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How Effective Fiscal Federalism in Conflict Resolution in Sudan

By:

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Acronyms

BOSS	Bank of Southern Sudan
CBOS	Central bank of Sudan
CPA	Comprehensive Peace Agreement
DPA	Darfur Peace Agreement
ESPA	Eastern Sudan Peace Agreement
FFAMC	Fiscal and Financial Allocation Monitoring Commission
GDP	Gross Domestic Product
GNU	Government of National Unity
GOSS	Government of Southern Sudan
NRF	National Revenue Fund
SPLM	Sudanese People's Liberation Movement
WAS	Wealth Sharing Agreement

Abstract

In an attempt to put an end to the conflicts that prevailed in Sudan for long time, three different peace agreements were signed during the period 2005 – 2007. The first is the comprehensive peace agreement (CPA) that ended the north-south armed conflict, the second is the Darfur peace agreement (DPA) which meant to settle the conflict in Darfur region, the third is the East Sudan peace agreement (ESPA) to resolve the conflict in the Eastern part of Sudan.

A major pillar of these agreements is the wealth sharing arrangements (WSA). These WSA provide a model for fair and equitable distribution of financial resources between the central government and the states (regions) and they rely heavily on the principles of fiscal federalism.

The adopted system of fiscal arrangement proved to be fairly effective in transferring substantial resources to the concerned states. States transfers account for about 4% of GDP on average during the period 2005 and 2007. The system also marked a positive move in strengthening the intergovernmental fiscal relations. There are some obstacles that confront the implementation of this system which might reduce its effectiveness in eradicating the symptoms of conflict. The system depends heavily on the flow of oil revenues which are unpredictable and exhaustible. The system also is confronted with weak institutional capacity at the state level. Without strong institutional arrangement and efficient monitoring and evaluation, poor benefits are going to be achieved out of these resources. There should be robust fiscal reforms mainly in the area of expenditure control and cash management if a sustainable transfer system is going to exist.

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1. Background:

The republic of the Sudan is an independent, sovereign state which has a federal system of government in which power is effectively devolved. Responsibilities are distributed between the national and other levels of government according to the provisions of the constitutions. Since independence in the fifties, Sudan started to suffer internal conflict in the South of Sudan. Conflict also erupted in other regions at latter periods in Eastern of Sudan and in western of Sudan (Darfur area) and in the Nuba mountains (Southern Kordofan). One of the common factors in the eruption of these conflicts is the state of underdevelopment and the state of discontent among some of the rural communities in these areas. Lack of development and the poor provision of basic services inadequate development process were stated as some of the main causes of this armed conflict . Therefore, it became clear to the government that any peace negotiations should address the question of underdevelopment that led to these conflicts. Allocating resources to finance development is a genuine demand from the side of the armed movements and this demand found support from a wide range of persons and institutions who took part in the peace negotiations.

By combining both political federalism and fiscal federalism, Sudan started to put in place fiscal arrangements that were supposed to assist in putting an end to these conflicts and provide direct support to the peace building process. These fiscal arrangements are centered around creating a system of intergovernmental financial transfers whereby the national government transfers financial resources to the government of different states. The state governments take the responsibility of spending these resources to finance development projects and activities including the provision of basic services.

The objective of this paper is to investigate the effectiveness of this intergovernmental transfers in calming down the tendencies of conflict eruption and support the peace building process. The paper is meant to provide policy advice based on the current practice of transfer system. The paper is organized along the following sections: section two gives a brief description of the significance of fiscal decentralization and the role that intergovernmental transfers can play, section three highlights the fiscal components of the wealth sharing agreements which were signed between the central government and the armed movements, section four describes the nature of the current fiscal arrangements that were adopted by the government of Sudan to adhere to the various wealth sharing agreements and proposes a simple rules-based method of calculating these transfers. Section five highlights the challenges and the constraints to the system. Section six suggest some policy changes to reform and improve the system . Conclusion is given in section seven.

2. The significance of fiscal decentralization and intergovernmental transfers:

Promoting fiscal decentralization will assist in achieving multiple objectives as improving efficiency and better responsiveness to local conditions that will contribute to improving the well being of the rural communities (Tanzi 1996). Another objective is to highlight key policy options for addressing the fiscal and financing constraints affecting the service delivery by state governments.

