beyond the levels of local affordability, even with the best designed and well administered local taxation system.

THE INSTITUTIONAL FRAMEWORK FOR REVENUE MOBILIZATION

1.33 The Comprehensive Peace Agreement (CPA) signed in January 2005 provides a framework for creating a federal system of government in Sudan. Details for the implementation of that framework are spelled out more comprehensively in a series of documents created subsequent to the signing of the CPA. These documents include the Interim National Constitution (INC), the Interim Constitution of Southern Sudan (ICSS), a series of state constitutions, a revenue bill working its way through the Assembly of the Government of Southern Sudan (GoSS), and a Local Government Act passed by the Assembly of the GoSS. This section summarizes the elements of those documents as they

⁵ **Sudan Toward Sustainable And Broad-Based Growth** June 2009 Poverty Reduction And Economic Management Unit Africa Region. Pg 10

pertain to the mobilization of own-source revenues by each tier of government in Southern Sudan.

Interim Constitution of Southern Sudan (ICSS)

1.34 **Decentralization:** The Preamble to the ICSS indicates the signers were committed to establishing a decentralized democratic multi-party system of governance. Section 39 (1) of the ICSS makes it even more explicit that governance in Southern Sudan will “be guided by the principles of decentralization and devolution of power to the people through the appropriate levels of government where they can best manage and direct their affairs.”

1.35 To implement this decentralized democratic multi-party system of governance, Section 50 of the constitution makes provision for three tiers of government:

- The Government of Southern Sudan (GoSS) which shall exercise authority in respect of the people and states in Southern Sudan;
- The state level of government, which shall exercise authority within a state, and render public services through the level closest to the people; and
- Local government level within the state, which shall be the closest level to the people.

1.36 **Autonomy of States:** Section 167 sets out the general provisions for states in Southern Sudan indicating that the territory of Southern Sudan will be decentralized and composed of ten states. Each state will have its own legislature, executive and judicial organs. Among other responsibilities, each state of Southern Sudan shall promote and empower local governments within that state. The ICSS clearly intends that the organization and functioning of local governments within each state shall be conducted in accordance with the relevant state constitution and the law, indicating that local governments are essentially creatures of each state and operate under the unique law of that state, although they have common grounding in the ICSS and the CPA. This creates a level of complexity in the revenue system with serious potential problems for all aspects of revenue mobilization.

1.37 **Power to Tax:** According to the list of functions assigned to the GoSS, item 12 says the GoSS has the power of taxation and revenue-raising in Southern Sudan. Chapter IV of Part Twelve of the ICSS spells out explicitly what sources of revenue are available to the GoSS. Specifically, according to Section 184 (1) of the ICSS, the GoSS, through the legislative process, shall legislate for raising revenue or collecting taxes from the following sources:

- Fifty percent of the national non-oil revenue collected in Southern Sudan shall go to the Government of Southern Sudan and the Government of Southern Sudan shall retain such other income raised and collected under their own taxing powers;
- revenue from any of the sources listed as state revenue sources referred to in Article 186 of this Constitution;
- oil revenue as set out in Article 185 (1) of this Constitution;
- taxes of the Government of Southern Sudan, which do not encroach on the exclusive National Government taxing powers;
- service charges of the Government of Southern Sudan;
- enterprises and projects of the Government of Southern Sudan;
- grants-in-aid and foreign financial assistance;

- taxes and levies on small and medium businesses;
- excise duties on goods within Southern Sudan deemed to be luxury consumables;
- personal income tax of Southern Sudan;
- loans and borrowing in accordance with Article 193 (1) of this Constitution; and
- any other taxes as may be determined by law.

1.38 According to Section 186 of the ICSS states in Southern Sudan may legislate for raising revenue or collecting taxes from the following sources:

- state land and property tax and royalties;
- service charges for state services;
- licenses;
- state personal income tax;
- levies on tourism;
- at least two percent of net oil revenue for oil producing states, in proportion to output produced in the state;
- state government projects and national parks;
- stamp duties;
- agricultural taxes;
- grants-in-aid and foreign aid;
- excise duties;
- border trade charges or levies in accordance with national legislation;
- other state taxes, which are not within the exclusive jurisdiction of the National or Southern Sudan governments;
- loans and borrowing in accordance with Article 193 (3) of this Constitution; and
- any other tax as may be determined by law.

1.39 Subsequent to the passage of the Interim Constitution of Southern Sudan, and consistent with Section 184 (1)(l) the Legislative Assembly of GoSS is working on two pieces of legislation relevant to the issue of revenue mobilization. First, the Southern Sudan Revenue Law Bill of 2008 defines the revenue system for GoSS and establishes the general principles for the assessment and collection of taxes and other charges. The Revenue Bill has not yet been passed by the Assembly.

1.40 The first ten chapters of the bill create a Directorate of Taxation and a Director of Revenue to have exclusive responsibilities and authority for the operation and administration of all aspects of the tax system in the GoSS. Individual chapters deal with such issues as taxpayer and tax withhold registration, taxpayer rights and responsibilities, tax assessments and notices, interest, penalties and other charges, credits and refunds, collection of unpaid taxes, and an appeal board and process of judicial review.

1.41 Chapter 11 lays out the framework for a personal income tax to be administered by the GoSS. Chapter 12 lays out the framework for a business profits tax. Chapter 15 lays out the framework for an excise tax based on the selling price or fair market value of the goods being taxed. Chapter 17 sets out a framework for coordinating tax rates, tax collection and tax administration with states and the Government of National Unity.

Local Government Act

1.42 The second major piece of legislation considered by the Assembly is the Local Government Bill of 2008 which passed the Assembly in May 2009 and has been signed into law by the President. Local governments in Southern Sudan have a constitutional foundation in both the ICSS and in each state constitution. Unfortunately, these constitutions are rather silent on the exact roles and responsibilities that will be assigned to local governments. This is true for both expenditures and revenues. However, the Local Government Act includes some of this information. For example, Section 6 of the Act says that local government is the third level of government in Southern Sudan which consists of a number of autonomous local government Councils. The establishment of Local Government Councils (LGCs) shall be based on the principles of decentralization and democratic local governance that demands the devolution of authority and power to the level of government closest to the people. [Section 6 (b)]

1.43 This legislation goes only part of the way toward laying a foundation for the progressive reform and professionalization of the revenue system, and does not yet ensure the vision of an effective, efficient and transparent revenue administration.

1.44 Section 12 adds to the generalized intentions of the law and the constitution when it delineates the objectives of local government in Southern Sudan. Among these objectives is the requirement to promote self-reliance amongst the people through mobilization of local resources to ensure the provision of services to communities in a sustainable manner. [Section 12 (6)] In Section 15 the local government bill indicates that one principle that shall guide the devolution of authority to local governments in Southern Sudan is the development of the political will in Southern Sudan for the assignment of local sources of revenue by law to local government authorities. [Section 15(2)(d)]

Local Taxes

1.45 The legislation provides greater specificity when it enumerates sources of own-revenues for local governments in Southern Sudan in Section 110 of the bill. Specifically, the bill says that local revenues shall be generated through the imposition of levies on local taxes and local rates and through raising funds from community contributions, grants, loans and earnings from local businesses. These sources are explicitly listed to include

- Property tax
- Social service (head) tax
- Land tax
- Animal tax
- Gibana tax
- Sales tax
- Hut tax
- Capital gains tax
- Ushur tax
- Contract tax

1.46 This schedule provides clear authority to include any of these local taxes in the revenue plans of any local authority, without obliging the authority to utilise all of them. It appears also to preclude a higher authority, such as a state or county from preventing a lower

level such as a payam from utilizing any or all of the set of authorised revenue sources. It does not, however, prevent two or more levels of authority from utilising any of them simultaneously.

1.47 The Act specifies other, non-tax sources of own revenues, which are permitted by law, including:

- Local Rates, which include Service User Charges, Licenses, Fees and Fines, Royalties, Permits,
- Local Earnings, which include Profits; Dividend; Income from sales of assets; Capital.
- Community Contributions, which include Labour contribution; monetary contribution; and Contribution in-kind.

1.48 Finally, Appendix IV of the legislation enumerates almost five dozen functions assigned to local governments in Southern Sudan. The list includes a number of traditional local activities such as providing fire and police protection, pre-school and primary education as well as providing water and sanitation, sewerage and drainage and refuse collection services. A number of these services could be candidates for generating local government revenues through a variety of local government rates as stipulated in the Act.

State Constitutions

1.49 The state constitutions for Central Equatoria, Jonglei and Northern Bahr El Ghazal are very similar in organization and content. All of these constitutions state explicitly that governance in each state shall promote democratic principles and political pluralism “and shall be guided by the principles of decentralization and devolution of power to the people through the appropriate levels of government, where they can best manage and direct their affairs.” [Section 37 (1)] The constitutions continue by indicating that all levels of government in the state shall “mobilize popular energies and resources in the state for reconstruction and development.” [Section 37 (2)(d)] Thus, state and local governments have responsibilities for both service delivery and revenue raising within their sphere of activity.

1.50 Each constitution makes it explicit that “The Government of the State shall ensure that the wealth of the State is equitably shared among all levels of government in the State for the welfare of its people.” [Section 38 (3)] This lays the groundwork for fiscal transfers from the state to the counties to promote the welfare of all citizens in each state.

1.51 Among the objects of local government is the requirement to “promote self-reliance amongst the people through mobilization of local resources to ensure the provision of services to communities in a sustainable manner.” [Section 150 (5)(f)] In addition, local governments in each state “shall have powers to levy charges and collect appropriate fees and taxes in accordance with the law.” [Section 150 (6)] Finally, each state government may pay grants-in-aid to local government councils in support of delivery of basic social services and their budgetary deficits. [Section 150 (7)] This sets out a general framework for state and local revenues, but there are no specifics, especially with regard to local revenues.

1.52 Chapter IV of Part Twelve of each state’s constitution spells out explicitly the sources of revenue for state government. These are the same as those listed in Section 186 of the ICSS and are listed above. There is no provision in the constitutions, however, for explicitly

identifying revenue sources for local governments. Similarly, there is little in these constitutions that spell out explicitly the assignment of service delivery functions among the different spheres of government in each state.

1.53 Subsequent to the passage of the Interim State Constitution in Central Equatoria State, the State Assembly passed two pieces of legislation relevant to the issues of revenue mobilization. First, the Assembly of Central Equatoria State passed the State Taxes and Fees Act of 2008. The bill includes a schedule that lists 95 items subject to taxation by the State. These items fall into the following general categories:

- Direct taxes including a personal income tax, a business profits tax, a rental income tax and a capital gains tax
- Stamp duties
- Trading and professional licenses
- Indirect taxes on items like cigarettes, sugar, coffee, tea, etc.
- Petroleum products
- Building materials
- Food commodities
- Household items
- Textile products
- Imported vehicles.

1.54 In some instances the taxes are assessed on a per unit basis (e.g., 28 SDG per carton of cigarettes, 7.5 SDG per bag of sugar, 4.0 SDG per bale of cotton, etc.). In other cases the tax is a percent of value (e.g., 5 percent of the value of motor vehicle parts, 10 percent of the value of electric generators, 2.5 percent of the value of a bag of nails, 5 percent of the value of a wheelbarrow, 5 percent of the value of household items, 7.5 percent of the value of a Land Rover, etc.).

1.55 The second piece of legislation passed by the State Assembly was the State Revenue Authority Act of 2007 (Amended 2008). The purpose of the act is to establish minimum standards and uniform mechanisms for the collection of taxes in Central Equatoria State. The first part of the act establishes within the Ministry of Finance the Central Equatoria State Revenue Authority and grants to the Revenue Authority the powers and authority necessary to collect taxes within the State.

2. METHODOLOGY & FINDINGS FROM COMMUNITY FOCUS GROUPS AND RAPID MARKET SURVEYS

2.1 In order to investigate the extent of under-mobilization of potential local revenue sources, a rapid-survey methodology was used, consisting of household focus groups, and rapid surveys of local markets.

2.2 Two research methods were used for collecting data:

- Rapid Mixed survey, specially adapted to be conducted in a focus group context,
- Survey of local markets to gain a better understanding of the informal economy.

RAPID SURVEYS - COMMUNITY FOCUS GROUPS

2.3 Workshops or focus groups were held with groups of community members representing local households. The focus group methodology enables very rapid data gathering, enables cross checking and limits the potential for exaggeration. The specific methodology adopted for the focus group surveys is adapted from the “1-2-3” Surveys used to measure informal business activity in Madagascar by Rakotomanana and Roubaud.⁶ This was designed to address the *“poverty of statistical information systems covering households and the informal sector”*. They adopt a mixed household /enterprise approach because of the extreme difficulty and cost of maintaining a direct database of informal establishments. The 1-2-3 survey of the informal sector can be considered as a specific type of mixed household/enterprise survey. This type of survey method, first applied in Yaoundé (Cameroon) in 1993, has been perfected in Madagascar, and conducted in Antananarivo in 1995 (Dial/Dscn, 1993, Madio, 1995).

2.4 The original feature of the 1-2-3 survey stems from its three-phase approach. Phase 1 is a classic household survey, which allows identification of informal sector entrepreneurs. The second module (phase 2) is an enterprise survey, asking the same people specific questions regarding informal sector enterprises. A third questionnaire (phase 3) is designed as an income-expenditure survey. This seeks to better appreciate the demand placed on the informal sector from responses to questions about consumption and the role of the informal sector in the satisfaction of household requirements.

2.5 In the application of our focus group approach, we have incorporated efforts to apply the principles of the 1-2-3 survey while meeting the time and cost constraints of the project. It attempts to accomplish a similar outcome by conducting a set of activities with an invited group of residents. This workshop approach has been tested in Limpopo province of South Africa (Bell and Bowman) and a similar, group based workshop has been utilized, albeit for other purposes in 60 municipalities in South Africa. (Solomon)

Objectives

2.6 The purpose of holding the focus groups was to

⁶ Rakotomanana, Faly and Roubaud,François. Statistical measurement of the informal sector in madagascar: experience from the 1-2-3 surveys.

- gather data about household size and composition, which was not yet available from the 2008 census;
- gain an impression of the extent and nature of home-based economic activity, both businesses and food gardens;
- estimate the extent of informal business activity in relation to formal; and
- estimate real household expenditure, based on reported consumption patterns and a survey of market prices.

2.7 This provided information on the size and extent of the informal business sector, and enabled estimation of the potential state and local own-source tax revenues from household incomes and businesses.

The sample

Data on the gender and age breakdown of households in Southern Sudan was collected from 156 households, representing 2014 people. This is approximately 0.11 percent of the population of the two States visited (Central Equatoria and Lakes), and 0.024 percent of the population of Southern Sudan.

2.8 In order to collect these data, five focus groups were conducted in the states of Central Equatoria and Lakes. The sessions included household representatives from 5 communities: Yei, Kajo-Keji and Litoba in Central Equatoria State and East Rumbek and Central Rumbek in Lakes State. Scheduled focus groups in Jonglei and Northern Bahr-el-Ghazal had to be cancelled due to security restrictions on travel. Three of the groups were conducted in urban areas: Yei, Kajo-Keji and Central Rumbek. Two were in rural villages: Litoba and East Rumbek .

2.9 Household members were invited to attend by the local officials, who were instructed to identify participants able to represent their households, not necessarily heads of households. They were asked to invite an equal number of men and women, representing households from the range of income groups, located at a distance from each other (not immediate neighbors.)

2.10 The three focus groups conducted in Central Equatoria complied broadly with these criteria, but the two in Lakes were unable to assemble a group comprising equal numbers of men and women. In these two groups, men predominated. In practice, the activities carried out with each group had to be curtailed due to time and logistical constraints. The full informal business survey could only be carried out in one of the groups (Yei) . The other four groups focused on demographic data, household food consumption patterns, and procurement of food supplies from formal or informal sources.

2.11 In each town visited, a meeting of 20- 40 householders was convened, with whom a structured set of activities was conducted, for the purposes of gathering information.

2.12 A three stage process was conducted:

- Household survey. A pre-prepared pictorial work sheet was distributed and the participants were requested to indicate the composition of their households by

affixing self adhesive dots to the sheet in appropriate places. This methodology works well where literacy levels are low.

- Enterprise Survey. These householders were requested to provide data regarding their own business activities and about the activities of their neighbors. Barring significant overlaps, each focus group of 20 households will be able to provide basic information on the business activities of 200 households.
- Income-Expenditure Survey. Through discussion and interaction, information was solicited about consumption patterns, and the extent to which the informal sector is the source of consumption goods. Combining the resulting information with commodity prices gathered during the local market survey enables the quantification of the data, and determination of both the extent of the informal sector, and its potential as a tax base. This also enables the data gatherer to get a sense of the typical, if not the average level of expenditure of households in each area.

Limitations of the methodology

2.13 The methods of assembling the group should ideally be based on random sampling methodology, but in practice we were forced to rely on a local official to gather together a group of “suitable” householders resulting in inevitable unintended biases. Most important of these was a tendency for officials in to avoid including women in the group, despite our request to do so. This tendency was more pronounced in Lakes state, apparently for cultural reasons.

2.14 A great deal of the process relies on the memory and judgment of the participants regarding businesses operating in their neighborhood, or the patterns of household consumption and shopping. This makes the survey something of an “opinion poll” rather than a selection of hard facts. The negative effects of this are minimized by the fact that the opinions are given in a focus group environment which minimizes exaggeration and omission, and is to an extent, self-checking. On the positive side, the method is quick, cheap, and effective in gathering data.

2.15 The rapid survey method generated results which were, in some cases, somewhat different in magnitude than from previous estimates. For example, consumption levels estimated in the household workshops were higher than those estimated under a more recent household budget survey. The GDP for Sudan is estimated at around \$ 1100 per capita with Southern Sudan generally expected to have a far lower GDP per capita. In comparison, our estimate of average per capita consumption of around \$ 1300 seems high. The discrepancy may be explained, in part, by the urban and peri urban bias of our sample, or perhaps, in part, by the fact the estimates reported here may more fully reflect informal economic activity than the household survey.

COMMUNITY FOCUS GROUPS

Demographic Data

2.16 Some observations can be made from the data collected:

- Household size is generally very large averaging 12.9 people per household.
- Working age adults constitute only 18 percent of the population surveyed, of which working age males are only 7.4 percent. According to the census, this age group

constitutes a much larger proportion of the national population (43.3%). The possible reasons for underrepresentation of adults are to be found in the effects of the war, which impacted heavily on this age group both through fatalities and displacement of adults from the rural areas. A further explanation is the rural bias of the sample group; a bias which we believe makes it more typical of the population of Southern Sudan. The very low proportion of working age adults suggests that job-seeking migration away from these areas occurs, and is not confined to males although it seems to be more prevalent among them.