It is of crucial importance that the national governments should fully define the institutional arrangements necessary to guarantee a reliable fiscal decentralization and effective systems of revenue sharing between the central governments and the state governments (Alhiraika 2007, Ehtisham 2004). It is hypothesized that while regional or local authorities rely always on transfers from the central government, their effectiveness in planning and service delivery depends crucially on the nature of the system of transfers and on their ability to mobilize own-revenue including own tax revenue, borrowing from domestic financial capital markets and public-private sector partnership.

The transfer systems or the intergovernmental systems that exist between the central government and the state or regional governments in a post conflict country play a crucial role in financing various activities at the states. These transfers could be well used in financing various activities that could heal the wounds of conflict.

Intergovernmental transfers has a role in supporting regional stabilization and equalization. Such that they correct for fiscal deficits at the regional governments specially when regional expenditures levels are two high relative to their levels of own resources and revenues. Also they may be used to reduce disparities among regions and may be used to insure against asymmetric shocks. They could also be used as a tool to provide for fiscal capacity equalization which involves transfers from regions with high per capita revenues and low per capita expenditure needs to those regions with low per capita revenues and high per capita expenditure needs. In such case these transfers will enable regional governments to provide comparable levels of own revenue collection. Although there is a considerable variations among countries in the importance of the roles played by transfers, countries design these transfers according to the objectives of their development strategy. Some countries adopt these transfers systems to redistribute income from rich to poor regions, others apply transfers systems to provide insurance against asymmetric shocks such as devastating floods or crop failure or livestock market failures. In most cases these transfers account for the majority of the local governments resources.

Intergovernmental transfers systems include:

1. The sharing of tax revenues between the central government and sub-national governments.
2. Financial subsidies provided by the central government to sub-national governments.
3. The sharing of the oil revenues between the central government and the oil producing areas.

Transfer systems suffer from different weaknesses that may lead them to be less effective: There are institutional deficiencies and technical deficiencies which will impact the design and the operation of these systems . They are designed primarily to support operating expenses and rarely to support acquisition of real assets. If these transfers are substantial then they impose dis-incentive hazard on the sub-governments and discourage the enhancement and mobilization of local revenues. They provide unpredictable and uncertain flow of funds. Few of the transfer systems work to develop a market-based credit system.
There is a sizeable collection of literature on intergovernmental transfer systems in developing countries, but relatively little has been written on the subject of transfers used as a tool for consolidating peace building process in conflict and post-conflict countries.

2. Wealth sharing agreements: Their Fiscal components:

Since 1989 Sudan started to negotiate with the various armed movements in the South of Sudan followed by negotiations with the armed movements in the eastern of Sudan and in the west. The government was successful in reaching peace agreements with the Sudan People Liberation Movement (SPLM) in Nairobi, Kenya in 2005, and with the armed movements in Darfur in Abuja, Nigeria in and with the armed movements in the east of Sudan in Asmara, Eritrea in 2006.
Although a comprehensive peace agreement is not reached yet since not all the armed movements signed the peace deals, but what has been achieved so far is a necessary step to mark the beginning of solid peace building in entire Sudan but it is not sufficient.
An important complement to the signed three peace agreements is the wealth sharing agreements with their various fiscal and economic clauses.
The different wealth sharing agreements meets in the points that the wealth of Sudan shall be looked at as a composure of natural and

human resources, historical and cultural heritage, financial assets including credit and public borrowing and donor assistance and grants. It also encompasses all the means, institutions, policies and opportunities that contribute to the generation and distribution of wealth. This wealth should be utilized to achieve economic development in Sudan with the aim of poverty eradication, guaranteeing equitable distribution of wealth, ensuring reasonable quality of life, dignity and good living conditions for all the citizens.

Wealth is dynamic and the generation and distribution of wealth are critically affected by government policies, programs and institutions. Hence the definition of wealth extends to the means, institutions, policies and opportunities that affect the creation and distribution of wealth in addition to the physical resources and government revenues. A key dimension of wealth is fair participation of the various stakeholders in decision-making process that affects the generation of wealth and allocation of resources.