- The local balance of males and females is somewhat in favor of females, while the national average is in favor of males, suggesting that job-seeking migration by males is somewhat more prevalent. This is more the case in the communities sampled in Lakes State, East and Central Rumbek, where women constitute a larger proportion of working age adults than in the rest of the sample and in the country as a whole. This is consistent with the opinions we heard expressed regarding the low level of female emancipation among the local cultural community.
- Pensioners are only 9 percent of households, with males very under-represented. This seems to be a low figure in a rural context where traditionally, people of retirement age predominate, but it is significantly higher than the national average. Pensioners are, therefore more concentrated in rural areas than in the population overall. The reasons for relatively low numbers of male pensioners may be found in the population distortions resulting from the years of war.
- Teenagers both male and female are very much more heavily represented in our sample than in the country as a whole, while the proportion of primary schoolchildren is similar to the national average. It is apparent that this youth population is only partially accommodated in the school system, and has no possibility of being absorbed into the very minimal labor market that exists. Informal and survivalist activities are clearly the only future paths for many of these young people. Casual observations suggest also that the local survivalist economy is highly dependent on the availability of child labor. Children were routinely observed engaged in goat herding, an activity essential to protect food gardens from their degradations, and in water collection from local boreholes which are universally equipped with hand pumps.

2.17 The composition of the survey households in each community where we conducted a focus group are summarized in the following table.

Table 2.1: Composition of Surveyed Households

	Avg hh Size	Adult		Pensioner		Teenage		Child		Baby		Total	
		M	F	M	F	M	F	M	F	M	F	M	F
KajoKeji	14.2	7.1%	9.1%	2.1%	6.2%	10.9%	13.5%	20.3%	17.1%	7.4%	6.5%	47.6%	52.4%
Litoba	11.5	9.4%	9.4%	2.5%	4.6%	15.3%	13.3%	15.8%	17.6%	6.6%	5.5%	49.7%	50.3%
Rumbek Central	12.4	7.2%	14.5%	2.4%	4.8%	11.5%	11.5%	15.5%	14.7%	10.5%	7.2%	47.2%	52.8%
Rumbek East	13.5	8.6%	12.1%	3.9%	7.8%	9.6%	14.1%	13.5%	12.7%	10.0%	7.8%	45.5%	54.5%
Yei	13.5	5.1%	6.0%	2.0%	6.8%	11.4%	16.5%	17.0%	15.1%	9.4%	10.8%	44.9%	55.1%
Total	12.9	7.6%	10.4%	2.7%	6.1%	11.7%	13.8%	16.1%	15.3%	8.8%	7.5%	47.0%	53.0%
		18.0%		8.8%		25.5%		31.4%		16.3%		100.0%	
National		21.6%	21.7%	1.9%	1.5%	5.5%	5.2%	14.6%	13.1%	7.7%	7.3%	51.3%	48.7%
		43.3%		3.4%		10.7%		27.7%		15.0%		100.0%	

Household Consumption

2.18 The participants in each focus group were asked to provide a consensus view of the quantities of the major food categories consumed per week by each household. No attempt was made to adjust the quantities for household size; rather the quantity used by each household was considered as a typical, rather than average, quantity which was arrived at by discussion. The weekly consumption was then priced, by a rapid survey of prices in the local market, and the weekly and daily expenditure in each category was calculated, per household and per capita. The following table summarizes estimated household expenditures on food items in each community where we conducted a focus group.

Table 2.2: Household expenditure on Food Items

People per hh	Yei		Kajo-Keji		Litoba		Rumbek central		Rumbek East		Average	
	13.54		14.17		11.50		12.43		13.47		12.91	
	Exp per week (SDG)	%										
Bread, Maize meal, Rice, Flour (Code 111)	119	45.8%	132	40.3%	147	56.1%	210	36.3%	210	41.2%	163.60	42.2%
Meat , chicken, fish (Code 112, 113)	10	3.8%	10	3.1%	15	5.7%	200	34.6%	50	9.8%	57.00	14.7%
Sugar, jam, honey (Code 118)	21	8.1%	6	1.8%	30	11.5%	120	20.7%	105	20.6%	56.40	14.5%
Milk, Cheese, Eggs (Code 114)	18	6.7%	62	18.8%	0	0.0%	0	0.0%	0	0.0%	15.80	4.1%
Tea and drinks (Code 012)	9	3.4%	7	2.2%	0	0.0%	18	3.1%	9	1.8%	8.57	2.2%
Oil and fats (Code 0115)	2	0.6%	6	1.8%	0	0.0%	6	1.0%	21	4.1%	6.90	1.8%
Alcoholic drinks (Code 021)	42	16.2%	60	18.3%	0	0.0%	0	0.0%	90	17.6%	38.40	9.9%
Fruit (Code 116)	20	7.7%	20	6.1%	20	7.6%	10	1.7%	10	2.0%	16.00	4.1%
Vegetables (incl, potatoes, cassava, spinach etc. (Code 117)	20	7.7%	25	7.6%	50	19.1%	15	2.6%	15	2.9%	25.00	6.4%
Per HH in Sudanese Pounds (SDG)												
SDG per day	37.13		46.81		37.43		82.69		72.85		55.38	
SDG per week	259.93		327.64		262.00		578.86		509.93		387.67	
Per Capita in Sudanese Pounds (SDG)												
SDG per day	2.74		3.30		3.25		6.65		5.41		4.29	
SDG per week	19.20		23.13		22.78		46.56		37.85		30.03	
SDG per year (Food only)	998.36		1202.64		1184.70		2420.96		1968.01		1561.47	
USD per year (food only)											600.56	

2.19 The table shows that household consumption of foods is dominated by the starch group, which accounts for, on average 42.2 percent of the total cost of food per week. About 15 percent is spent on proteins, such as meat and chicken, and a similar proportion on sugar and other sweeteners such as honey.

2.20 Household expenditures on food items are highest in the two counties in Lakes State – East and Central Rumbek counties. Yei and Litoba have an almost identical level of household spending on food items, although one county is urban (Yei) while the other is very rural (Litoba).

2.21 The households surveyed are, according to their own estimates, living on the cash equivalent of 4.29 SDG per person per day (US\$ 1.65) for food. Non food items such as

shelter, clothing and fuel probably account for an equal amount in real terms, suggesting a per capita cost of living of SDG 8.5 (US\$3.27) per day or SDG 3124 per annum (US\$ 1193).

2.22 Comparisons with other comparable African countries suggest that a household's expenditure on local utility services and taxes should not exceed 10 percent of total expenditure. As estimated in the following table, this suggests that, in terms of affordability, household expenditures on local utility services and taxes should be less than SDG 310 per person per annum (USD 119). An average household of 13 people in Southern Sudan cannot be expected to pay more than SDG 4025 per annum (USD 1548) for local utility services and taxes.

Table 2.3: Maximum Affordable Levels of Local utility and tax bills

	SDG	USD
Food only per year per capita	1562	600.76
Total consumption per year	3124	1201
Utilities and tax bill @10% of total	310	119
Utilities and tax bill per HH of 13	4025	1548

2.23 These estimates will be used to determine the maximum level of tax and utility revenue which is consistent with affordability.

The extent of the informal economy

2.24 The focus group methodology revealed that, on average, participants believed that 42 percent of supplies were sourced from home, either from food gardens, animals husbanded, honey gathered, or beer brewed at home. Only 14 percent is believed to be sourced at a formal shop or supermarket. It is likely that the source of items in the non-food portion of the budget, which wasn't directly addressed in the study, will be similar, since this part of the consumption basket is dominated by shelter and fuel, both of which are commonly provided from home, or other informal sources. The sources for weekly food supplies as described in each focus group are summarized in the following table.

Table 2.4: Focus Group Perception of the source of weekly food supplies

%	Informal				Formal		% formal
	Home	street seller	Kiosk	market	shop	supermarket	
Yei	32%	10%	8%	38%	8%	3%	12%
Kajo-Keji	40%	1%	12%	28%	20%	0%	20%
Litoba	44%	0%	8%	36%	13%	0%	13%
Rumbek Central	44%	9%	0%	34%	13%	0%	13%
Rumbek East	53%	15%	6%	16%	11%	0%	11%
Average	42%	7%	7%	30%	13%	1%	14%

2.25 From these impressions we can estimate that the total annual turnover at local formal shops is probably in the region of 14 – 15 percent of household expenditure. Using the expenditure estimates we made from the focus group data, we can estimate that, at the current level of the formal economy, a local business tax equivalent to 5 percent of formal turnover

would generate SDG 23 per capita or SDG 302 per household. The following table summarizes the calculations used to generate these estimates.

Table 2.5: Estimate of Annual potential business and turnover taxes

	Per capita	Per HH
Average annual household expenditure (SDG)	3124	40248
Formal sector turnover @ 15%	464	6037
Taxation on formal sector @5%	23	302

2.26 The key to expansion of local revenue is thus to extend the tax base by incorporating currently informal traders in the tax base. This can be done by formalizing informal traders, or by adapting the taxation system to allow informal traders such as market stallholders to pay the tax in the form of an annual license fee. A local government that manages to capture all of the market traders in this way will add an amount equivalent to 30 percent of household expenditure.

2.27 It should be noted that these feasible per capita or per household yields are well within the affordability constraint calculated above, and that they are well in excess of the Business Tax revenues currently being collected.

Modeling Expected Revenues

2.28 Kelly⁷ provides an equation which determines expected revenues. Each component corresponds to a distinct step in the administration of the tax, and provides a structure for our models.

$$\text{Tax Revenue} = \text{TB} * \text{TR} * \text{CVR} * \text{VR} * \text{CLR} \text{ where}$$

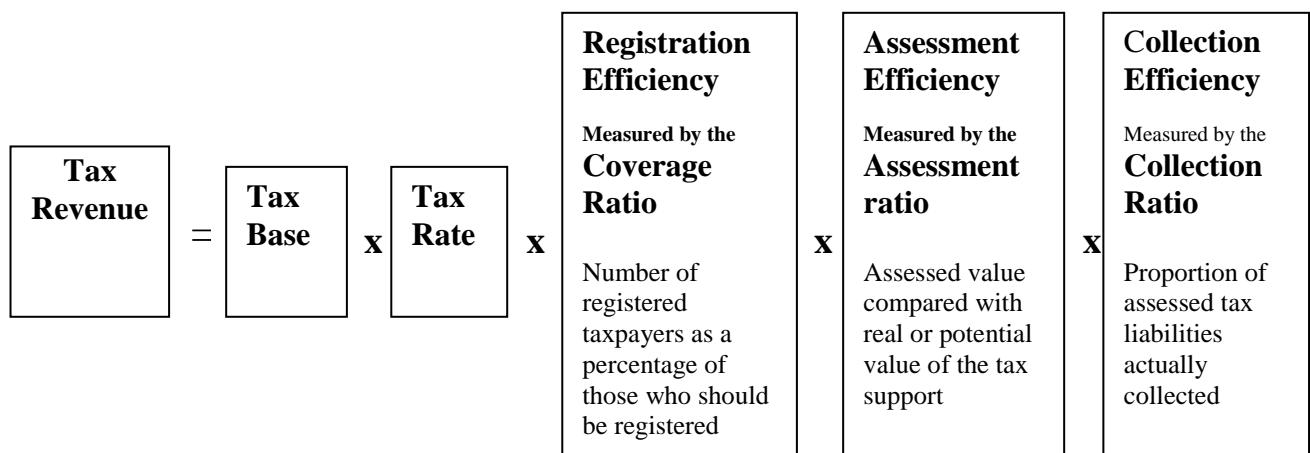
TB is the tax based determined by the nature of the tax and the local economy

TR is the tax rate applied to a particular tax base

CVR is the coverage ratio or the proportion of tax objects on the tax list compared to all that should be on the list

VR is the valuation ratio which compares taxable value with real or potential value of the tax base

CLR is the collection ratio or the proportion of tax liabilities actually collected.



⁷ Kelly, Roy, 1999, *Designing a Property Tax Reform Strategy for Sub-Saharan Africa: An Analytical Framework Applied to Kenya*, Harvard Institute for International Development, Development Discussion Paper No. 707, June.

2.29 Tax collections are a function of the tax base and the tax rate. Determining the tax base involves identifying and registering all taxpayers and estimating the assessed value of the base. Once that is accomplished the tax rate is applied to each taxpayer to determine their individual tax liability. The government then needs to collect the revenues due. Thus, once local officials establish the tax rate, the amount of money collected by the government will depend on identifying taxpayers, assessing the value of the tax base and then collecting the revenues due to government.

2.30 In order to estimate possible business tax revenues for the communities visited, we constructed a model, which permitted us to make and vary a number of assumptions regarding the registration of taxpayers, the accuracy of assessment, and the rate of collection of the potential revenue. As described in the following table, each of these ratios was set initially at a realistic, albeit somewhat optimistic, level of 50%. The model indicates that the total potential tax base for Central Equatoria State is SDG 239 million and that of Lakes SDG 151 million. At a registration efficiency of 50%, the registered base of a potential business tax would be half of these amounts, which would still be very considerable.

2.31 We further modeled the possible revenue yield from this base by assuming an assessment efficiency of 50 percent, (i.e., tax officials are able to assess a tax liability of only half of what it really is), and a collection efficiency of 50 percent, (i.e., the revenue administration is only able to collect half of what has been assessed). Using these conservative assumptions, we estimate revenue collections from a possible business tax as follows:

Table 2.6: Estimate of Potential Tax base with various assumptions of efficiency (SDG)

Registration Efficiency	50%	(Value of turnover registered / Estimated Value of the base)			
Assessment Efficiency	50%	(Average proportion of annual turnover assessed)			
Collection Efficiency	50%	(Taxes collected / tax potential)			
Business Tax rate	5%	(% of turnover)			
Estimated Potential Business Tax Base					
Place	population (from Census)	per capita cost of consumption per annum	% spent in formal sector	Implied turnover (Potential Business Tax base)	Registered tax base at a registration efficiency of 50%
Kajo-Keji	196422	1203	20%	47259133	23629567
Yei	201443	998	12%	24124814	12062407
Juba	372413	1548	14%	80709345	40354673
Central Equatoria State	1103592	1548	14%	239170458	119585229
Rumbek East	122832	1968	11%	26590671	13295336
Rumbek Central	153550	2420	13%	48306830	24153415
Lakes State	695730	1548	14%	150778606	75389303
Southern Sudan	8260490	1548	14%	1790213393	895106696

Table 2.7: Model 1. Estimated Revenue from possible Business Tax base (SDG)

Model 1. Estimated Revenue from possible business Tax base.					
	Base		Revenue		
	Total potential tax Base	Registered Tax Base at registration efficiency of 50%	Revenue due from Registered taxpayers at a tax rate of 5%	Revenue due at an assessment efficiency of 50%	Revenue due at a collection efficiency of 50%
Kajo-Keji	47259133	23629567	1181478	590739	295370
Yei	24124814	12062407	603120	301560	150780
Juba	80709345	40354673	2017734	1008867	504433
Central Equatoria State	239170458	119585229	5979261	2989631	1494815
Rumbek East	26590671	13295336	664767	332383	166192
Rumbek Central	48306830	24153415	1207671	603835	301918
Lakes State	150778606	75389303	3769465	1884733	942366
Southern Sudan	1790213393	895106696	44755335	22377667	11188834

2.32 In order to illustrate the potential of these revenues to grow, we constructed a model incorporating a range of conservative assumptions regarding improvements in the administration of the business tax. Specifically, we assumed

- Informal traders will be progressively drawn into the formal sector, increasing the proportion of household expenditure spent in the formal sector from the existing 14 percent to 19 percent over a 5 year period.
- The proportion of taxable businesses registered with the revenue authorities will improve from 50 percent to 60 percent over 5 years.
- The accuracy of assessment will improve from 50 percent to 60 percent over 5 years.
- The rate of collection of taxes assessed and due will improve from 50 percent to 60 percent over 5 years
- Household consumption remains unchanged, conservatively implying neither inflation nor real growth of either the economy or the population.

2.33 The rate of taxation on businesses is unchanged at 5 percent of turnover. The modeled rate of taxation is lower than the existing burden of average formal taxation. This has been done to highlight that without increasing the burden of taxation the revenue potential can be significantly enhanced while ensuring that the tax remains moderate and preserves the incentive structure for tax compliance and avoids tax distortions. Southern Sudan is almost devoid of formally registered assets accessible at the local level. Activity itself, whether agricultural or otherwise, is the only visible, potentially measurable base. A tax system must be constructed that puts in place systems of reporting and compliance, even at a low level, that paves the way for tax collection from formal economic activity.

2.34 The tables below illustrate what happens to revenue collections from a business tax over time as these assumptions are realized through improvements in revenue administration, culminating in what we consider to be a best case scenario in which all the potential improvements have been achieved.

Table 2.8: Model 2. Projection of business tax revenue growth, resulting from administrative improvements (SDG)

Year	2009	2014	Best Case
Average per capita cost of consumption per annum	1548	1548	1548
Proportion of hh Expenditure spent in Formal (taxable) Sector	14%	19%	20%
Registration Efficiency	50%	60%	80%
Assessment Efficiency	50%	60%	90%
Collection Efficiency	50%	60%	75%
Business Tax rate (% of turnover)	5%	5%	5%
Inflation rate		0%	0%
Population growth rate		1.5%	1.5%
Real economic growth per capita		2%	2%

Implied tax yield from business turnover generated by households

Place	Population (from census)	Estimated Revenue 2009	Estimated Revenue 2014	Estimated Revenue 2009
Kajo-Keji	196422	266052	741038	1950099
Yei	201443	272855	759980	1999948
Juba	372413	504433	1404995	3697356
Central Equatoria	1103592	1494815	4163500	10956580
Rumbek East	122832	166376	463406	1219489
Rumbek Central	153550	207983	579295	1524461
Lakes	695730	942366	2624767	6907282
Southern Sudan	8260490	11188834	31164192	82011032
% change			178.5%	633.0%
Avg. annual growth rate, 2009-2014			22.7%	
Per capita Southern Sudan		1.35	3.77	9.93

2.35 This model indicates that the administrative improvements combined with very modest assumptions of population and real economic growth will result in an annual rate of revenue growth averaging 22.7 percent over the period, compounded, so that revenue will, if the reforms are successful, nearly triple in value over the 5 year period, increasing by 178 percent. If applied to the whole of the Southern Sudan region, local revenue potential from the business tax alone will grow from SDG 11.2m in 2009 to SDG 31.1m in 2014, or, in per capita terms, from SDG 1.35 to SDG 3.77. Such a growth rate is, of course not sustainable, and will stabilize once the gains of improved administration are exhausted. We estimate the maximum potential for this source of revenue alone to be SDG 82m for Southern Sudan, or SDG 9.93 per capita, possibly achievable in a 10 year timeframe.

2.36 These revenue estimates are very modest. They are nevertheless significant in relation to collections reported in 2008.

Table 2.9: Estimates of potential revenues

Place	Estimated Potential Revenue (SDG)	Relationship to Actual	Potential for enhancement
Yei	759980	= 617% of license collections in 2008 (123189 SDG)	Very High
Central Equatoria	4163500	= 200% of estimated revenue from all business related taxes (2026024 SDG) ⁸	Excellent
Rumbek Central	579295	=364% of total own revenues over four months in 2008 (159032 SDG)	Very High
Southern Sudan	31164192	Not reported	

2.37 The paucity of data has forced us to illustrate this potential, which is achievable within 5 years through a package of implementable reforms, in a number of ways.

2.38 In Yei, the estimates of revenue potential achievable by 2014 constitute a 617% improvement of existing license collections, generating direct spending power for local governments in this county.

2.39 In Central Equatoria the revenues generated from the business tax alone could constitute an amount equivalent to double the revenue collected from all business related taxes and fees, including the stamp duties, business profits taxes and social services taxes. Simplification, improved registration, assessment and collection has the potential to double the present revenue. This is a result of the currently low registration of potential business tax payers, compared with general revenue collection of payroll and income taxes which is stronger than in the other states we visited.

2.40 In Rumbek Central, the business tax, if properly collected, could exceed all current collections by 364%. This dramatic predicted effect in this state results from currently poor reported collection, and poor registration of potential business tax payers.

2.41 In Southern Sudan as a whole, an amount of SDG 31.2 Million is possible. While we have no data for total revenue with which to compare this, there is no doubt that this amount of money is a significant proportion of current non-oil own revenue. Of equal importance is the fact that this revenue can be raised by the local government itself, without the intervention of national or GoSS government, thus enhancing its autonomy, and cementing its accountability to the taxpayers from whom it is collected.

RAPID MARKET SURVEYS

2.42 Payams and counties collect a large number of market fees on informal traders, and business licenses on formal and informal businesses. By all accounts, these fees constitute a large proportion of the revenues collected at this level. In order to estimate the extent of this revenue base, we conducted rapid market surveys.

Methodology

2.43 Surveys were done at 5 markets: 2 in Juba (Muniki and Gudele) 1 in Yei, Central Rumbek and East Rumbek.

⁸ Based on reported monthly collections Feb – Apr 2009

2.44 Time constraints forced the adoption of very rough survey methods. The busiest parts of markets were surveyed on foot noting the different kinds of establishments:

- Formal, properly constructed shops, of very standardized design approximately 4x5meters
- self build corrugated iron and wood structures, the same floor area
- Kiosks, constructed professionally to a few standard designs
- Container kiosks, built out of a small shipping container
- Cell phone kiosks lockable, strong construction
- Rudimentary shelters about 1x2m
- Permanent covered counters, constructed for the market
- Space in the open market, no shelter provided.

2.45 During the course of the survey, 10-15 vendors were interviewed, gaining impressionistic information about the circumstances of trade and conducting a price survey for use with the household consumption patterns conducted in the focus groups.

2.46 All the towns visited have very vibrant shopping districts, and markets, with both formal and informal parts. Markets are, however, generally very poorly served, having very poor roads, both internally and feeding them, no running water or sanitation, no electricity, etc. Market vendors provide all services themselves. Yei was the only market in which we had evidence of refuse collection, and electricity provided on behalf of the county by USAID. All services are provided by small private enterprise:

- Electricity is provided individually by generator at high capital and running cost. It is common for up to 6 neighbours to share a generator, and pay for it collectively.
- Water. There is no piped water. Restaurants commonly provide a jerry can of water fitted with a spigot for hand washing.
- Energy for cooking at the many restaurants and food providers is provided by charcoal, manufactured in the rural areas and trucked into town. Each large sack costs about SDG 90 and is broken up into small plastic bags, for SDG 2 each.
- Banking. There are money changers in the market, routinely changing dollars, SDG, Ugandan and Kenyan Shillings. There are private money transfer establishments, but banking operations seem severely constrained.
- Sanitation. Juba county contracts with sanitation trucks to empty cess-pools. A dumping site is provided about 20km from town, which is clearly not managed properly.
- Abattoir. The livestock market is removed from the rest of the market. No formal abattoir was located, suggesting that slaughtering is done on-the-spot. A slaughtering fee of SDG 5 per head is charged.
- Health inspection of food stalls: none in evidence.
- Police and security. Juba has a local police force and traffic marshals. There were many men and women in evidence in para-military uniforms, not necessarily formal police or military.

- Health and emergency services. None in evidence near to the market. Juba and Yei have hospitals. We were told that they are largely operated by Medicins Sans Frontiere and other health care NGOs.
- Fire and disaster management. A fire truck was observed. This is provided by GoSS, but Juba County reported that they had routinely to provide fuel to enable it to attend emergencies.

Estimate of size of market

2.47 The number of shops and stalls was roughly estimated in a number of ways:

2.48 **Formal.** Where the market was organized around formal streets, (Yei) the number of shops in a given block was counted and the frontage of the shops was measured, including the width of streets. The total length of the streets was estimated by driving along them and checking the odometer. This method runs the risk of underestimating the number of kiosks and informal traders who trade in front of each formal shop. In some cases as many as three or four were counted.

2.49 **Informal traders.** The number of informal traders not arranged in rows was estimated by counting the number in a selected measurable area and calculating the square meters occupied by each, including access space. The circumference of the informal market was then driven or walked, to establish the area and the estimated number of stalls calculated. These ball-park estimates were compared with official figures provided by the tax authority collecting market fees and licenses, where available. In general we found government estimates to be a drastic underestimate of the number of businesses, both formal and informal operating in each payam or county visited.

Table 2.10: Market Surveys - size of markets

Market – Payam		Official estimate	Our Estimate	Coverage ratio
Juba –Gundele*	Shops		1000	
	Stalls		2000	
Juba-Munike*	Shops		800	
	Stalls		1000	
Yei	Shops	1600	3500	45.7%
	Stalls		2000	
Kajo Keji	Shops		400	
	Stalls		200	
Rumbek East	Shops	40	200	20%
	Stalls		500	
Rumbek Central	Shops		2000	
	Stalls		5000	

*Note: Gudele and Muniki markets are only two of the ten large markets in Juba.

2.50 Clearly the number of enterprises in each market is drastically underestimated by the relevant tax collecting authority, the payam. This suggests that there is a significant under-collection of existing market fees, ground rents and sales taxes. ***Calculations based on a recent survey of businesses in Yei suggested that the collection rate on registered businesses may be as low as 35%.***

Estimate of Turnover

2.51 Based on interviews, during which traders were asked about their daily turnover, the frequency with which they replenished stock, and the typical value of a delivery from wholesalers, it was noticeable that the traders, some of whom appeared quite unsophisticated, were able to provide good estimates from memory, produced market fee receipts without difficulty, and were fully aware of terminology such as “turnover” and “markup” despite their unfamiliarity with the English language. On the basis of the impressions gained during interviews, turnover fluctuates wildly according to the reliability of salary payments by the government, particularly to the armed forces. Months when government salaries were paid were several times as good as those when no salaries were paid.

Table 2.11: Average daily turnover of shops and informal Vendors in markets (SDG)

	Juba-Gudele		Juba-Muniki		Yei		Rumbek	
	Low	High	High	Low	Low	High	Low	High
Maize depot	1000	5000			500	2000	0	0
Stationery Shop	200	2000			100	700	50	500
Restaurant	100	500			50	200		
Timber merchant	50	200						
Clothing seller	100	500	50	100	50	100		100
Mini-bus			200	300				
Motor bike Taxi	50	100	50	100				
Estimated Typical	200		200		200		120	

	Juba-Gudele		Yei	
	Low	High	Low	High
Maize vendor	10	50		
Vegetable vendor				
Clothing seller			20	50
Butcher			100	1000
Wheelbarrow porter			10	40
Estimated Typical	30		60	

Estimate of potential Revenue

2.52 **Based** on these observations, we were able to estimate a typical turnover at SDG 200 per day for shops and SDG 30 for informal traders.

2.53 The daily market fees of 1 SDG per day levied on informal traders constitutes tax rates ranging from 10% to 3% depending on how good business was, while the corresponding SDG 10 per day constitutes a rate of 5% on formal traders. This is a relatively modest rate of taxation, and a significant variation in rates across kinds of tax payers. If it were possible to levy a sales tax of 10% on all goods sold at market or in shops, revenue collected would be as follows:

Table 2.12: Estimate of potential market fee based on 10% of |Turnover (SDG)

		Estimated Number of Establishments	Estimated turnover per establishment per day	Total projected value of the base per annum (300 work days)	Potential revenue @ 60% collection efficiency and 10% rate	Revenue per establishment
Juba Gudele	Shops					
	Informal	2000	30	18000000	1080000	540
Juba-Munike	Shops	800	200	48000000	2880000	3600
	Informal	1000	30	9000000	540000	540
Yei	Shops	3500	200	210000000	12600000	3600
	Informal	2000	30	18000000	1080000	540
Kajo Keji	Shops	400	120	14400000	864000	2160
	Informal	200	30	1800000	108000	540
Rumbek Central	Shops	2000	120	72000000	4320000	2160
	Informal	5000	30	45000000	2700000	540
Rumbek East	Shops	200	120	7200000	432000	2160
	Informal	500	30	4500000	270000	540

2.54 Even by very rough and conservative estimate, the revenue potential of market fees and business licenses is significant. Ranging from 2000 – 3600 SDG per formal establishment, and 540 SDG per informal stall. Although data on actual collections was frustratingly difficult to find, it is clear that there is a serious level of under-collection.

Price Survey

2.55 A survey of prices was conducted in order to establish the cost of the local consumption pattern of individual households.

Table 2.13: Survey of prices of household items

Item	Shop	Market (Juba)	Market (Yei)
Maize meal	2kg per 5SGD	15-17SGD per bucket	15-17SGD per bucket
Cassava		15-17SDG per bucket	15-17SDG per bucket
Sweet potatoes		4SGD per heap (about one kg)	4SGD per heap (about one kg)
Vegetables		Greens-50 Piasters-1SGD, 5-7SGD per pineapple	50 Piasters-1SGD
Oil	3SGD per liter	2.50-3SGD ^{1/4} per liter	2.50-3SGD ^{1/4} per liter
Sugar	4.0SGD per kg	3.5SGD/kg	3.5SGD/kg
Chicken (Live)		35-40 SGD	25-35SGD
Meat		12-15SGD/Kg	12-15SGD/Kg
Fish		4SGD/heap (it about half a kg.)	4SGD/heap (it about half a kg.)
Milk	14SGD/400gm	14SGD/400gm	14SGD/400gm
Cheese			
Eggs	30SGD/ tray (thirty eggs)	30SGD/ tray (thirty eggs)	30SGD/ tray (thirty eggs)
Tea	2SDG/112gm	2SDG/112gm	2SDG/112gm
Beer	3-4SGD/bottle 65-75SGD/crate	3-4SGD/bottle	3-4SGD/bottle

2.56 There is considerable uniformity of prices, both within and across markets. Food prices are generally high when compared with neighboring countries, at least in part because Southern Sudan imports most of its food from other countries.

Comparison of the two approaches

2.57 The household survey and the market survey attempt to estimate business turnover from two different angles. One would hope that there a broad conformity would be found between the two, but inevitably, given the time and resource constraints, some divergences were found which deserve comment. The table below summarizes the findings of the two methods in four important study sites:

Table 2.14: Comparison of Findings (Business Turnover in SDG million)

	Household Survey	Market Survey
Yei	24.2	247
Kajo Kaji	47.2	16.2
Rumbek Central	48	117
Rumbek East	26.6	11.7

2.58 This comparison reveals apparent anomalies:

- The estimates of the tax base in yei are widely divergent, by a factor of 10, and in Rumbek Central by a factor of 2.
- The disparity in Kajo Keji and Rumbek East is contradictory to that in Yei and Rumbek Central.
- Kajo Keji, which we experienced as a smaller town than Yei has a larger estimated tax base.

2.59 There are several possible explanations for these disparities in our estimates,

- Yei is a significant commercial centre with a large market, a wholesale sector and a significant proportion of businesses that do not service the householders alone. In addition, centre like Yei or Central Rumbek makes significant “exports” to other regions. As a result, a “multiplier” effect can be anticipated, where the value of turnover is several times the value of final goods sold. This is conventionally the case in all economies. Having said this, a factor of 10 is admittedly very large. A multiplier of 3 or 4 might have been anticipated. The estimates of Rumbek central are more credible in this regard.
- Rumbek East and Kajo Keji are much smaller, more rural centers, with less evident agglomeration of economic activity. The small examples of markets we encountered are likely to be only a portion of the market activity, with a larger proportion taking place outside of the agglomerated centers we briefly observed. Our estimates of markets in these small centers are likely to be consistently on the low side.
- The estimates of Yei and Kajo Keji are derived by applying the per capita estimates from the focus groups to the officially supplied population data. The official populations of the two areas are roughly similar. Focus groups in both places revealed

a higher cost of consumption per capita in Kajo Keji, (1203 vs 998) as well as a larger proportion of goods consumed sourced from formal shops. (20% vs 12%) together these two factors suggested a higher revenue base in Kajo keji. It may be that a large proportion of goods consumed in Kajo keji are sourced from Yei. It is for this reason that we used two alternative methods of estimation.

2.60 These observations suggest some interesting things about Southern Sudan:

- There possibly exists, even at this early stage, a classical “hierarchy” of cities, with measurable differences in their structure, particularly in the relationship between final consumption and turnover.
- There is considerable evidence of inter-regional “export” activity, resulting in the potential export of tax bases. For this reason, attempts to define a tax base at the level of Payam or Boma are likely to be problematic.

3. CURRENT PRACTICES⁹

3.1 Previous chapters describe the institutional framework available to state and local governments in Southern Sudan for raising own-source revenues. This chapter examines available data on current efforts of four states and the associated local governments in Central Equatoria, Jonglei, Lakes and Northern Bahr El Ghazal to raise their own revenues. The first approximation of revenues comes from budget documents we have been able to obtain for each state.¹⁰ The second approximation comes from information gathered during site visits in May 2009.

3.2 Cross-state comparisons of revenue per-capita are hindered by the non-availability of data for actual revenues collected for Jonglei and Northern Bahr El Ghazal. Budget data is a poor proxy for actual revenue collection as is illustrated by the case of Central Equatoria which collects only 12.9% of its budgeted revenue (86% of tax revenue and 5% of non tax revenue). See Table 3.1.

Table 3.1: Central Equatoria State: Actual and budgeted Revenue Collections, Fiscal Year 2008

	Actual Collections (Millions of SDG)	Share of Own-Source Revenues (Percent)	Share of Total Revenues (Percent)	Approved Budget 2008 (Millions of SDG)	Percent Budgeted Actually Collected
Tax Revenue	26.4	66.5	25.3	30.6	86.3
Non-tax Revenue	12.6	31.7	12.1	273.2	4.6
Local Government Revenue	0.7	1.8	0.7	4.7	14.9
Total Own-Source Revenue	39.7	100.0	38.1	308.5	12.9
Grants from GoSS					
Block	32.5		31.2	30.8	105.5
Conditional	32.1		30.8	33.6	95.5
Total Revenues	104.3		100.0	372.9	28.0

Source: Minister of Finance, Economy and Human Resources, Budget Speech to State Legislative Assembly, February 2009.

3.3 The summary of official budget data for three states is presented in Table 3.2. The data indicate vast differences across states in per capita own-source revenues and total revenues. Grant revenues per capita seem to be fairly consistent across states, especially given the vast differences in per capita own-source revenues.

⁹ This chapter draws on materials provided by Michael Sworo who is a co-author for this chapter.

¹⁰ It turned out to be a real challenge to obtain budgets for each state we were interested in. In fact, Lakes state has not produced a budget for two years. We thank Michael Sworo for his tenacious efforts to obtain the materials summarized here.

Table 3.2: Revenue of States

State	Total Own-Rev (Millions of SDG)	Total Grants (Millions of SDG)	Total Revenue s (Millions of SDG)	Population** *	Total Own-Rev Per Capita (SDG)	Total Grants Per Capita (SDG)	Total Revenue Per Capita (SDG)
C. Equatoria*	36.2	64.6	100.8	1,103,592	32.8	58.5	91.3
Jonglei**	1.5	83.6	92.2	1,358,602	1.1	61.5	67.9
N. Bahr El Ghazal**	16.2	45.4	76.0	720,898	22.5	63.0	105.4

* Actual 2008.

** Budgeted 2007.

*** Preliminary 2008 Census data.

STATE REVENUE MOBILIZATION ACCORDING TO STATE BUDGETS

3.4 While each state annually prepares a budget, there are issues of timeliness, presentation and consistency across states. For this chapter the 2007 proposed budgets for Jonglei and Northern Bahr El Ghazal States, and the 2008 budget allocations for Central Equatoria as well as information on actual collections for 2008 and initial estimates for 2009 are considered. Lakes state has not produced a budget in the last two years. While all three state budgets report information on revenues and expenditures, the information on expenditures is much more comprehensive and thorough than the data on revenues. The budgets for Central Equatoria and Jonglei report expenditures by a detailed chart of accounts, albeit the specific account numbers for expenditures by function are not uniform across the two states.

3.5 The data contained in each budget on revenues are very aggregate and, again, not consistent across states. Data in Table 3.3 provides the own-source revenues for the three states. Central Equatoria was very optimistic in its estimates for own-source revenues in 2008, projecting revenues of SDG 308 million, but just collecting SDG 36 million. The estimate for 2009 is more modest as collections are projected at SDG 108 million. These data, unlike the revenue data for Jonglei and Northern Bahr El Ghazal states, include revenues collected by the counties as well as state collected revenues.

3.6 Central Equatoria has the most comprehensive budget data on own-source revenues. Own-source revenues collected in 2008 totaled SDG 36.2 million of which non-tax revenues accounted for 20.8 percent of total own-source revenues with tax revenues accounting for the other 79.1 percent. Counties contributed 18.3 percent of tax revenues while the state raised the remainder. Local governments collected SDG 5.3 million in tax revenues.