The authorities recognizes that to get rid of the cumulative effects of underdevelopment compounded by the destructive effects of the conflict in Sudan, it is essential to establish an effective, transparent and accountable system for the distribution of wealth. In this regard, effective and strong measures should be taken to remedy the situation through affirmative action in economic policy.

Negotiations on wealth sharing took considerable time and effort before reaching conclusions on how to implement a fair and equitable intergovernmental transfer system.

Each of the three agreements has a wealth sharing understanding and components. In brief, the fiscal components of each agreement could be summarized below:

1. Naivasha wealth sharing agreement: This agreement was signed in Naivasha, Kenya on January 2005 between the Government of Sudan and the Sudan people's Liberation Movement. It is a major part of the comprehensive peace agreement (CPA). A complement to the wealth sharing

agreement is the agreement on the implementation modalities of the framework . These two documents set out a comprehensive scheme for sharing common wealth so as to enable each level of government to function and to ensure the quality of life, dignity and living conditions of all citizens without discrimination. This wealth sharing arrangements rests on the following principles:

a) The wealth of the Sudan shall be shared equitably.
b) All parts of Sudan are entitled to development and wealth sharing.
c) Revenue sharing should show a commitment to the devolution of power and decentralization of decision-making.
d) Development will be transparent and accountable.
e) Best-known practices for utilizing natural resources will be followed.

A distinctive feature of the wealth sharing under the CPA is the sharing of oil revenues.

The CPA defines a national system for the management and sharing of the entire oil revenues in Sudan. A national petroleum commission was established to formulate and monitor public policies and set guidelines for the oil industry including developing strategies for the future development of the petroleum sector. The wealth sharing agreement developed a formula for sharing the oil resources as follows:

a) 2% of oil revenue will go to the oil producing states in proportion to their output.
a) The remaining net revenue will be distributed as follows:
    i. 50% of the net oil revenue from the wells

developed in the south of Sudan will go to the government of Southern Sudan.

ii. 50% of the net oil revenue from oil wells developed in southern Sudan will go to the central government and the governments of the states in northern Sudan.

The national government, the government of Southern Sudan and the states can develop and collect revenues from various sources including taxes, licenses, service charges and loans. State governments and the government of southern Sudan should have exclusive control of income collected under their own taxing powers. Some institutional arrangements were created to support the allocations of these resources. These arrangements include:

a) The establishment of a national revenue fund (NRF). This fund should host all the collected national revenues and will have an account in the Central Bank of Sudan (CBOS) and administered by the Ministry of Finance and National Economy.
b) An special account in the Bank of Southern Sudan (BOSS) was opened to host all the revenues collected by the national government in the south of Sudan. 50% of these revenues should be transferred to GOSS and the rest will be deposited in the (NRF).
c) A Fiscal and Financial Allocation and Monitoring Commission (FFAMC) was established by the government of national unity (GNU) and government of southern Sudan (GOSS). The main

function of this FFAMC is to ensure fairness and transparency in the allocation of nationally collected funds to GOSS and to the governments of the states. The FFAMC is considered the most important institution that will enhance the implementation of the CPA clauses.

d) The southern Sudan reconstruction and development fund. This fund receive resources from GOSS and other donors and the funds utilized mainly for the reconstruction, resettlement and re-integration and development in southern Sudan.

e) The national reconstruction and development fund: This fund was established by the federal ministry of finance and national economy and the joint national technical team (JNTT) for the purpose of assisting the war-affected areas. 75% of the resources of this fund will be utilized for the benefit of the war-affected areas in the Nuba Mountains (Sothern Kordofan), and the Blue Nile states and the remaining 25% will be allocated to the other least developed states in order to reduce state or regional disparity.

b)Abuja Agreement:

The conflict in Darfur is over natural resources mainly water and pastures. Given the lack of readily exploited oil or mineral resources within Darfur region, the Darfur agreement calls for direct financial transfers from the GNU to the three states of Darfur. The major wealth sharing agreement provisions consits of the following:

a)A Darfur Reconstruction and Development Fund (DRDF) is established and GNU should contribute an initial amount of US$ 300 million in 2006 and will continue to contribute US$200 per annum during the years 2007 and 2008. The