3.7 The state estimates a significant increase in own-source collections in 2009 to SDG 108.5 million of which it is estimated 63.9 percent will come from non-tax revenues and 36.1 percent from tax revenues. However the actual performance in the first quarter of 2009 does not support these high expectations. Only SDG 8.8 million were collected by state and local governments during the first three months of 2009 of which SDG 7.1 million (80.4%) was tax revenues. County tax collections during this period accounted for 15.7 percent of total tax

collections.¹¹ An additional SDG 1.7 million were collected from non-tax revenues, with the police traffic accounting for 43.2 percent of this total. This experience for the first quarter of 2009 suggests that actual collections for all of 2009 may again fall significantly short of projected revenues.

3.8 Data from the proposed 2007 budgets for Jonglei and Northern Bahr El Ghazal states paint a somewhat different picture of the ability of state and local governments to raise own-source revenues. For example, the state government in Jonglei projected SDG 1.5 million in tax revenues, primarily from the personal income tax. No revenues were estimated in the Jonglei budget for non-tax revenues and there is nothing listed separately for county governments. In other words, total own-source revenues in Jonglei were estimated to be SDG 1.5 million.

3.9 For 2007, Northern Bahr El Ghazal state own-source revenues are anticipated to generate SDG 16.2 million with 37.5 percent of those funds generated by taxes, 39.3 percent from what amount to un-allocatable own-source revenues, and 23.2 percent from what are miscellaneous own-source revenues.

3.10 As discussed above, budgeted revenue figures often have little relationship to actual revenues collected and, as a result, are of little value in understanding actual revenue collection experience in a state or local government.

Table 3.3: Tax and Non Tax own Source Revenues of State and Local Governments (SDG 1m)

	Direct Taxes		Total Taxes	Non-Tax Revenues	Unallocated Own-Source Revenues	Miscellaneous Own-Source Revenues	Total Own-Source Revenues
	State Govt.	Counties					
C. Equatoria -- 2008 Budget Estimate	30.6	4.7	35.3	273.2			308,5
C. Equatoria -- 2008 Actual*	23.4	5.2	28.7	7.4			36,2
C. Equatoria -- 2009 Budget Estimates	31.9	7.3	39.2	69,3			108,5
Jonglei -- 2007 Proposed Budget	1.5		1.5				1,5
N. Bahr El Ghazal -- 2007 Budgeted	6.1		6.0		6,4	3,8	16,2

* These data come from an April 16, 2009 report from the State Revenue Authority. They differ somewhat (significantly at times) from revenues reported in a February 2009 speech by the Minister of Finance, Economy and Human Resources to the State Legislative Assembly.

** Personal Income Taxes.

Grant Funding

3.11 For all the three states grant funds from the GoSS were the major source of revenue. The ratio of grant funds varies from between 64 percent (actual 2008) to 53 percent (budgeted 2009) for Central Equatoria to 98 percent for Jonglei state with NBEG falling in

¹¹ According to the data presented these county tax collections actually came from just 4 counties – in order of relative importance the four counties are Morobo, Yei River, Juba and Kajo-keji.

the middle with grants at an estimated 78 percent of total revenue. Details of the revenue from grants are provided in table 3.4.

3.12 These grants typically fall into three categories – block grants which can be spent as the state sees fit, grants to meet the expense on the Council of Ministers and the Assembly, and conditional grants which typically come from line ministries for specific activities, e.g., paying salaries.

Table 3.4: GoSS Grants to State Governments: Conditional Grants (SDG x 1m)

	Block Grant	Cabinet & Assembly Grant	Education	Health	Animal Resources	Total Conditional Grants	Presidential Pledges	Total Grants	Donor Assistance	Total Revenues
C. Equatoria -- 2008 Budget Estimate	26,0	4,8	29,2	3,8	0,7	33,6		64,4		372,9
C. Equatoria -- 2008 Actual*	32,5					32,1		64,6		100,8
C. Equatoria -- 2009 Budget Estimates	44,1					80,6		124,7		233,2
Jonglei -- 2007 Proposed Budget	10,0	2,9	10,8	1,5	0,2	12,5	58,2	83,6	7,0	92,2
N. Bahr El Ghazal -- 2007 Budgeted		13,8						45,4	14,4	76,0

Note: Disaggregated data for C. Equatoria 2008 actual; 2009 BE and N.Bahr El Ghazal 2007 Budgeted not available

REVENUE MOBILIZATION IN PRACTICE: SUMMARY OF SITE VISITS

3.13 Initially, site visits were planned to Central Equatoria State, Jonglei State, Northern Bahr El Ghazal State, and selected local governments within each state. A scheduled trip to Terekeka County in Central Equatoria State was cancelled because travel to the county from Juba was determined insecure on the dates of travel. Similarly, a scheduled visit to Jonglei State and selected counties therein was cancelled because of security concerns. An alternative visit was made to Lakes State including visits to Rumbek East, Rumbek Central and Wulu Counties. In addition, visits were made to Kajo-keji, Morobo and Yei River Counties in Central Equatoria State. This section summarizes information on actual revenue collections for those jurisdictions where data was available.

Revenue System in Central Equatoria State

Legislative Framework

3.14 The framework for the revenue system in Central Equatoria State is based on the Interim Constitution of Southern Sudan, the Interim Constitution of Central Equatoria State, the State Revenue Authority Act of Central Equatoria, and the State Taxes and Fees Act of 2008. Article 186 of the ICSS enumerates several sources of revenue for state governments.

3.15 The same language appears in Article 157 (1) of the Interim Constitution of Central Equatoria State (2008).

3.16 These state revenues were further elaborated on in the Central Equatoria State Revenue Authority Act of 2007 (as Amended 2008). Specifically, this Act drops the property tax as a state tax and assigns it explicitly to local governments in the state. The list of revenue sources in the State Revenue Authority Act includes additional revenue sources.

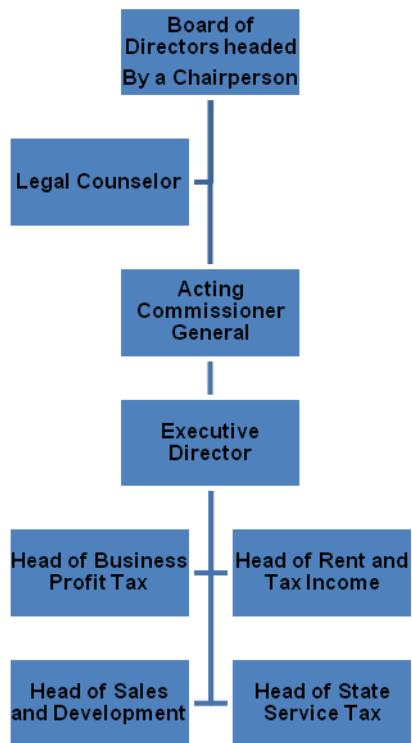
3.17 Finally, Section 32 of the State Revenue Authority Act directs the Local Revenue Authority in each county to transfer 40 percent of their monthly revenue income to the State revenue authority consolidated revenue fund.

Administrative Framework

3.18 The Legislative Assembly created the Central Equatoria State Revenue Authority in 2008 to administer the tax laws of the state.

3.19 The following chart depicts the organizational structure of the Central Equatoria State Revenue Authority.

Figure 3.1 Organisation Chart of the CES Revenue Authority



3.20 Most of the posts created for field officers in the six counties are vacant and there are only 4 field officers in three counties -- Yei, Juba, and Kajo Keji counties. These field officers coordinate between the state and the counties as they also verify and analyze revenue collection.

3.21 The current organization of the State Revenue Authority is not adequate, especially when compared to similar organizations in other countries, e.g., the Uganda Revenue Authority (URA). The CES State Revenue Authority's setup lacks specific vital units that need to be added. Therefore, the Board of Directors of the State Revenue Authority intends to restructure the organization to include at least 7 units to be headed by Assistant Commissioners and assisted by supervisors and revenue officers. The new units will include

among others: Information Technology (IT), Human Resources, Finance and administration, Planning and Research, Internal Audit and Investigation and Corporate Services

Current Practice

3.22 State revenue comes from four main sources¹²: tax revenues, non-tax revenues, transfers from counties, and grants from GoSS. Tax revenues are divided into direct and indirect taxes. These revenue sources are discussed in more detail below.

3.23 Direct taxes are composed of the following:

- Personal income taxes which are currently only applied to people receiving state salaries applied at a sliding rate schedule with the first SDG 3,000 exempt from taxation and then the rate goes from 5 to 10 percent depending on the level of income
- Business profits tax applied to large businesses
- Rental income tax applied to individuals and businesses with income from rental property
- Capital gains taxes on real estate and automobiles¹³
- Stamp duties.

3.24 Indirect taxes include an array of taxes and fees under the heading of Development Taxes, which include, but are not limited to, the following:

- Trading and professional licenses including import and export licenses, wholesale and retail licenses and company licenses
- Professional licenses such as pharmacies and clinics, advocates, consultancy firms
- State service taxes on hotel bills and restaurants
- Contracts
- A number of individual commodities including cigarettes, sugar, tea, motor vehicles and parts, electric generators
- Petroleum products including diesel, petrol and oil lubricants
- Building materials including cement, timber, nails, paint
- Food commodities including wheat flour, rice, beans, milk, salt
- Alcoholic beverages including beer, wine and whisky
- Household property such as stoves and microwaves
- Vehicles imported into Sudan
- Textile products imported into Sudan
- Livestock including cattle, goats and sheep.

3.25 In fact, the State Taxes and Fees Act, 2008 includes a schedule which lists 20 separate fees for various kinds of licenses (e.g., export, retail, pharmacy, advocate, etc.) and 83 separate fees on other items as summarized above, which range from SDG 28 on a carton of local cigarettes and SDF 30 per carton of imported cigarettes, 5 percent of the value of electricity materials, wheel barrows and stationeries, 10 percent of the value of electrical generators, and a number of fees on food commodities from SDG 0.25 on fresh milk to SDG 8 per bag of dates.

¹² Interview with DG of the Revenue Authority.

¹³ The capital gains tax on automobiles is the difference between how much someone sells an automobile for and the depreciated value of the automobile using a standard set of depreciation tables.

3.26 The last nine items on this list are only applied to those types of goods when imported into Southern Sudan. The State of Central Equatoria levies these charges for goods destined for delivery within Central Equatoria. If the goods are in transit to another state, and not for delivery in Central Equatoria, the development tax is not applicable and no revenues are collected.

3.27 Typically these revenues are collected by the State Revenue Authority, but they may be collected by the county on behalf of the state. If the county were to collect the revenue all revenues would be transmitted to the state.

3.28 There is also a fee of 5 percent paid on contracts awarded to persons in the state. The tax is on the person or firm receiving money as a result of the contract. There is also a state services tax on hotels, bars, large restaurants, etc. which is paid by the consumer.

3.29 In addition to these tax revenues, a number of non-tax revenues are collected by various line ministries. These are typically collected by the ministries and kept rather than being remitted to the state treasury as required by law.

Administrative Conflicts between Central Equatoria State and GoSS

3.30 During discussions a number of issues arose regarding challenges in revenue collection for the state. External problems of revenue collection included the concern that there is interference or encroachment by GoSS on revenue sources which the state believes to be its exclusive preserve. One example given was the recent initiative by GoSS to issue vehicle license plates. The State Revenue Act as amended in 2008 lists vehicle registration, licensing and issuance of number plates as a state responsibility. This is consistent with state enumerate powers as detailed in Schedule C of both the Central Equatoria Interim Constitution and the ICSS (Item #41 in Schedule C). However, GoSS has started issuing number plates and charging fees for that service. The State Revenue Authority believes people go to GoSS for their vehicle registration and license plates because GoSS has a more lax registration process and requirements. According to both constitutions, however, this is clearly the sole responsibility of state government, not GoSS.

3.31 Another example given of GoSS encroachment was the issuance of birth certificates. Again, the argument was made that people go to the Ministry of Health in GoSS for these certificates because the documentation required is more lax than it is at the state level. Again, this is a power explicitly delegated to states in both the ICSS and the Constitution of Central Equatoria State. (See Schedule C, Item # 18)

3.32 An additional area of conflict between GoSS and Central Equatoria is the issuance of import and export licenses. The ICSS says that states in Southern Sudan may legislate for raising revenue or collecting taxes from, among other things, “border trade charges or levies in accordance with national legislation.” (Article 186 (1)). Similar language is found in the Interim Constitution of Central Equatoria State (Section 157 (1)(l)). It is on this basis that the state claims authority to issue import and export licenses. This power, however, is not explicitly mentioned in either the ICSS or the Constitution of Central Equatoria State. In this sense, while the previous two examples are clearly examples of encroachment by GoSS on authority explicitly given to states by the ICSS, the case of import and export licenses seems to be a legitimate dispute over authority that is not clearly allocated between GoSS and the

state. There needs to be some mechanism for resolving such disputes; ideally the state or national policy process supported by the courts.

Internal Challenges in Revenue Administration

3.33 In addition to these external problems, the State Revenue Authority faces a number of internal challenges as well. For example, state ministries which collect non-tax revenues tend not to remit the revenues collected, or at least not all of the revenues collected, to the state revenue fund. Similarly, there is a lack of cooperation from the counties who are required to remit to the state 40 percent of the funds they collect. The State Revenue Authority has a process for monitoring these activities, which includes receiving monthly reports on revenues collected and remitted, analysis of those reports to identify areas of concern, and an annual audit at the end of the year. However, at this time, these processes are not being implemented, and divergences and discrepancies are seldom followed up.

Data on Actual Revenue Collections

3.34 Understand the relative importance of individual revenue sources to state and local governments in Central Equatoria is difficult because of the lack of detailed information on actual collections for completed fiscal year 2008. When data was available it did not bear up during triangulation attempts as is illustrated by the case of data on 2008 actual revenue collections. Data provided by the State Revenue Authority does not tally with data provided in the February 2009 budget speech of the Minister of Finance as is illustrated in the table below.

3.35 The first column of numbers in Table 3.5 comes from the quarterly report from the State Revenue Authority and the second column of numbers comes from the Minister's budget speech. There are differences for each revenue category between the two numbers, each of which purports to be actual collections. It is not unusual for such numbers to change as they are updated and corrected for data entry errors etc. However, for the numbers in the table, the differences are rather substantial and suggest something other than simply updating or correcting data entries.

Table 3.5: CES Actual Revenue Collections by Source of Data, 2008 (SDG)

	Data from State Revenue Authority	Data from Minister of Finance Budget Speech to the Legislative Assembly
Total Tax Revenues	23,429,734	26,400,000
Total Non-tax Revenues	7,539,531	12,600,000
Transfers from Counties	5,255,766	700,000
TOTAL OWN-REVENUES	32,225,031	39,700,000

3.36 Even when data on actual own-source revenue collections for Central Equatoria States was available, the level of detail was not sufficient to determine individual sources of such revenue, and there are uncertainties about how much revenue was actually collected, even for very general categories of revenues.

3.37 While detailed information on the break-down of revenues collected by individual revenue source for 2008 was not available, a detailed breakdown of actual revenue

collections for Central Equatoria State for the first four months of 2009 was available. Table 3.6 summarizes revenue collections for January, February, March and April 2009.

3.38 For the first four months of 2009 the state collected a total of SDG 11.4 million with an average monthly collection of about SDG 2.8 million. If this rate is sustained throughout the year, the state would collect somewhat over SDG 34 million in calendar 2009.

Table 3.6: Revenue Collected by Central Equatoria State, 2009 (SDG000)

Month	Own Tax Revenue	Revenue from Counties	Non-tax Revenue	Total Collections
January	2,064.4	275.8	532.4	2,872.6
February	1,987.0	328.7	593.5	2,909.2
March	1,902.6	397.7	658.0	2,958.2
April	1,729.4	334.5	560.0	2,623.9

3.39 Approximately two-thirds of total revenue come from own tax revenues collected by the state. Table 3.7 provides a breakdown of own tax revenues collected by Central Equatoria State over this period by source. A majority of the state's own tax revenues came from collections at the Jebel Kujur check point (51.1 percent) and more than one-fifth of own tax revenues came from the Juba Bridge check point (21.9 percent).

Table 3.7: Own Tax Revenues, Central Equatoria State, 2009. (SDG000)

Source	January	February	March	April	Total	Share of Total
Jebel Kujur Check Point	856.7	1,043.5	1,176.9	842.3	3,919.5	51.1%
Juba Bridge Check Point	561.6	498.9	216.3	403.2	1,680.0	21.9%
Gudele Check Point	266.2	197.6	227.2	202.8	893.9	11.6%
Juba Office HQ	106.4	91.6	64.3	115.9	378.2	4.9%
Juba Office 10% SST	93.8	61.2	97.0	70.3	322.3	4.2%
River Quay Check Point	116.8	43.6	64.8	48.0	273.1	3.6%
Juba Airport	45.2	43.7	53.7	41.2	183.9	2.4%
Juba Office RI Tax	16.3	0.0	0.0	0.2	16.5	0.2%
Munuki Sub Office	1.4	0.8	2.2	5.6	10.0	0.1%
Total	2,064.4	1,981.0	1,902.6	1,729.5	7,677.4	100.0%

3.40 The next most important source of state own revenues was from non-tax revenues which accounted for just over one-fifth of total state own revenues (20.6 percent). Table 3.8 provides a breakdown of non-tax revenue collections for this period by source. The data indicate that the single largest source of non-tax revenues is collected by the Police Traffic Headquarters (43.3 percent of total non tax revenues). The next most important source of non-tax revenues come from the Department of Housing.

Table 3.8: Non-Tax Revenue, Central Equatoria State 2009 (SDG000)

Source	January	February	March	April	Total	Share of Total
Police Traffic	296.0	240.0	209.6	242.2	987.7	43.3%
Dept of Housing	111.6	14.8	266.3	116.8	509.5	22.3%
Dept of Survey	37.7	47.9	82.2	37.4	205.2	9.0%
State Medical Comm.	55.5	41.4	45.4	36.8	179.1	7.8%
Commerce and Supply	7.8	145.3	7.9	0.0	161.0	7.0%

Land and Transport	16.5	33.8	46.7	36.8	133.8	5.9%
Industry and Mining	7.3	10.3	0.0	90.0	107.5	4.7%
Hotels and Tourism	0.0	0.0	0.0	0.0	0.0	0.0%
Finance HQs	0.0	0.0	0.0	0.0	0.0	0.0%
Finance Dept Stores	0.0	0.0	NA	0.0	0.0	0.0%
E.D. Cooperatives	0.0	NA	0.0	0.0	0.0	0.0%
Total	532.4	533.5	658.0	560.0	2,283.8	100.0%

3.41 Data on non tax collections in 2007 was also made available which showed an encouraging trend of enhancement in non tax revenue collection. Against a total of SDG 3.7 million collected in 2007, collections in the first four months of 2009 were already SDG 2.3 million. The main increase has come from an escalation in traffic police fee collections which in the first four months of 2009 were SDG 0.99 million against a collection of SDG 0.2 million in the entire 2007. Table 3.9 provides details of the non tax revenue collections in 2007.