DRDF shall solicit, raise and collect funds from domestic and international donors and disburse such funds for the resettlement, rehabilitation and re-integration of the internally and externally displaced people and it should also address the past development imbalances and provide adequate and sustainable development strategy for Darfur. The fund also should develop strong monitoring and evaluation system and it should function in a transparent accountable way.

b. A joint assessment mission supported by multilateral organizations, similar to the one for the South of Sudan , should determine the development and reconstruction needs and should adjust the sums allocated to the DRDF.
c. A fiscal and financial allocation monitoring commission is established. This commission should manage the financial transfers from the GNU to Darfur three states[1]. It reports to the national legislature but its definitive form is not yet known. In the meantime, the wealth sharing agreement establishes a panel of experts to develop a formula for allocation of funds from national revenue account to darfur.

[1] The three states of Darfur are Northern Darfur state, Southern darfur state and western Darfur state

d. The wealth sharing agreement of Darfur also provides for a compensation commission to develop and adopt mechanisms for reviewing and enforcing the commissions decisions. The GNU agreed to transfer US$30 million to cover these compensations. These compensations are mainly for the people who were affected by the conflict.

It is highly commendable that Abuja agreement stressed the importance of preserving the macroeconomic stability in the country. The agreement clearly states that the national macroeconomic policy framework provides an important vehicle for combating poverty and addressing the sense of marginalization in the Sudan during the post-conflict period. In that way the agreement called for the formulation of the macroeconomic policies in such a way that it should ensure the quality of life, living conditions and dignity of all the citizens in the Sudan are promoted without discrimination on grounds of geographical location, race, ethnicity, religion, language, political affiliation or gender. In this way, fiscal and monetary policies should be formulated to meet the requirements of sustained growth and equitable development as well as to increase access to international capital market.

The Abuja agreement specified the strategic objectives of Darfur states post conflict economic recovery and development as follows:

1. Integrating the economy of Darfur three states into the national economy.
2. Rehabilitate the basic services mainly access to

safe drinking water, education and health.
3. Eradication of poverty and creation of adequate employment opportunities.
4. Building of institutional capacities and developing of the human abilities that will improve accountability and governance.
5. Encouraging the development and production of alternative energy sources and addressing causes of environmental degradation.

A noticeable issue in the discussions of Abuja is that the armed movements combatants wanted greater financial commitment to compensate victims and wanted clearer and serious engagement of GNU to transfer wealth to Darfur. These demands increased the financial obligations of the GNU budget capacity and could only be met within a medium term program.

3.Eastern Sudan Peace agreement (ESPA):

The conflict in eastern Sudan also erupted as a result of the state of underdevelopment that prevailed in the region.

The Eastern Sudan Peace agreement (ESPA) was signed in Asmara, Eritrea in October 14, 2006. By signing this agreement an end was put to an ongoing conflict in eastern of Sudan. The fiscal arrangements that shape a major feature of this agreement is centered around two issues: The first is the direct transfers from the federal government to the eastern states. The second is the transfers to the Eastern Sudan Development Fund.

The FFAMC should assure the proper implementation of transferring the assigned amounts to the eastern state.

The eastern Sudan reconstruction and development fund (ESRDF) should serve as the principal organ institution in the planning, monitoring and follow up of the reconstruction and development program. The ESRDF should receive from the central government the following allocations : USD 100 million as an initial payment in 2007 and then USD 125 million in the years 2008, 2009, 2010 and 2011 respectively.

4. The current nature of fiscal transfers:

It may be well known that the design and adoption of an intergovernmental transfer system is highly influenced by non-economic factors such as political, social or cultural factors. Therefore, the purely economic analysis of the system of transfers is with limitations (Ter- Minassian 1997). In that sense the adoption of a system of intergovernmental transfers serves multiple purposes specially if these transfers were meant to resolve armed conflicts and sustain peace processes.

To fully adhere to the implementation of these agreements, the federal Ministry of Finance and National Economy adopted a system of intergovernmental transfers to ensure that the different regions of Sudan will get their share out of the exploited wealth and exercise their fiscal freedom in putting the transferred resources in best use. These transfers were made out of pool of national revenues deposited in the National Revenue Fund (NRF). The main sources of revenues to the NRF are the oil proceeds, direct and indirect taxes and any other source of revenues.