Table 3.9: Non-Tax Revenue Collections Central Equatoria State. 2007

Unit	Amount (SDG)	Percent of Total Non-Tax Revenues
Housing	1,895,758	51.8%
Survey	770,982	21.0%
Ministry of Health	312,707	8.5%
Traffic Police	214,580	5.9%
Finance Headquarters	210,595	5.7%
Commerce and Supply	95,595	2.6%
Industry and Mining	57,835	1.6%
EDC	47,500	1.3%
Hotels and Tourism	40,000	1.1%
Department of Forestry	8,730	0.2%
Department of Stores	8,876	0.2%
TOTAL	3,663,158	100.0%

3.42 While the level of detail in the records on non tax collection is satisfactory, it would be useful to have broken down non-tax revenues by ministry in more detail. For example, the Department of Police Traffic could have categorized its revenues in more detail; Vehicle licenses; Vehicle plate numbers; Fines from traffic law violations; Driving licenses and permits; Road Tolls. Such a categorization of revenues would help in analysis revenue trends and in future projections of revenue.

3.43 Similarly, the Medical Commission could have broken its sources of revenue earnings into revenue from: Birth Certificate; Death Certificates; Public Health Certificates; Assessment of age Certificates.

3.44 The only institution that has provided itemized information about its revenue collections is the Department of Lands in the State Ministry of Housing and Infrastructure. For example, in the month of March 2009, the actual collection was SDG 266,307 from the following sources:¹⁴

¹⁴ 7/April/ 2009; *Statement of Revenue Collection, Department of Lands /CES/Feb/2009 CES rev collection from Housing and land 7/April/ 2009; Statement of Revenue Collection, Department of Lands /CES/Feb/2009*

• New Plots-----	SDG 56,120
• Enhancement Fees-----	29,375
• Upgrading Fees to be-----	6,245
• Stamp Duty-----	316
• Markets (Gudele/Munuki)-----	50,019
• New Market (Nyakuron South)-----	124,232.

3.45 These data indicate that the Central Equatoria State has considerable sources of revenue. Although in the non-tax revenue category the data indicate that there were no revenues collected from finance department, stores, hotels and tourism, and finance headquarters, the State claims that the 60 percent of revenues from these sources are reflected in the SST or Sales Tax. The rest of the revenue is claimed by the Government of Southern Sudan (GoSS). Detailed data also enables verification of the correctness of comprehensiveness. For example the monthly report of March 2009 shows that there are only 800 companies, 49 retailers, no hotels, 5 wholesalers, 6 restaurants, one pharmacy, one drug store, no clinics, and no advocates in the whole of Juba.¹⁵ This is clearly an underestimation since the number of restaurants and hotels in Juba could surpass fifty.

3.46 In the case of other businesses, based on our rapid survey study, Munuki Market alone has over 800 stalls or small shops¹⁶. These data do not include stalls or shops that are located along the two major roads. The Gudele Market is the fastest growing market with two branches, East and West Gudele. Combined together, the two markets surpass 2000 small businesses. Another booming market is located at Nyakuron (Jebel Market) with over 1000 shops in addition to the old markets of Konyo Konyo, Malakia, Atlabara, and Hai Gabat. Besides markets, every major street in Juba is lined with numerous retail and wholesale dealers, entertainment shelters, local restaurants, and so forth.

3.47 A report from the Chief Registrar, Ministry of Legal Affairs, indicates that there are for example, 6,656 companies compared to the 800 reported by the State Revenue Authority, and 446 NGOs registered in Southern Sudan.¹⁷ Nearly, all of these companies and NGOs have their headquarters in Juba.

3.48 It is clear that the data produced do not reflect all the numbers of the businesses that could potentially pay revenues to the state. For proper accountability, every business should have been itemized as in the case of the State Ministry of Housing and Lands. Also, there is a need for a proper survey and recording of data to reflect all the businesses as in the case of restaurants where only 6 restaurants are recorded while there are over 50 of them. It is important for improved revenue collection that the state conducts a survey of all businesses to enable the State Revenue Authority to generate more tax revenues.

3.49 The final source of revenue reported for the first four months of 2009 reflects revenues collected by the counties and passed up to the state. Counties are required to transfer to the state 40 percent of own-revenues collected by the counties. For the first four months of 2009 counties transferred SDG 1.3 million to Central Equatoria State. This accounted for 11.8 percent of total state revenue collections during the first four months of 2009. As the

¹⁵ 6th April 2009: Being statement of State Tax revenue for the Month of March 20009 Headquarters-Central equatoria State, Juba; CES rev collection documents (Jan-April 2009)

¹⁶ 01 May 2009 Munki Market Survey

¹⁷ Busines Certificates: Government of Southern Sudan Ministry of Legal Affairs and Constitution Development-Office of Chief Registrar 2007/9

table below documents, only three of the six counties in Central Equatoria State report sending funds up to the state government – Kajo-Keji, Morobo and Yei River counties. Morobo County accounts for the majority of county revenues transferred up to the state (50.5 percent), while Yei River County accounts for 42.2 percent.

Table 3.10: County Revenues Transferred to the State, Central Equatoria 2009 (SDG x 1000)

County	Jan	Feb	Mar	Apr	Total	% of Total
Juba						
Kajo Keji	14.1	31.0	30.6	21.9	97.7	7.3%
Lainya						
Morobo	146.8	145.8	228.3	153.5	674.4	50.5%
Terekeka						
Yei River	114.9	151.0	138.8	159.1	564.7	42.2%
Total	275.8	328.7	387.7	334.5	1336.7	100.0%

Staffing

3.50 The current staff complement at the State Revenue Authority can be described as well qualified, but poorly trained. While 31 of the 110 staff members of the State Revenue Authority have a four year degree level of qualifications, there has been no training given on the specifics of their jobs as tax collectors, inspectors and accountants. As a result, there are wide disparities in the practices of tax administration and very little supervision or auditing. The State Revenue Authority is now required to down-size its staff in accordance with directives from GoSS to reduce the number of government employees.

Information Flows

3.51 Information flows are very poor between officials and the State Revenue Authority's offices. In addition, information flows between the State Revenue Authority and the revenue authorities in each county are poor to non-existent. For example, though information on actual revenue collections in Yei River County are available in the county, the State Revenue Authority had no record of receiving such a report. Communication is hampered because there are only two computers in the State Revenue Authority offices, but neither is connected to the internet. The State Revenue Authority has 3 cars and 6 motorcycles, which are considered inadequate for the task at hand.

Cash Management

3.52 The conventional processes for transferring funds are in disarray. For example, it is not unusual that collectors will transport large sums of cash by car along dangerous roads each week to make deposits in Juba.

Discipline and Morale

3.53 The problems of communication, or lack thereof, clearly have an effect on the discipline and morale of tax officials. Officials in the field are forced by circumstances to retain part, or all, of the tax revenue collected, in order to partially compensate for non-payment of salaries. In many cases such retentions were properly recorded and the adjustments made when salaries were actually received.

Counties in Central Equatoria State

3.54 There are six counties in Central Equatoria State – Juba, Kajo Keji, Lainya, Morobo, Terekeka and Yei River. According to the preliminary 2008 Census, populations range from 372,413 in Juba County to 89,315 in Lainya County with an average population of 183,932 per county.

3.55 During the site visits Kajo-keji, Morobo and Yei River counties were visited. In each county meetings were held with the Commissioner, the Executive Director and the Director of Finance (or the county equivalent). Again, obtaining information on actual revenue collections proved to be difficult.

3.56 Local governments (counties) in Central Equatoria State apply a variety of taxes which are explicitly listed in Schedule 2 of Central Equatoria's State Revenue Authority Act 2007 (Amended 2008). Specifically, local taxes include the following:

- Property tax
- Social services (head) tax
- Gibana tax
- Land tax
- Annual tax
- Sales tax.

3.57 In addition, local governments in Central Equatoria State have access to a number of local rates as well, including:

- Services or user charges
- Licenses
- Fees and charges
- Royalties
- Agency fees
- Permit fees
- Market fees
- Court fees and fines.

3.58 Given the relative importance of the informal sector in Southern Sudan, the mainstay of local revenues is the market fee that is assessed at a fixed amount, on all small traders who do not have a trading license. This includes, for example, women who come to the market to sit on the ground and sell beans and other small items. In Yei there is a market where about 500 women are allocated about 2 square meters each on the ground to lay out a blanket and sell their goods and they pay one pound per day to rent the space.

Yei River County

3.59 Yei River County collects gibana on goods sold in local markets and provided a list of fees charged for various goods and/or activities. For example, the list includes 34 fees on various food items including, SDG 4 per “sock” of cabbage, SDG 5 for basin of Irish potatoes, SDG 5 for a bucket of sorghum, SDG 5 as a slaughter fee, etc. The list includes charges on other food commodities (e.g., SDG 5 per bag of maize), non-food items (e.g.,

SDG 75 per carton on imported cigarettes, 5 percent of the value of motor car batteries, motor cycles, motor spare parts, shoes, slippers, etc.), rents on country houses and open business premises (e.g., SDG 5 per square meter of country shops, fuel stations, garages and carpentry workshops, etc.), and more than 80 license fees (e.g., SDG 500 for import licenses, SDG 150 for retail licenses, SDG 50 for liquor licenses, SDG 75 for local bakeries compared to SDG 3,000 for automatic bakeries, etc.) and other rates including such things as SDG 10 per month for kiosks; SDG 500 for large shops, SDG 350 for medium shops and SDG 150 for small shops; and SDG 5 per square meter charge for 1st class plots.

3.60 We were also able to obtain from Yei River County a quarterly report they said they submitted to the State Revenue Authority which lists actual revenue collections for 2008. These revenues are summarized in Table 3.11. The first thing that is clear from the table is that the county is very dependent on transfers from the state. The state transferred funds to the county to pay salaries account for 91.3 percent of all revenues collected. The most important local own-source revenues are ground rents (24.3 percent of total own revenues), licenses (19 percent) and parking fees (15.8 percent).

Table 3.11: Actual Revenues for Yei River County, Fiscal 2008

Revenue Source	Revenues Collected (Sudanese Pounds)	Percent of Total Revenues	Percent of Own- Source Revenues
Sales Tax	3,150	0.0	0.5
Parking Fees	102,355	1.4	15.8
Building Permits	500	0.0	0.1
Ground Rents	158,104	2.1	24.3
Licenses	123,189	1.6	19.0
Work Permits	15,810	0.2	2.4
VT Permit	930	0.0	0.1
Royalties	71,526	1.0	11.0
Salaries	6,825,497	91.3	
Town Rates	62,833	0.8	9.7
Donations	65,000	0.9	10.0
Land Lease	43,725	0.6	6.7
Animal and Fisheries	105	0.0	0.0
Labor	1,595	0.0	0.2
40 percent of Payam collections	587	0.0	0.1
Loans	200	0.0	0.0
TOTAL	7,475,106	100.0	100.0

3.61 Yei River County is one of the most developed counties with large developed marketplaces and a significant residential population with well developed urban facilities including municipal electricity supply. It is therefore rather disappointing that even in such a well developed county the level of self sufficiency with respect to revenue is so low and less than 9 percent of their total revenue is from own source revenues. This is a telling comment on the fiscal sustainability of the county structure. Under utilization of the tax potential may however also be partly responsible for the low levels of revenue self sufficiency.

3.62 Nineteen percent of local own-source revenues in Yei River County in 2008 came from license fees. A recently completed comprehensive market survey to estimate the base of economic activity in the county lists 1,921 different businesses with a short description of the type of business. The following table summarizes the count from the market survey for broad

classes of properties. Approximately one in five of the businesses are classified as kiosks. The next most popular activity was cloths shops (15 percent).

Table 3.12: Survey of Businesses in Yei River County

Activities	Number of Establishments in Market Survey
Bank	1
Bar	54
Bar/lodge	2
Bar/restaurant	6
Butchery	99
Carpentry w/shop	2
Clinic	120
Cloths	288
Computer Services	5
Depot	6
Drug shop	24
G/Mill	10
Garage	48
Gemtal Co.	1
Kiosk	398
Lodge	25
Lodge/restaurant	4
Motorcycle shop	3
Petrol station	5
R/shop	275
Restaurant	226
Saloon	28
Spares	20
Store	26
Tea shop	135
Timber shop	17
W/shop	82
Welding	3
Workshop	3
Zain Co. Ltd.	2
Timber Co.	3
TOTAL	1,921

3.63 The list of fees provided by Yei River County was used to determine what license fee rates were charged for each type of business listed in the market survey. Based on the information in the market survey (which was a conservative estimate of the number of businesses in town) and the list of license fee rates applied by Yei River County, it is estimated that the county should have been able to collect 364,350 SDG from license fees. Actual collections from license fees in Yei River County in 2008 totaled 123,189 SDG. *In other words, according to rough estimates, actual collections represented 33.8 percent of potential revenues from license fees.*

3.64 In addition, counties collect gibana on goods entering the county from outside the county. This includes goods that come from other counties within the state, or from other states. There is a detailed rate schedule where the rate varies by type of good. The fee is

collected at the market place where the transaction is taking place. It is not clear whether or not this violates the requirement in the ICSS that no legislation shall impede interstate commerce, the flow of goods and services, capital or labor, between the states and local governments in Southern Sudan (ICSS, Section 196(1)). There shall be no levies or fees or any other charges on interstate trade and commerce in Southern Sudan (ICSS, Section 196 (2)).

3.65 Counties also levy a charge on public land leased to residents for trading or residential purposes. These ground rents account for approximately one-fourth of all local own-source revenues collected in Yei River County in 2008. The county also receives revenues from land leases and town rates which are other charges levied against the users of land. We were told that a large portion of plots in Yei municipality had not been surveyed and were not part of the city owned land and, as a result, were not part of the base for ground rents, land leases or town rates. There is significant revenue potential from these sources of own revenues.

3.66 Finally, local governments have the authority to collect what is called a social services tax. This is essentially a poll tax collected by traditional leaders and remitted to the county. Sometimes it only applies to males, but is being extended to females now as well. This tax is not currently being collected in counties in Central Equatoria State.

Kajo-Keji and Morobo Counties

3.67 Officials in Kajo-Keji and Morobo Counties were visited briefly. Possibly because of limited time, the level of detail on actual revenues collected in Kajo-Keji and Morobo counties was much lower than what was available in Yei River County.

3.68 Table 3-13 presents data on actual revenue collections in Kajo-Keji County for 2008. The data are presented by month for five payam – Kangopo I, Kangopo II, Liwolo, Nyepo and Lire. These five payam collected SDG 16,947 in 2008 with 88.5 percent of these revenues being collected in Kangapo II. Kangapo I, Liwolo, Nyepo and Lire payam collected only trading licenses and at very low levels with collections ranging from SDG 336 in Kangapo I to SDG 627 in Lire.¹⁸

¹⁸ These data indicate that Kajo-Keji County collected a total of 16,947 SDG for the entire calendar year of 2008. However, data in Table 5.10 indicate that for the first four months of 2009 Kajo-Keji County transferred 97,700 SDG to the state government. If this represents 40 percent of total revenues collected in Kajo-Keji County during the first four months of 2009, that suggests total collections in the first four months of 2009 were 244,250 SDG.

Table 3.13: Revenue Collection From Kajo Keji County Central Equatoria State By Payams For The Year 2008

Payam	Particulars	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Kangapo I	Market Fees	0	50	57	0	16	50	0	50	47	23	18	25	336
	Trading License	0	0	0	0	0	0	0	0	0	0	0	0	0
	Ground Rent	0	0	0	0	0	0	0	0	0	0	0	0	0
	Animal Tax	0	0	0	0	0	0	0	0	0	0	0	0	0
	Slaughter Fee	0	0	0	0	0	0	0	0	0	0	0	0	0
	Forest Products	0	0	0	0	0	0	0	0	0	0	0	0	0
	Subtotal	0	50	57	0	16	50	0	50	47	23	18	25	336
Kangapo II	Particulars	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
	Market Fees	1000	1000	1025	374	439	125	201	49	450	375	500	700	6238
	Parking Fees	554	273	501	500	460	540	500	48	500	600	500	400	5776
	Gibana	0	0	0	0	0	0	0		17	0	97	256	370
	Court fines	100	0	0	101	0	0	0	0	110	130	240	0	681
	Slaughter Fees	0	0	42	0	50	0	0	0	51	0	0	0	143
	Forest Products	0	0	0	0	0	1798	0	0	0	0	0	0	1798
Liwolo	Subtotal	1654	1273	1568	975	949	2463	701	497	1128	1105	1337	1356	15006
	Particulars	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
	Market Fees	90	4	50	10	60	0	80	50	0	60	90	100	594
	Parking Fees	0	0	0	0	0	0	0	0	0	0	0	0	0
	Gibana	0	0	0	0	0	0	0	0	0	0	0	0	0
	Court fines	0	0	0	0	0	0	0	0	0	0	0	0	0
	Slaughter Fee	0	0	0	0	0	0	0	0	0	0	0	0	0
Nyepo	Forest Products	0	0	0	0	0	0	0	0	0	0	0	0	0
	Subtotal	90	4	50	10	60	0	80	50	0	60	90	100	594
	Particulars	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
	Trading License	44	40	60	0	50	0	90	50	50	0	0	0	384
	Ground Rent	0	0	0	0	0	0	0	0	0	0	0	0	0
	Animal Tax	0	0	0	0	0	0	0	0	0	0	0	0	0
	Slaughter Fee	0	0	0	0	0	0	0	0	0	0	0	0	0
Lie	Subtotal	44	40	60	0	50	0	90	50	50	0	0	0	384
	Particulars	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
	Market Fees	55	50	90	60	40	50	##	0	40	0	67	74	627
	Trading License	0	0	0	0	0	0	0	0	0	0	0	0	0
	Ground Rent	0	0	0	0	0	0	0	0	0	0	0	0	0
	Animal Tax	0	0	0	0	0	0	0	0	0	0	0	0	0
	Slaughter Fee	0	0	0	0	0	0	0	0	0	0	0	0	0
	Forest Products	0	0	0	0	0	0	0	0	0	0	0	0	0
	Subtotal	55	50	90	60	40	50	##	0	40	0	67	74	627

3.69 According to the data in Table 3-13, Kangapo II collected revenues from market fees, parking fees, gibana, court fines, slaughter fees and fees on forest products. Not surprisingly, market fees accounted for 41.2 percent of all revenues collected by the payam in 2008. Parking fees accounted for another 38.5 percent of total revenues collected in 2008.

3.70 We were unable to obtain information on actual revenue collections for Morobo County for 2008. Table 3.14 presents data collected on actual revenue collections in Morobo County for the first four months of 2009. According to the data in the table, Morobo County

collected own-source revenues totaling SDG 101,381 during the first four months of 2009.¹⁹ Trading licenses accounted for 63.8 percent of the actual revenues collected in Morobo County during this period totally SDG 64,698. All of these revenues were collected in February. The second most important source of own-revenue in Morobo County was gibana which accounted for 29.9 percent of total revenues collected during this period.

Table 3.14: Morobo County, Central Equatoria State (SDGs)

Statement of Revenue Collection for the Period 1st Feb to 30th April 2009					
Month	Date	Trading Licenses	Small Businesses	Gibana	Total
Feb	20	17105	0	0	17105
	23	17905	0	0	17905
	24	18715	0	0	18715
	25	5113	0	0	5113
	26	5860	0	0	5860
	Subtotal SDG	64698	0	0	64698
Mar	13	0	6333	0	6333
	17	0	0	22000	22000
	20	0	0	2000	2000
	Subtotal SDG	0	6333	24000	30333
April	7	0	0	2650	2650
	9	0	0	3700	3700
	Subtotal SDG	0	0	6350	6350
	Grand Total	64698	6333	30350	101381
	Percent of Total	63.8%	6.2%	29.9%	100.0%

Revenue System in Lakes State

3.71 The site visit to Lakes State included visits to Rumbek Central, Rumbek East and Wulu counties.

3.72 A meeting was held with the Economic Advisor to the Governor to discuss revenue collection issues in Lakes State. He informed that prior to 2007, the state used to collect all the revenue in the state amounting to SDG 105,000 per month. Thereafter, the GoSS took over collection of most of the revenue sources in the state. Now the state collects the following taxes only:

- Market Taxes
- Personal Income Tax (PIT) (8%)
- Business Registration fee
- Health Tax (4%)
- Poll Tax (to be implemented by counties and payams)
- Trade Union Tax (5 SGD per member)
- SPLM membership Fee (10 percent)

¹⁹ These data indicate that Morobo County collected 101,381 SDG during February, March and April of 2009. However, data in Table 5.10 indicate that Morobo County transferred to the state government 674,400 SDG during the first four months of 2009, suggesting total revenue collected by Morobo County during the first four months of 2009 was approximately 1.7 million SDG.

- 5 percent of the tax from consolidated income.

3.73 The state faces several challenges in collecting revenue as a result of many factors, most of which are beyond the control of government officials. Specifically, revenue collection efforts in the state are being hampered by:

- Economic recession in East Africa coupled with the election political upheaval in Kenya in 2008
- Insecurity in the state due to cattle raiding among the different clans
- High taxes illegally levied along the way from Kaya to Rumbek.

3.74 The state has not produced a formal budget in two years. However, according to the Director of Taxation, the state collects the taxes mentioned above. The only documents available from the Ministry of Finance were the 2009 approved budget and the Revenue Act. The directorate is composed of 52 staff. In terms of hierarchy, there is/are:

- Acting Director of Taxation
- Deputy Director of Administration and Finance
- Deputy Director of Tax Development
- 7 Senior Inspectors
- 6 Inspectors
- 10 Tax Collectors
- And 26 support staff.

3.75 No information was available from the state on actual revenue collections. The 2009 budget allocates a total of SDG 98.2 million as the combined resources of the state for various revenue items. Of this total, SDG 53 million is the conditional grant expected from GoSS while SDG 44.5 million is shown as a category combining the block grant and the local revenue. The 2009 GoSS budget indicates an expected transfer of block grant of SDG 43.66 million to the Lakes state and an additional SDG 2 million as local grant for counties. This seems to indicate that the local revenue of the state is so trivial that it is not taken into account while preparing the state budget.

3.76 The data for revenue collections from Rumbek Central seems to indicate a minimum revenue collection of around SDG 0.7 million by extrapolating the 60 percent share received by the county from the state into a 40 percent share of tax revenue kept by the state and extrapolating the four month collection date into a twelve month collection estimate. If the 60 percent share is equal for all the counties then the 40 percent share remaining with the state government would be eight times the amount calculated in the case of Rumbek Central and would amount to around SDG 6 million. It is surprising therefore that this amount is not separately accounted for in the draft budget of the state.

Counties in Lakes State

3.77 The Lakes State is composed of 8 counties – Awerial, Cueibit, Rumbek Center, Rumbek East, Rumbek North, Wulu, Yirol East and Yirol West. According to the preliminary 2008 Census, county populations range from 40,550 in Wulu County to 153,550 on Rumbek Central County, with an average county population of 86,966.

3.78 During the site visit meetings were held with representatives from Rumbek East, Rumbek Central and Wulu counties. In Rumbek Central County a meeting was held with the Acting Executive Director in the county along with his senior staff. They indicated that the taxes collected by the county are:

- Social Security Tax from males 18 to 65 years. (No collection is done due to insecurity) In peaceful times the collection amounts to approximately 1.7 million SDG which is 30 percent of the state's total budget.
- Plot fees (there are over 785 demarcated plots)²⁰
- Small business licenses
- Town Rate
- Local Revenue
- Auction fees for cattle and goats
- Miscellaneous
- Water pumps
- Public Health
- Court Fees
- Park Fees

3.79 Moreover, the revenue is largely being controlled by the state. After collection of the revenue, the State remits 60 percent of the revenue to the county for services. We did obtain some information on actual collections from the Controller of Accounts in the County. The following table summarizes the total revenues received by Rumbek Central County for the last 4 months of 2008. Block grants from the state government account for over one-third of county revenues during this period. Revenues collected locally as enumerated above accounted for one-fifth of county revenues during this period. Revenue collections were relatively constant on a per month basis during this period.

Table 3.15: Total Revenues Received in Rumbek Central County, Selected Months, 2008 (SDG)

Source	Sep-08	Oct-08	Nov-08	Dec-08	TOTAL	% Total
Block Grant	72,115	72,115	72,115	72,115	288,460	37.0%
60% Share of Taxation	26,000	27,900	32,543	21,812	108,255	13.9%
60% Land Revenues	22,210	46,660	13,689	2,167	84,726	10.9%
60 percent Super Market Land Revenue	0	0	52,285	86,978	139,263	17.9%
Local Revenue	52,541	17,762	38,348	50,381	159,032	20.4%
TOTAL	172,866	164,437	208,980	233,453	779,736	
% Total	22.2%	21.1%	26.8%	29.9%		

3.80 Local revenues in the county accounted for only 20 percent of the total revenues; a proportion better than in the case of Yei River County but still far lower than a fiscally sustainable ratio. The following table provides more detail on the source of local own revenues collected by the county. The vast majority of locally collected revenues come from cattle auction fees which accounted for 57.7 percent of total local revenues during this period. There is substantial monthly variation in the collection of these fees so there is no way to predict what total collections might have been for the entire year.

²⁰ Rumbek Documents, Report Lands

Table 3.16: Local Revenues Received: Rumbek Central Council, Selected Months, 2008 (SDG)

Source	Sep-08	Oct-08	Nov-08	Dec-08	TOTAL	% Total
Parks	5,641	1,260	4,025	2,788	13,714	8.6%
Cattle Auction Fees	26,368	5,588	21,291	38,532	91,779	57.7%
Miscellaneous	4,835	1,460	2,470	2,849	11,614	7.3%
Water	2,660	2,345	1,721	1,477	8,203	5.2%
Public Health	10,142	1,250	5,930	1,700	19,022	12.0%
Courts	2,895	5,859	2,911	3,035	14,700	9.2%
TOTAL	52,541	17,762	38,348	50,381	159,032	100.0%
% Total	33.0%	11.2%	24.1%	31.7%	100.0%	

3.81 A meeting was also held with the Commissioner of Rumbek East County, in Adwel. According to the Commissioner, the primary sources of revenue for his county are:

- Forest Products—Timber
- Land Survey
- Sand for laying blocks and construction.
- Court Fees

3.82 Although, the county has plenty of cattle, the owners do not sell them. As such, there is no revenue generated from the animal industry.

3.83 The Commissioner of Rumbek East County faces the following difficulties in collecting revenue:

- Insecurity due to cattle raiding
- Unwillingness of taxpayers to pay taxes
- Inability for the county to pay its employees

3.84 A rapid survey of the market in Rumbek East revealed a serious under-estimate of the number of stalls, suggesting that market fees are under-collected. Officials indicated that there are 20-30 stalls, while the physical count enumerated more than 100. Estimates of turnover ranged from SDG 50 – 100 per day, suggesting a significant potential fee or tax base.

3.85 A meeting was also held with the Commissioner Wulu County. The Commissioner of the County informed that his county was established on 31st May 2005 following the signing of the CPA. Wulu is the richest county in the state in terms of natural resources. As such, county revenues come primarily from:

- Forest Produce—timber from
- Mahogany
- Lulu (shea nuts)
- Bamboos
- Honey
- Gold and Diamond (locally mined but not officially recognized by the GoSS Ministry of Mining and Energy)
- Agricultural produce.

Other sources of revenue include:

- Road Toll (Regrettably, it is the police that collect the road toll so the county does not benefit from this tax.)
- Land demarcation (plots)
- Market taxes
- Court Fees.

3.86 A copy of the proposed budget for 2009 was available but the county collects no revenues at all because of serious security concerns. Wulu County had been peaceful until 2008. Revenue collection totaled 3,000 SDG per day. Since last year, however, the county has experienced significant insecurity due to cattle raiding by the neighboring Dinka community. Wulu County belongs to a small tribe Luo known as the Jur Bele. Several civilians have been killed, including one policeman, and looting in the county has been rampant. Even the Commissioner was assaulted. In this context, major challenges that hamper the collection of revenue in the county included:

- Insecurity—taxpayers have become unwilling to pay taxes because several markets are un-operational.
- Untrained tax collectors
- Inability to pay the tax collectors
- Taxes being collected by the State and police authorities instead of the county.

3.87 The Commissioner stated that the county has 174 employees with 21 trained administrators in 4 Payams and 14 Bomas. Most of the manpower is composed of casual laborers.

3.88 In an effort to improve the current critical situation in Lakes State, the State Assembly passed a bill establishing a State Revenue Authority to clean up the mass of revenue collection by:

- Acting as Supreme Body to supervise revenue collection
- Linking the State government with the Directorate of Taxation for easy transparency
- Empowering the Directorate of Taxation with trained personnel
- Ensuring that there are proper collection of revenue and expenditure records
- Authorizing the right institutions to collect the different kinds of revenue at the State, County, Payam or, Boma levels.

3.89 The Lakes State in Southern Sudan is a landlocked state located in the center of Southern Sudan. It seems that the major sources of revenue in the state, and each county, should be taxes from the cattle industry because the vast majority of the population is engaged in cattle keeping. However, tribal clashes hamper revenue earnings from this industry. Other sources of revenue include town taxes, market taxes, court fees, land survey, gibana, business taxes, personal income tax, health tax, ground rent, etc. However, the State and its counties have been unable to collect and keep good data of the revenue due to overlapping powers in the collection of the revenue, not to mention the fact that the Taxation Department does not have enough qualified manpower. Having realized this loophole, the State's Assembly passed a bill urging for the establishment of a Supreme Revenue Authority to oversee the proper collection and distribution of State revenue.

Cumulative impact of taxation at multiple points

3.90 Governments often are taxing the same base which leads to tax pyramiding and cumulatively high taxes. The following table provides an illustrative example. Assume there is a truck coming from Uganda that has SDG 10,000 worth of household goods. The first set of taxes levied on the goods as they enter Southern Sudan are those imposed by the Government of National Unity (GoNU); customs duties, VAT and assorted fees collected by the Ministry of Interior. While there is a rate schedule for customs duties, assume for this example that the applicable rate is 5 percent of value, a representative rate from the schedule. There was some confusion on whether the applicable rate for VAT was 15 or 30 percent.²¹ Assume the smaller of these rates for this example. Finally, the Ministry of the Interior collected a number of fees on a per vehicle basis, except for charges for immigration and passports.

Table 3.17: Cumulative Impact of Taxes on Goods Entering Southern Sudan

	Costs for one truck of household goods valued at 10,000 SDG	
	Rate	SDG
GoNU Taxes Collected by GoSS at Point of Entry		
Customs Duties	5%	500
VAT (15 or 30 percent)	15%	1,500
Assorted fees Ministry of Interior		
Immigration/passports		
Traffic Police	100 SDG/vehicle	100
Public Security	20 SDG/vehicle	20
State Taxes Collected at Entry Point		
Minister of Commerce	2%	200
Development Taxes	5%	500
County Taxes Collected at Point of Sale		
Gibana on goods from outside county	5%	500
Total Taxes Collected on Goods Entering Sudan		3,320
Effective Tax Rate on Goods Entering the South		33.2%

3.91 Overall, in this illustrative example, the various levels of government collect SDG 3,320 in tax revenues from this one truck load of household goods entering from Uganda. The customs duties, development taxes and gibana are all essentially excise taxes applied by different governments on the value of the goods being brought into the country and sold at a local market. This multiple taxation by different governments results in a 33.2 percent effective tax rate on the good entering the state and sold in a local market. In addition, at one border check point we visited there were 26 government employees collecting these various taxes and charges from the estimated less than five trucks that passed through the check point daily.

²¹ At one border check point we visited the person representing GoSS to collect customs duties and the VAT for GoNU was actually using a schedule of rates for the VAT which was created in 1997 by the SPLM for the Equatoria Region (before the ten states were created).

INTERNATIONAL EXPERIENCE AND REALISTIC OWN-SOURCE STATE AND LOCAL REVENUE TARGETS

3.92 One option for evaluating the performance of own source revenue collection in Southern Sudan is to compare it with the levels of collections in comparator countries; Tanzania, Uganda and Ethiopia all of which have a significantly longer history of implementing systems of fiscal decentralization.

3.93 The experiences of Tanzania and Uganda recounted below have been studied using the OECD/FDI Revenue Statistics which were established in 1999 in order to effectively attribute tax revenues by classifying own-revenue, shared-tax revenues, and grants across levels of governments and to overcome the limitations of the more standard GFS data of the IMF. Both Tanzania and Uganda –are undergoing efforts to decentralize revenue raising and spending decisions to subnational governments. The experiences of these two countries are explored in more detail below.

Tanzania

3.94 In Tanzania, the current legislative framework for local administration and local finance is provided by a series of acts referred together as the Local Government Acts of 1982. There are Acts No. 7 and 8, which govern the establishment of urban and rural district council authorities respectively. Act No. 9 is the Local Government Finance Act setting up the financial framework within which LGAs are allowed to operate.

3.95 Under the Local Government Finance Act No. 9, LGAs were given the freedom to determine the tax base and the tax rate as well as the duty to collect their own revenue and the discretion to borrow. However, soon after, horizontal imbalances started to surface whereby LGAs with good tax bases had better yield and, consequently, were able to provide better local services. Poor LGAs especially in rural areas yielded low revenues and in some cases these were not enough to cover even the administrative costs let alone provide good services to their people. Poor LGAs were often faced with high tax collection costs compared to yield and thus wealthy LGAs continued to become wealthier and poor LGAs became poorer. In 1999, the Local Government Acts were amended to give more authority to rural and urban councils to approve their plans and budget.

3.96 Overall, the resource envelop for local governments in Tanzania includes own-source revenues, grants from the central government and international donors and contributions from the community. The relative importance of each of these sources of revenue is reflected in the following table. Grants account for 93 percent of local revenues in Tanzania, while own-source revenues account for 6 percent of total local revenues.

Table 3.18: Cumulative Impact of Taxes on Goods Entering Southern Sudan

Category	Tshs million	%
Own sources	42,448	6.06
Grants	651,861	93.07
Community contribution	6,018	0.87
Total	700,327	100

3.97 For own-source revenues, the Central Government formulated a list of tax and non tax sources of revenue consisting of 67 revenue items of which 26 were tax items, 40 were non tax and 1 a mixed bag. Non tax revenue consisted of user charges, which generally do not exceed the cost of providing the service, and permits/fees accompanied with a right to use a specific geographical area. Also included as a non tax revenue is income accruing from LGAs' own property and other own investments. Since most court fines and penalties are unrelated to tax offences these have been included under non tax items.

3.98 Of the taxes, the five highest yielding were in order of importance: property rates 20.2 percent, cotton produce cess 9.8 percent contribution followed by coffee produce cess 4.9 percent, permit fees for billboards, posters and hoarding 4.6 percent and tobacco produce cess 3.6 percent. Among non taxes the five most important were in descending order: service levies 45.9 percent, central bus stand 6.8 percent, market stall/slab dues 6.5 percent, parking fees 4.1 percent and fish auction fees 3.4 percent.

3.99 The following table presents local own-source revenues in Tanzania by source and as a share of total local revenues, total government revenues and as a share of GDP. The data for 2004/05 indicate that local own-source revenues account for about 6 percent of total local revenues, 2.4 percent of total government revenues and 0.3 percent of national GDP.

Table 3.19: LGA Sources of Revenue relative to Total Government Revenues and GDP in Tanzania 2004/5

Revenue Source	Amount in TShs.	Revenue as a Share of Total LGA Revenues	Total Central Government Revenues in Millions of TShs	Revenue Source as % of Total Government Revenue	National GDP in Millions of TShs.	Revenue Source as % of GDP
Own-Source	42,447,544,919	6.1		2.4		0.3
Development Partner Grants	188,536,965,375	26.9		10.6		1.4
Central Government Grants	463,324,028,401	66.2		26.1		3.5
Community Contributions	6,018,085,313	0.8		0.3		Negligible
TOTAL	700,326,624,008	100.0	1,773,710	39.5	13,063,317	5.4

Uganda

3.100 Uganda has a decentralization system of government based on devolution of authority to elected local governments. The decentralization reform officially started in 1992 and matured with constitutional revisions in 1995 and the passage of the Local Government Act in 1997. Local Government Councils in Uganda are fully-fledged representative structures with powers of planning, legislation, revenue collection, and budgeting. Among others, the Local Government Councils have powers to raise revenue, including determining and implementing revenue raising mechanisms.