The Ministry of Finance transfer to FFAMC substantial resources mandated by the various agreements. The FFAMC adopt certain criteria to allocate these resources . The FFAMC should monitor the horizontal allocations among the states and vertical allocations along the three levels of the government.

We can observe three categories of intergovernmental transfers in Sudan, these include:

1. conditioned current transfers**:** In this category the central government enforce certain rules and guidance over the recipients by specifying certain spending arrangements. An effective advantage of this system is its ability to provide protection to certain vulnerable groups and assist certain economic purposes. Conditioned transfers consist of various components that include:
   a) Transfers to cover wages and salaries of national institutions, mainly the wages and salaries of the police, higher education employees and the cost of recruitment of the graduates at the states, and the judiciary.
   b) Transfers to cover the purchases of goods and services for the police, higher education, and wages and salaries of the judiciary employees at the state levels.
   c) The transfers of social subsidy to meet social requirements of certain vulnerable groups. In sense these transfers provide direct support to poor students in the states. They cover the cost of feeding the prisoners waiting at all the prisons across the states. Meet the cost of free health care and health insurance. Meet the cost of free medical treatment and care for the children. Covering the health insurance of certain categories of the people.
2. Unconditioned current transfers: Here the recipients exercise their powers over the money they receive. This category comprises transfers to: a) Government of southern Sudan. B) Transfers to oil producing states, c) Transfers to the three areas (Abyie area, Blue Nile area

and Nuba Mountains area), D) Compensation for the states which were affected by the elimination of the agricultural taxes[2], E) VAT transfers, F) Transfers to the reconstruction and development funds for the war affected areas.

Table : ( ) : Evolution of conditioned and unconditioned transfers

Item	**2005**	**2006**	**2007**
C.C.T	501.7	512.9	705
U.C.T	1130.9	2199.8	2246.8
Devlp. Transf.	537	866.5	1090.3
Total	**2169.6**	**3579.2**	**4042.1**
Nominal GDP	66714	79046	93200

*Source: Ministry of Finance and National Economy- Sudan
** Figures are in million Sudanese pounds (one US dollar is equivalent to approximately 2 Sudanese pounds).
*** C.C.T. : conditional current transfers.
**** U.C.T.: Unconditional current transfers.

3. Transfers to state development. This category comprises development projects financed by local currency and by foreign loans and classified under acquisition of non-financial assets in the national budget. It include various development projects that stretch across Sudan. The main constraints that face state development are: a) Donors did not honor their pledges , b) there is a considerable delay in identifying the development projects.

The other channel of fiscal transfers are the allocations made to the various development and reconstruction funds. The wealth sharing agreements called for the establishment of the following Funds:

[2] A policy of agricultural tax exemption was adopted recently to give more incentives to small farmers.

1. Southern Sudan Reconstruction and Development Fund (SSRDF).
2. Darfur Reconstruction Development Fund (DRDF).
3. Eastern Sudan Reconstruction and Development Fund (ESDRF).
4. National Reconstruction and Development Fund (NRDF)

Table : (2) : Allocations of the development and reconstruction funds

Item	**2006**	**2007**	**2008**
SSRDF	300	300	-
DRDF	300	200	200
ESDRF	-	100	125
NRDF	250	250	125
Total	850	850	450

- Source: Ministry of Finance and national economy (Sudan) and the wealth sharing agreements.
- Figures are in million US dollars.

Table No. (1) above shows the transfers which were mandated by the various wealth sharing agreements during the period 2005 – 2007. The total intergovernmental transfers totaled on average 4% of GDP. This allocation is considered to be substantial by all proportions. There is a tendency to increase the unconditional transfers more than the other allocation. Unconditional transfers represents 57% of total transfers on average during the period under consideration. Unconditional transfers are very difficult to monitor by FFAMC since the FFAMC has no authority to put guidelines for utilizing these resources and to assess their impact on the grass roots.