3.101 There are generally 3 major sources of finance for the local governments in Uganda, central government transfers, own revenues and donor funds. Local governments may also take up some loans. Local governments in Uganda receive grants (transfers) from the central government and from donors being 75-80 percent and 5-10 percent of total resource envelope available to LGs respectively. LGs contribute only about 15 percent from own sources. The Central Government transfers to LGs can be conditional, unconditional, or equalization grants.

3.102 The Uganda Constitution, enforced through the LG Act 1997 as amended, guarantees local government finances through collection of local taxes and fees and through financial transfers from the central government to support development and recurrent expenditure programs. LGs have the power to levy taxes as one of the ways for mobilizing revenue. Locally raised revenue, comprising of graduated tax, property tax, market dues, rates and other legal forms of revenue plus unconditional grants constitutes the total envelope over which Local Governments have discretionary spending powers.

3.103 The following table summarizes the funding arrangements for local governments in Uganda. Local own-source revenues accounted for 15 percent of total resources available to local governments in Uganda. Local own-source revenues accounted for just 7 percent of total government revenues in Uganda and just 0.9 percent of GDP.

Table 3.20: Summary of Local Government Own revenues. Uganda 2004 / 5

	Shs. ('000,000)
Donor direct transfers to LGs including projects	70,149
Total LG Own Revenue	152,836
Total Central Government Transfers to LGs(net of donor projects)	795,680
Total Central Government Transfers to LGs (including donor projects)	805,547
Total Estimated Resource Envelope for LGs*	1,028,532
Percentage of LG Own Revenue to Total Resource Envelope	14.9%
Total Central Government Revenues	2,019,030
Total Central Government + LG Own-revenues	2,171,866
Percentage of LG Revenues to Total Revenue	7.0%
Nominal GDP	17,000,000
LG Revenue as Percentage of GDP	0.90%

*Total Resource Envelope is estimated because of the 70 billion “donor direct transfers to LGs including projects”, it is not clear how much of that is partly captured in the “donor project” funds that are included in the 805 billion “total Central Government Transfers including donor projects”. In any case the variation would not be above 10 billion being the difference between transfers including donor projects and transfers net of donor projects (billions 805 minus billions 795).

Ethiopia

3.104 Under the policy of decentralization launched by the Transitional Government of Ethiopia in 1991 regional structures and institutions were set up in 1991. Between 1996 and 2000²² sub national governments collected on average 20.8 percent of revenue (regional governments 8.3 percent and woredas 11.8 percent) while the federal government collected 79.9% of the revenue. In the ten regions the average ratio of self financing of their expenditures ranged from 4% in Gambella to 80.4 percent in Dire Dawa in 1994/95. By 2006/07 however the variations had been smoothed out and the own source collections

²² Note on Fiscal Federalism, Service Delivery and Capacity Building in Ethiopia. January 2009 Berhanu Legesse AFTPR, World Bank.

ranged from a low of 6.1 percent in Somale to a high of 28 percent in Tigray. Average collection declined from 25.7 percent in 1994-95 to 18.7 percent in 2006/07 possibly due to the larger volume of fiscal transfers from the federal government and the relative stagnation of own source revenues.

3.105 The experiences in Tanzania, Uganda and Ethiopia illustrate some key issues. First, to fully realize the potential benefits of fiscal decentralization it is necessary for local governments to have some control over local revenues. After nearly a decade or more of decentralization in Tanzania and Uganda, local governments in those countries exercise significant control over local own-source revenues. In fact, according to the framework for measuring local autonomy over revenue sources developed by the OECD, local governments in Tanzania and Uganda exercise some level of control over virtually all local tax and non-tax revenue sources. In designing and implementing a system of local own-source revenues in Southern Sudan there must be a focus on facilitating local government control over revenue raising decisions which means setting the tax rate and defining the base of each tax.

3.106 Second, though local governments in Tanzania and Uganda have significant control over revenue raising decisions, local own-source revenues in each country are still very modest. For example, local government own-source revenues in Tanzania and Uganda account for 6.1 and 14.9 percent of total local revenues; 2.4 and 7.0 percent of total government revenues; and just 0.3 and 0.9 percent of GDP. In Ethiopia the contributions of own source revenue was higher at an average of around 18.7 percent in 2006/07 but it had declined from higher level a decade earlier as the federal government stepped up the volume of fiscal grants.

3.107 It is difficult to be prescriptive about the amount or ratio of own source revenue a county or a state should raise since objective conditions and endowments vary considerably. However, it is clear that even in the medium term counties and states are unlikely to be self sufficient even to the extent of being able to pay the salaries of their employees. With average collection in states varying from 1 to 30 percent the levels of own source revenue are extremely deficient. The ratio can be increased with better tax administration but considerable federal support will continue to be required. In the counties the situation is uniformly poor with even well endowed counties contributing only around 10% to 15% of the total revenue requirement from own source revenue. This may improve with better accounting and recording of revenue and better tax administration but counties are a long way from self sufficiency even for salaries. This points however to the great need to rationalize manpower at the county level while simultaneously systematically enhancing the volumes of own source revenues.

3.108 In Kenya, the local licensing and revenue collection practices are characterized by a high level of informal economic activity, insufficient collection budgets and poor regulatory governance, which led to a proliferation of licenses, fees, and burdens on both formal and informal businesses. When local governments introduced a single business permit (SBP) between 1999 and 2000, the SBP became the third most important source of revenue after the Local Authority Transfer Fund, representing nearly 16 percent of all locally generated revenues, more than double the proportion prior to the reform.

3.109 Outside Africa some of the large cities in India (e.g. Bangalore, Chennai and Delhi) have dramatically increased revenues by moving from their archaic annual rental value systems to a "calibrated" area-based property tax system, such as is suggested for Southern

Sudan. Bird and Slack provide evidence of growth rates of property taxes in these cities of as high as 27% pa, which would result in a doubling of revenues in less than 3 years, a quadrupling in 5.

4. REVENUE REFORM- NEXT STEPS

GUIDING PRINCIPLES OF REVENUE REFORM

The reforms proposed must be based on the following principles:

4.1 Prioritization *of Tax Administration*. The key focus of any reform process must be to create a tax system which can be administered as its designers intended. The less than adequate level of administration has also led to tax evasion. This is to be seen in the low levels of registration and in poor collection rate, particularly at local level. Solutions to this problem lie less in the design of the tax system, than in the enforcement of it. A simplified tax system will be a step toward improving tax administration at all levels.

4.2 Service Delivery. In order for local revenue collection to be successful, local authorities have to establish their credibility as local service delivery agents. This is an essential pre-condition of local revenue reform and needs to be vigorously pursued and communicated at the same time as revenue reform is implemented. Communication should be on-going and should establish and re-enforce a direct connection between revenue collection and delivery of value-for-money services, such as sanitation, potable water, streets and market places, electricity,

4.3 Incorporate the Informal economy. By its nature, this is an aspect of the economy that is not captured in official statistics and actively conceals itself from the authorities. The study illustrates that the informal economy is the source of 85% of household food procurement, and is likely to occupy a similarly significant place in the acquisition of non-food household goods and services. Under-registration of businesses is widespread, with coverage ratios unlikely to exceed 35%, even in the best of circumstances. The amounts of revenue thus lost are significant. At the same time, it is by far the largest and most vibrant part of the economy. The very large number of informal traders constitutes the bulk of the considerable commercial sector, and almost the entire manufacturing sector in the areas visited. Such traders, perhaps more helpfully referred to as unregistered businesses, locate themselves in the best trading areas, and make use of public services, as far as they are available. They show a considerable willingness to pay for services such as electricity and water, which they currently provide for themselves at high cost. The challenge of drawing these thousands of traders and manufacturers into the formal economy is a difficult, but potentially fiscally rewarding one. It is estimated that with improved administration, a tax on such businesses at a low rate could yield in excess of SDG 80 million per annum.

- **Fairness, and the fight against poverty.** The “equity” of the tax system is at best a minor component of the broader developmental task, the aim of which is to reduce poverty and need. Accordingly, the traditional concerns with tax “equity” in the form of progressive versus regressive regimes are less meaningful in the post conflict context with low levels of tax effort as compared to the need for creating a tax system which is effective in feeding and sustaining the program of infrastructure creation and service delivery. Success in these endeavours offers the best potential for supporting pro-poor growth.
- **Base broadening.** Revenue reform should aim to broaden a few tax bases, rather than create a plethora of taxes, each with its own base. The aim is to achieve lower marginal tax rates being applied to each tax base, which will, in turn, reduce the level

of tax-induced behavior and distortions in the signals inherent in market prices. This environment will, in turn, encourage, or at least not discourage, economic growth and development.

- **Avoid taxing intermediate inputs.** Reforms should avoid commodity taxes on intermediate inputs and instead focus on final consumption. VAT provides a good framework. An optimal taxation framework also suggests the use of lump-sum taxes – the case of presumptive taxes. This implies, for example, such things as relatively high excise tax rates on the inelastic demand for alcoholic beverages, petroleum products, and tobacco.
- **Legislated powers.** A key principle to be applied is that revenue mobilization by government at any level must be confined to specific and explicit legislation and extra legal forms of revenue mobilization must be eschewed. The modern state of Southern Sudan is challenged by the task of re-asserting peacetime norms, and must be careful to conduct its own revenue mobilization in a progressive manner constrained by law and constitution.

THREE STEP MODEL FOR LOCAL REVENUE REFORM IN SOUTHERN SUDAN

4.4 The key objective of this study was to study the potential for non oil revenue in the states and local governments. However during the course of the field visits issues related to revenue assignments, tax simplification and tax administration came to light which are discussed in more detail below. These issues are inextricably linked to the technical issue of the revenue potential and merit discussion. The recommendations however are summary in nature and need to be supported by additional study and analysis. The purpose of this section is to lay out a strategy for improving the mobilization of own-source revenues for state and local governments in Southern Sudan. A three step approach is proposed which responds to the key themes identified during the site visits:

Step 1: Review Revenue Assignment in Southern Sudan

4.5 This first step is aimed at addressing the tax base and the achievement of an improved coverage ratio. A critical step in improving revenue mobilization in the south is to have a clearer allocation of revenue assignments across tiers of government – GoSS, the states and local governments. Not only will this prevent unnecessary and debilitating conflict between different elements of government, it is also essential in order to simplify the revenue system. There may similarly be issues of harmonization between the Government of the Republic of Sudan and the Government of Southern Sudan which have not been studied in this report. However, under the ICSS, GoSS has fiscal autonomy within its revenue assignments.

4.6 In the most decentralized scenario, local governments would determine what taxes to levy generally selecting from a range of legislated taxes; they would pass their own local legislation defining the tax base, would decide the rate of taxation as part of the annual budget process and would maintain a revenue administration, dedicated to registering, assessing and collecting local taxes. This degree of local control is not always possible, and it is common for compromises to be made.

4.7 The choice of tax assignment to central, state and local governments in a federal system, or emerging federal system like Sudan, is not a clear cut matter. Typical economic concerns about economic efficiency and equity must be balanced with consideration of administrative and compliance costs. In general the most important characteristic of a local tax is that it should be structured to give the local government a desired degree of “fiscal autonomy”, ie the ability to make decisions on behalf of local communities, and to be accountable to it. In a decentralized system, local voters properly hold local elected representatives responsible for the quantity and quality of services provided.

4.8 Implementation: In order to implement this step, a careful re-examination of revenue assignment should be carried out, in consultation with representatives of states, counties, payams, town councils and bomas. While the actual outcome will depend on these consultations, a good starting place for the discussion has been provided by the USAID/Bearing Point study which reviews tax harmonization issues in Southern Sudan over the last two years. The following table presents their recommendations for harmonizing revenue assignment in Southern Sudan:

Table 4.1: Principles for Reforming Revenue Assignment in Southern Sudan

Key: N:National Level L: Local S: State A: Administrative body	Tax Assignment Options			
	Assignment of Responsibility for:			
Tax	Base	Rate	Revenue	Administration
1. Personal income tax	N	N, S*, (L*)	N, S, (L)	N
2. Corporate income tax	N	N, (S*)	N, (S)	N
3. VAT	N	N, (S*)	N, (S)	N
4. Consumer sales tax or consumption-based excise tax	N, S, (L)	N, S, (L)	N, S, (L)	N, S, (L)
5. Production-based excise tax	N	N	N	N
6. Customs duties and border taxes	N	N	N	N
7. Natural resource taxes	N, (S)	N, (S*)	N, S	N
8. Cost-based environmental and pollution taxes	N, (S), (L)	N, (S*), (L*)	N, (S*), (L*)	N, (S), (L)
9. Social security and general payroll taxes	N	N	N	N
10. Property taxes - On businesses - On residences	N, S N, S,	S, L S, L	S, L S, L	S S, L
11. Cost-based user fees	N, S, L	N, S, L	N, S, L, A	N, S, L, A

Source: USAID funded GoSS Core Institutional Strengthening Project implemented by Deloitte LLC, advisor Bruce Hutchins.

*Notes: (1) An asterisk * indicates that a regional or local tax rate would be a fixed percentage of central tax collections or the central base. (2) A bracket () represents a weaker recommendation.*

4.9 Clarifying the assignment of revenue sources in Southern Sudan will result in a smaller set of revenue sources, contributing to a simplified system.

Step 2: Simplifying the state and local tax system

4.10 Annual consumption per household per annum on food alone has been estimated at close to SDG 2000. Even if only 15% of this finds its way into the turnover of formal traders, this translates into a significant tax base, which, if effectively administered could yield in excess of SDG 82 million per annum for local governments in Southern Sudan. Reform of

local government revenue clearly has the potential to play a very significant role in the funding of an improved level of local services to households and businesses.

4.11 Given the weak administrative capacity in Southern Sudan the major focus of tax reform should be on reinvigoration of the existing tax administration rather than the introduction of new surcharges at the state level. The tax system actually in place in Southern Sudan is highly complex, consisting of taxes with lengthy and complex tariff schedules with multiple rates, many different taxes falling on the same base, and many different collectors claiming responsibility for the same collections. Simplification of this complex system is essential. The achievement of tax simplification is inherently difficult. Enterprises do not have a standardized form of incorporation legislated by a common Act. Some keep proper records, most do not.

In the context of such diversity, simplification can be achieved by the following process:

- Drastically reduce the number of different taxes defined in the law.
- Retain a range of existing administrative methods to assess and collect them.

4.12 In each case, care must be taken to ensure that there is a strong incentive for taxpayers to eventually embrace the form of assessment which is based on proper business record keeping. Failure to design the taxes in this way will encourage a flight away from formal business, while success will result in the progressive formalization of business, broadening of the business tax base, improving data, on which planning and financial decisions are based, improving general access to the formal economy and the range of credit and banking services.

4.13 The process of simplifying the revenue system should include the following steps:

- simplify the structure of tax administration at the local government level to reduce the number of tiers and reduce the costs associated with operating multiple administrations (state, county, payam and boma). On many occasions during interviews it became apparent that the government structures were over staffed, often with well qualified people.
- simplify the income tax to reduce evasion and enable it to be extended in stages to a wider range of employees.
- simplify the tax code so it is easier to understand and administer and will be perceived as being fairer;
- develop a taxpayer master list for various revenue sources and provide stiff penalties for failure to register and pay taxes;
- develop meaningful audits which are targeted to those limited areas where evasion is likely to be caught;
- conduct special audits in the most egregious and obvious cases of tax fraud; and
- increase penalties for failure to remit taxes owed.

4.14 A simplified system for mobilizing state and local own-source revenues in Southern Sudan should have the following components:

4.15 Personal Income Taxes. This should apply for all formal employees, on a withholding basis, at a simple proportion of income. The temptation to introduce a progressive system at this stage should be avoided, as this is inevitably complex and

contributes to poor administration. The equity issues which a progressive tax is intended to address are more effectively dealt with through an aggressively pro-poor expenditure policy. The effective base of the tax is the value of the payroll of all formal employees of government, NGOs or registered corporations unless exempted. This base is significant, but is confined to the major cities, such as Juba. Other state capitals, such as Rumbek the capital of Lakes State, clearly have a far smaller PIT base. Administratively, the discovery of the base is simple and accurate, as long as the tax is confined to large entities and the employees of small businesses are not targeted. Assessment and collection similarly are not problematic as long as only the formal and official segment is included. Targeting other employees would require the establishment of significant revenue collecting capacity, and a major administrative effort. The base is expanding rapidly with the growth of the numbers of government employees. Objections have been raised to the tax on government employees, since the payment of salaries is done through a grant process from the GoSS. It may appear therefore that the PIT is a means for the local government to retain funds that were intended for employees. This is not, however a valid argument against this form of taxation, since in any case GoSS should be moving towards changing the form of grant from an earmarked grant for employees, to a discretionary grant for institutional development. The stability of the base is also in some doubt as it varies with the payment of government salaries. Another source of instability would be the revenues from taxing employees of NGOs since a withdrawal of operations by such organizations can threaten tax revenue.

4.16 The PIT and its variants should, we believe be assigned to the states, to minimize the impact on migration, and to enable effective administration. Local governments might be authorized to add an additional local rate to the income tax base as defined by the state which would then collect the revenues on behalf of local governments.

4.17 Local Business Tax. In general, this is a tax on business activity, which accrues to the local government in order to enable it to provide public services to local business and households.

4.18 With administrative variations this will incorporate and consolidate a number of existing taxes and fees:

- Sales or turnover tax on informal businesses,
- Presumptive “business license” based on the nature and size of the premises of informal businesses.
- Daily market fees for informal traders.
- Agricultural tax, recognizing agriculture as a form of business.
- Tourism tax, on tourism businesses.

4.19 If well designed and administered, the business tax has the further associated benefits of promoting the formalizing of informal businesses, thus bringing them into the regulatory fold, and improving their access to business services, credit and capital markets. These steps are essential to the development of the economy, regardless of the tax system. Compliance with such a tax will also strengthen the availability of business and economic data, as self-assessment returns are captured by the authorities for the national data base. While a single business tax should be envisaged, the administrative means of discovery, assessment and collection can vary markedly depending on the nature of the business.

4.20 A formal registered company would submit self –assessment returns in the normal way, based on formal income statements and balance sheets, with penalties for non-submission and incorrect declaration. This could be the basis of a state administered and collected corporate income tax.

4.21 A small business, with inadequate business records can be required to pay an annual presumptive rate based on a suitable proxy for capacity, such as size of premises (for a shop), number of vehicles (for a taxi service) or number of tables (restaurant). The rate should be designed to provide an incentive to keep proper records, and to submit returns, enabling expenses to be deducted and the total tax bill reduced. This can be administered and collected at the local level.

4.22 An informal business such as a market kiosk should be required to purchase a “tax coupon” and display it prominently. This will enable any member of the law enforcement services to identify traders that have not complied, and to take appropriate action. The collection of such a business tax on informal establishments could be effectively done through private agents thus building positively on the existing “tradition” of unpaid private tax collectors. Unique numbered coupons could be sold in standardized denominations at a discount to registered agents, who would in turn “sell” them to businesses, and to other tax payers, simultaneously capturing their details for data base purposes. This method would minimize opportunities for corruption, make detection of non-payment relatively simple, and provide an immediate way to resolve non-payment, by immediately purchasing the required license. Such a coupon system could be extended to a wide range of tax payments, including royalties and market charges discussed below. It would serve to make existing practices properly transparent and accountable, turning existing questionable practices into legitimate taxation.

4.23 The rapid market surveys and focus groups suggest that the potential number of informal tax payers is in excess of 4000 in each of the larger towns such as Rumbek and Yei, and at least 1000 in the smaller centers such as Kajo-Keji, and East Rumbek

4.24 The findings of the study suggest a tax base in the form of annual turnover in excess of SDG 80 million in the larger towns implying, on conservative assumptions a revenue of SDG 500,000 per year growing, with improvements in administration and in the formal economy to SDG 3.5 million per annum. For the territory of Southern Sudan as a whole, recently released census data translates into a business tax revenue growing to SDG 82 million per annum.

4.25 The administration and collection of a local business tax and its variants should be assigned to local level, to create and reinforce the positive link between local service delivery and taxes paid.

4.26 Property Tax. This is a new tax which could be introduced over time. Taxes on the value of land and buildings can generate substantial amounts of revenue at relatively low rates. It would be inappropriate to initiate such a tax based uncritically on a “western” style model where the base of the tax is the assessed market value of properties. In most areas in Southern Sudan there are no well developed real estate markets which would enable accurate assessment of the base, in part, because of the prevalence of “community owned property”. Rather, local governments should be able to implement the tax on a graded basis, starting with some variation of a flat hut or land tax, or an amount per hectare. Adjustments to this

basic assessment can be made using a local “suitability index” based on characteristics that reflect market factors, e.g., type of building material, area of hut, area of land, availability of amenities, quality of land, etc. The practicality of this simple approach implemented through a system of self-assessment by the land owner/tenant has been demonstrated in the Limpopo Province of South Africa by Bell, Bowman and Solomon. A pilot study was carried out illustrating its use and the potential for administration by traditional leaders. Although the property tax should be seen as a single tax, with appropriate legislation, such administrative variations will accommodate the different circumstances in which property is held.

4.27 These should be seen as alternatives, not as duplicate taxes on the same base. A property that can be properly valued, because of the availability of market data, should pay an ad valorem tax based on that assessed value. In the absence of such market value data, the assessment can be based on the area of land and structures, adjusted by a “suitability factor”. A further option would be to subject property to capital gains tax, as a means to capture the true value in the form of market value. Deductions should be allowed to adjust for the property taxes, if any, already paid. In this way the local government can be assured of collecting the property taxes, even if it must wait for the property concerned to change hands as a result of sale or decease.

4.28 Our interviews, rapid surveys and focus groups revealed that this form of tax is severely underutilized, for a number of reasons:

- Outside of the town centers, residential property is owned “by the community”, resulting in property rights which are difficult to assess using conventional methods.
- In the town centers, land which has been surveyed and transferred to the local government is rented out for ground rent, on which property tax is not levied.
- Even when there is individual freehold title, the market in such rights is very inactive and distorted, making estimation of market value very difficult.
- There is no local capacity to carry out assessments, or to administer the tax.

4.29 Nevertheless, the “privatization” of community land is an accelerating process, limited only by the availability of surveying skills as informed by officials at Rumbek and at Yei. The ground rent serves as a value-capture mechanism for only some of the properties surveyed and privatized. A property tax, however simplified, is an essential step to ensuring that all forms of property tenure are subjected to some or other form of value-capture, whether by rental or property tax. An area-based assessment with adjustments for market influences could initially be carried out on a self-assessment basis with the assistance of traditional leaders. This would be a means of gathering essential information on individual properties at a very low administrative cost to the local government.

4.30 Property market data was unfortunately not available so no assessment can be made of the potential value of the base. Physical counting of dwellings is possible through aerial photography, but is made complex by the variety of dwelling shapes, the prevalence of arboreal cover, and the prevalence of traditional dwellings.

4.31 Taxes on Consumption. State and local governments already generate revenues from tax or fees on a number of consumption items. This is another area where the harmonization of tax bases can reduce administrative costs to the government for such taxes as well as reduce taxpayer compliance costs. As long as the local government has the authority to establish a tax rate to apply to each base it maintains an important element of

discretion over such revenue sources. Such taxes could apply to things like beer, liquor and tobacco. For example, local governments in Zambian cities generate the majority of their own source revenues from a local tax on beer. Such taxes often apply to restaurants and hotels, theaters, movies and other types of public entertainment. To reduce administrative costs, the tax could be administered by the state government with the local government adding a “piggy-back” rate onto the rate established by the state.

4.32 Instead of levying a number of taxes on consumption in the form of excise taxes and gibana, all such taxes could theoretically be consolidated into a single form; national VAT plus a local, state or county level surcharge, all administered by the national VAT revenue authority. Existing internal excise taxes such as gibana could be phased out, since they are costly to administer, hamper internal trade and could be unconstitutional. However it is unlikely that given the underdeveloped state of the economy in Southern Sudan and its agrarian character this will be possible to implement in the near term. State governments will have to rely on better enforcement of more conventional taxes like sales tax.

4.33 **Automobile Taxes:** State and local governments can generate revenues from various types of taxes on automobiles. In Southern Sudan the authority to issue drivers licenses and license plates for cars is explicitly given to state governments. Local governments presently generate revenues from tolls and from parking fees. A transfer tax on the local sale of automobiles would also generate revenues for local governments.

4.34 **Fees and User Charges:** The development of local services such as water, electricity, refuse removal, sanitation, roads, livestock auctions, abattoirs, produce markets is crucial for the development of a vibrant private sector, and for the alleviation of poverty. Such services are best funded by realistic user charges. Many of these services are currently provided by households and traders themselves, on an autarchic basis, at high individual cost. Public provision of, for example, electricity services have a strong potential to be cheaper, if the structure of their provision is appropriate. Local governments have both the right and opportunity to be involved in such provision, and can potentially capture significant revenue from this source. It should be cautioned, however, that direct public provision is seldom efficient in practice. Involvement of a local government in a Public Private Partnership type venture is, however, both feasible and desirable from a governance perspective. However development of user charges as a significant source of local revenue must be predicated on significant improvements in the level of service provisioning. The linkage between services and payments should be strongly communicated and such user charges levied only once service delivery at acceptable standards becomes available.

4.35 **Vouchers:** In order to streamline administration, it is recommended that the actual amounts payable to government in the form of fees and charges should, as far as possible, be rationalized into a relatively small set of coupons with appropriate face values to cover daily and annual charges. These should be difficult to forge, and should be numbered. If, for example, a “forest product royalty” is required on charcoal produced, the producer can be required to purchase and attach a coupon of appropriate value. If he or she fails to do so, the purchaser will be required to do so, by an inspector who detects the deficiency. Such detection can be done by any law enforcement officer, without extensive training in tax collection.

4.36 **Resource rents:** The emerging nature of the Southern Sudan economy means that a large number of resources which are held in traditional commons are being transferred, both

informally and formally to private ownership. Local governments have both the legal right and moral responsibility to control such transfer, and to capture part of the value so generated. Such transfers fall under the rubric of “ground rent” or “royalties”. Examples are ground rents for land negotiated from the community, royalties for forest products such as charcoal, teak poles and timber, bamboo, thatch, honey, lulu oil and others. It is crucial for the sustainable future of the Sudanese forests and agricultural land that the exploitation of these resources not be allowed to fall prey to the “tragedy of the commons”. Local governments appear to be the natural custodians of this resource, and must be given the capacity to manage the rate and nature of exploitation, under the guidance of national land tenure and other policies, which are in serious need of clarification.²³ An emerging issue is the rights of state governments in the revenues generated from natural resources like forests. States claim that any revenue generated by GoSS from forest resources or non oil mineral resources must be shared with them on the same pattern as for oil revenue.

4.37 The table below summarizes the taxes discussed, using commonly accepted evaluation criteria.

Table 4.2: Evaluation of Alternative Taxes

Criterion	PIT	Business Tax	Property Tax	Vehicle tax	VAT surcharge	User Charges	Resource rents
Local.	Poor. difficult to differentiate city rates .	Fair	Good	Good	Good. Local Piggy-back rate	Very Good	Very good
Yield.	Fair.	Good	Good	Fair	Good	Very good	Good, but short term
Collectability	Good, if confined to employees of large entities.	Fair, requires an administration.	Innovative assessment methods are available.	Good.	Good	Good	Very Good
Supports other systems.	Good. If proper payroll systems, EFT services exist	Good, encourages formalization of businesses	Good. Land tenure system, title deeds,	Good. Traffic laws, accident reports, insurance.	Good	Good.	Good
Economic Efficiency.	Fair	Good	Good	Good	Good	Excellent	Good, if properly regulated
Base Stability	Poor.	Good, growing rapidly	Good, growing rapidly	Good	Good	Good	Poor. Short term solution.
Horizontal balance.	Very poor. Only good for major cities; Juba.	Poor	Fair	Poor	Poor	Poor	Good
Fairness.	Good on ability to pay	Fair	Good	Good	Fair	Good	Good
Not Inhibit Trade.	Good	Good	Good	Good	Good	Good	Good
Suggested adoption	Suitable for adoption at state level	Suitable for states, counties and payams	Suitable for counties or payams	States and Counties	Suitable for states and counties in the long term.	Close supervision by the community	Close to the community, nationally regulated

²³ Sudan Toward Sustainable And Broad-Based Growth June 2009 Poverty Reduction And Economic Management Unit Africa Region Document

Step 3: Administrative Reform

4.38 The current status of revenue administration in Central Equatoria and Lakes States provide a stark motivation for strong administrative reform. Central Equatoria has a much more evolved and developed tax administration than Lakes State but in both states revenue administration is less than adequate:

- Frequent references were made to “unpaid tax collectors”. This practice is in violation of the basic principle that tax must be collected only by those explicitly authorized to do so.
- Salaries of local officials were often not paid, resulting in the often unauthorized “withholding” of revenue collections, as an informal “staff loan”. Assurances that proper records were kept of such transactions were unconvincing.
- Communication with collectors in the field was very poor, despite the advent of appropriate technology such as cell-phones. Financial reports of revenue collected were generally not available, although these documents, perhaps more than any others, should be matters of public record in an emerging democracy.
- Revenue personnel are poorly trained in the specifics of their jobs, although many of them have formal qualifications.
- Because the nature of the GoSS-state-county-local grant system has incentivized the padding of payrolls, there are inordinately large numbers of employees in the field, many of whom are paid at best intermittently.²⁴ Despite these large numbers of people, the capacity of revenue collectors to do their job and to supervise the activities of others is poor.
- Systems and procedures are inefficient and not amenable to analysis. They generally consisted of hand written journals and cash books.
- There was no standardization of reports. This, along with the poor availability of information generally suggests that mechanisms of internal management and external oversight, such as are in existence, do not operate properly.
- Computer systems were not prevalent in revenue collecting services, although sophisticated technological know-how and IT capacity was frequently encountered, even in the informal markets of Juba, Yei and Kajo-Keji. There seems to be little or no application of this widespread skill to the public service.
- Security of money collected is very poor. Transfer of money from branches to central authorities was often done in private vehicles, since there are no operating banks or other funds transfer mechanisms in many areas.
- The culture of efficiency and probity among officials needs to be improved.

4.39 It appears trivial to suggest that all these shortcomings, and more, must be remedied as a matter of urgency, both in order to improve revenues and to safeguard the legitimacy of the State. It is recommended that a strategy for thorough institutional reform be developed, which must include at least the following actions:

- Pass a law governing, in detail, the management of all public money. The Public Finance Management Act (PFMA) of South Africa is an appropriate model. In addition to governing expenditure procedures, this law must govern all revenue

²⁴ At one of the border posts, we were surrounded by 17 tax officials, who informed us that the vehicle traffic they are there to administer does not exceed 5 per day.

collecting activities, at any level, and for any purpose. It must also legislate a range of other matters, particularly supply chain management and the awarding of tenders. The role of elected officials, whether at local or state level must be specified.

- There must be an intense and sustained GoSS-wide campaign to train officials and politicians in the specifics of the Act, to give them the capacity to comply with it.
- Capacity building of revenue officials must be on-going, with frequent re-training and refresher programs, keeping them abreast of changes in legislation, regulations and tax rates.
- Consider creation of a Revenue Authority at the GoSS level which is sufficiently comprehensive and capacitated to manage the collection of major sources of tax across Southern Sudan. This will be a medium term intervention since the Taxation Act 2009 has already adopted the departmental mode for tax management at GoSS level even though a number of states have legislated their own Revenue Authorities. Creation of a Revenue Authority should be preceded by a thorough cost benefit analysis taking into account all alternative modes of tax collection in the context of the environment in Southern Sudan with low tax payer numbers and the likelihood of high set up costs, as was pointed out by the FAD Tax policy TA Mission in January 2009.
- State level Revenue Authorities should be closely affiliated to the GoSS revenue authority and would have local offices in each county in the state, to oversee and manage revenue collection and ensure that it complies with law and with the standards required to promote the legitimacy of tax collection.
- Empower and support the GoSS office of the Auditor General, and ensure that all public entities are subjected to an annual audit. Results of the audit must be communicated widely and pro-actively, and should influence career advancement and salary increases of officials.
- Create an Institute of Tax Professionals (Tax Collectors; Public Accountants; Internal Auditors), and task it to professionalize these activities, and play a role in ensuring that appropriate training is available, and that members receive proper accreditation. By this means, the practices emerging in the various local and state level revenue offices referred to in the Tax Act of 2009 can be unified and harmonized. Initially such an entity would be dominated by members from the public sector but could evolve over time into effective institutions regulating both public sector and private sector professionals.
- It is likely that “informal” tax collectors will be a part of the system for an extended period of time, as they are in many other African countries. A system of coupons can be devised, as described above, allowing approved individuals to be involved in properly regulated and controlled sale of tax coupons. Such agents, along with tribal leaders at Payam and Boma level must be drawn into the administrative net by compulsory training and accreditation. They must be associated with the professional body of tax professionals and subjected to a GoSS wide code-of-conduct.

4.40 Creation of a communication and record keeping infrastructure. Pay special attention to records management and the accounting of revenue collections. Create an action plan for carefully sequenced and graduated access to computers. Given the lack of conventional communication infrastructure, including roads and mail, heavy reliance has to be placed on electronic communication which is already available via satellite in the office of each of the Governors of the States. This will be especially important for jurisdictions which operate across the three levels of government like GoSS and to some extent the state governments. In the case of local government taxes a robust manual system of tax accounting

is key for higher levels of accountability particularly to local stake holders. Hasty computerization even prior to first getting the manual systems in order and clarifying the systemic linkages would be unproductive. The provisions of computers should be very selective and sequenced with capacity development of the staff and the formulation of reporting and monitoring guidelines and should focus on information gathering and recording activities initially.

- An HR Training and Development Plan for enabling officials to use the IT infrastructure should be formulated and implemented. It is anticipated that such training, like all IT training will be highly sought after by government officials and private citizens. Conduct a serious registration campaign, to register all potential tax payers. Registered tax payers must be required to display their certificate, and to produce recent tax clearances when engaging in any official business, such as submitting tenders.
- An anti-corruption strategy must be drawn up to ensure that all elements of government have in place processes to prevent corruption, to detect its occurrence, to investigate reported cases and to resolve such incidents by prosecution, civil recovery, disciplinary actions and other means. An awareness campaign must be conducted, endorsed and led by the highest level of government and officials.

4.41 These steps will assist in improving all the administrative ratios: coverage, assessment, and collection.

Summary of proposed Actions

4.42 A number of recommendations have been proposed in the areas of regulatory reform (clarification of revenue assignments), tax simplification, tax administration and institutional development. The table below attaches a time dimension to these recommendations and the manner in which they can be sequenced.

Table 4.3: Matrix of Proposed Actions

	Short Term	Medium term	Long term goals
Step 1. Revenue Assignment	Resolve existing inconsistencies and overlaps: Excise, Gibana	Conduct a thorough Review of revenue assignment to Goss, States, Counties and Payams.	Establish a periodic, consultative review process as an integral part of constitutional development.
Step 2. Simplification	Create a short list of tax categories: Income, Business, Property, Consumption, User charges Begin a thorough taxpayer registration process for each category. Eg. Census of businesses, cadastre of property. Stipulate and implement acceptable assessment collection methods for each category. Produce and disseminate an	Begin to consolidate each tax category. Implement a business tax, based on a number of assessment methods. Implement a simplified property tax, based on modified land area. Roll out services, with properly formulated pricing policies.	Introduce a VAT, and phase out consumption taxes. Establish a value based property tax. Regulate the pricing and financing of public utilities and services.

	authoritative reference for current rates. Outlaw the use of any other rates list.		
	Clarify responsibility for ground rents and royalties	Provide GoSS policies for the exploitation of natural resources.	Regulate the exploitation of natural resources
Step 3. Administration	Provide specific regulations on the management of public money.	Pass laws on the regulation of public money	Establish institutions to enforce the laws and regulations.
	Constitute a formal working relationship (Inter Governmental Committee or Working Group) between the state level revenue authority and GoSS for effective coordination and cooperation.	Create a Revenue Authority at GoSS level for the collection of all major sources of revenue with close association and institutional links to the state Revenue Authorities	
	Begin training officials on the management of public money.	Establish on-going training for revenue officials and politicians.	Create an institute of revenue collection which will oversee training and education.
	Register all collectors, informal or formal.	Specify minimum qualifications for revenue officials.	Deregister or phase out unqualified officials
	Institute annual audits	Monitor progress with issues identified by audits	Bring disciplinary or criminal actions against non compliant officials.
	Create a simplified reporting framework, and means of reporting, making use of existing communication technology: Internet.	Extend and expand the official channels of reporting and communication.	Establish a fully fledged database system
	Develop an anti corruption strategy at GoSS level.	Develop state and local anti-corruption strategies and implementation plans.	Monitor the progress of anti-corruption.
	Begin immediately with vigorous communication on every aspect of revenue.	Develop and implement a communication strategy	Continuous communication, and monitoring of results.

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