Transfers to development represents 25.4% on average of total transfers. This category of transfers could be considered as conditional in sense that it is directed to finance specific and certain capital expenditure activities. Although this category is assumed to have the biggest allocations of transfers, but in reality their allocations were not to the expected levels.

The conditioned current transfers represents only 17.6% of the total allocations. A drawback of this allocation is its direct support to cover wages and salaries of certain groups of employees and its support of current expenditure. This category of transfers will boost consumption at the state level and will add to the pressures on the level of prices.

A balance should be drawn among the three categories of transfers in order to ensure that vulnerable groups are not subject to marginalization and all the community can taste the dividends of peace on equal basis in terms of adequate service provision, adequate infrastructure and conducive living environment.

In table (2) we can observe a substantial resources were allocated to the various reconstruction and development funds. For these allocations to be effective in realizing development at the state levels and in the war affected areas, efficient expenditure planning is required to avoid wasting of these resources.

The strengths of this transfer system could be reflected in the point that it is well integrated within the budgetary process and well defined along the budget classification.

These transfers are transparent when allocated and when transferred and monitored. Beneficiary states participate at different levels of this system.

For the conditioned transfers, the state institutions knew in advance how much their allocations are. For the unconditioned transfers, the state governments knew in advance how much is the volume of their allocated transfers during the year. The advantage of this priori information is that the state governments will be able to plan their priority expenditures and how to allocate the budgeted transfers to finance their activity.

On the basis of these strengths, GOSS, Darfur and East were able to get substantial financial resources which were considered to be adequate to start various development activities and programs that could :

a) Reduce disparity among regions and the states.
b) Create employment at the regional and state levels and hence will reduce poverty.
c) Soften the severe impact of war and the rural communities will feel the dividends of peace.
d) Enable the regions and the states to posses adequate infrastructure that will stimulate and attract local and foreign investment.

In order to make the above clauses reality, there should be strong commitment from the sub-regional governments to put the received transfers in efficient use. Another strong commitment is required from the government of national unity towards timely implementation of the mandated transfers.

To be more effective, the adopted system of current transfers should be moved towards more rules-based mechanism instead of negotiated transfers. This will allow much better redistribution of resources among regions and better resources allocation within the economic activities.

We can distinguish four types of formulas for equalization transfers:

1) There are the formulas that consider revenue capacities in as well as expenditure needs at the regions levels.
2) There are those formulas which consider the equalization of revenue capacity only.
3) There are the formulas which were based on some expenditure needs indicators.
4) There are formulas which distribute transfers on an equal per capita basis.

Since all armed movements in the conflict areas are calling for equal share of the available financial resources, then we can consider the first type of formulas as the most sensible mechanism of transfer.
Following earlier studies, (Ahmed et al 2004), a general model for intergovernmental transfer could be suggested . A simple method of calculating the transfers to each beneficiary state could be illustrated to show how to implement an equalization transfer system with a minimum data requirement. Although full equalization is not easily attainable, but this formula could be looked at as a mechanism for the redistribution of fiscal resources.

Let :

$$TR_i = (N_i - C_i) - OTR_i \text{..} (1)$$

where TR total transfers to the state, N_i is the expenditure needs of the *i*th state, and

C_i is the revenue capacity of the *i*th state, The value $(N_i - C_i)$ measures the fiscal deficit in the *i*th state. OTR_i represents other transfers that the *i*th state receives from the central government. The other transfers embody the share of the state from the oil revenues.

This formula states that the central government transfer will cover the fiscal deficit in the ith state, i.e. the difference between the expenditure needs and the revenue capacity.
The transfers that the total states can get should be adjusted proportionally according to the volume of the revenues available in the NRF such that

$$ATR_i = \left(\frac{TT}{\sum TR_i}\right).TR_i \text{..} (2)$$

where:

ATR_i is the actual transfers that the ith state receives, *TT* is the total size of the transfers.

There are two issues which of important considerations when making the calculations of the transfers by using the revenue capacity expenditure needs formula:

a) The first issue is how to measure the revenue capacity of each state? The revenue capacity is defined as the ability of the state government to raise revenue from its own resources. In many developing countries, this capacity is measured by using data on major tax bases and tax rates applied within the boundaries of that particular state. Another method to assess the revenue capacity is by employing some income or output indicators. Frequently used indicators comprise: a) Gross domestic product calculated for the particular state, b) the disposable personal income of the residents in each state, c) Total purchases and sales of commodities in the state.

b) The second issue is how to measure the expenditure needs? This could be done by formulating an expenditure plan that reflects the costing and estimates of the state government development strategy objectives. Seven categories are most likely to comprise these expenditure needs for a typical conflict affected state or region. There are expenditure needs for education, health service provision, social welfare, government administration, securing law and order, rehabilitation of infrastructure and securing safe drinking water.

5. Challenges and constraints of the system:

The adopted system of intergovernmental transfers has many strengths and benefits, but it also faces many challenges and obstacles, if not corrected, they will impact the effectiveness and the efficiency of implementing the transfer process and hence they will threat the peace building process. The system also assign too much responsibilities to the state governments and poses new challenges for public expenditure management by the sub-national governments. These challenges are related to :

1. The need to co-ordinate the budgetary policies of the national and the sub-national governments in order to ensure the full consistency with the macroeconomic objectives of all the Sudan.
2. There is a need to promote the degree of responsiveness of the sub national governments to the needs and requirements of the citizens in both the allocation of budgetary resources and the delivery of goods and services assigned to them in such an efficient and cost effective way.
3. There is strong need to have in place sound financial management of the operations of each level of government.
4. Each of the three agreements supposed to reflect the particular development problems of that region and should propose a guideline to development. The south is endowed with oil and livestock. Darfur is endowed with livestock and agricultural production. Eastern of Sudan is endowed with agricultural and livestock. The main challenge is to gear these resources to the development of the endowed resources of each region and provide employment for the population and hence contribute to poverty reduction efforts.
5. Developing the institutions in these regions stands as a serious challenge. Efficient institutions should back suitable policies to develop the economies of the conflict regions.

6. An important element in building these institutions and monitoring the implementation of the various clauses of these agreements is the human development through training and education. Education is a national issue. The central government should increase investment in education and invest in raising the management capacity at the regional level to ensure efficient resource management. Most of the conflict regions and war affected regions suffer from brain drain and in some regions there are acute shortage of well trained human capacity.
7. The three agreements should be well integrated within a macroeconomic framework that cares for the stabilization of the national economy and aims at high positive economic growth. Integrating the three agreements is not an easy job. The economies of the states are not well organized and measured, the contribution of the regional economies into the national economy is not well measured. Regions and the states has different levels of monetization . A detailed account of the economies of the various states and regions in terms of the levels of GDP, consumption, private sector contribution and financial intermediation is an essential task.
8. The financial components of the wealth sharing agreements were based on the volume of the national revenue flow. The oil revenue constitute more than 70% of the resources. The problem here is that oil prices are volatile and unpredictable beside the fact that oil is an exhaustible resource which will wither away in a finite time. This will complicate long run expenditure planning and prioritization . In the short run, these resources will be put to finance short term obligations but will increase the level of current expenditure rather than increasing capital

expenditure. Current expenditure may not be productive, hence there is the possibility that the recipient states may not benefit from these transfers in real terms and most likely will put pressure on the overall price level and may lead to inflation which will impact the stability of the economy.

5. Suggested issues to improve the system:

The beauty of any agreement rests in the ability of the parties to honor its clauses as ideal as possible, If fiscal transfer designed well, then it will promise benefits of a genuine center-region relationship in basic service delivery, poverty reduction and the accomplishment of broader national macroeconomic objectives of economic stability and positive economic growth and ultimately will put an end to the tendencies of the emergence of armed movements. If, on the other hand, weakly designed will lead to weak governments ability to provide basic services, collapse of the social safety nets and emergence of corruption and most probably the re-eruption of the conflicts.

The essence of the system depends on the scope of the reforms incorporated and implemented. Given the current system of transfers, many reforms could be suggested to increase the efficiency and the effectiveness of the system:

1. The rules and the procedures of the system should be flexible enough that the parties should take frequent assessment and evaluation and adopt changes as necessary.
2. Some of the unconditioned transfers should be conditioned. This is necessary to ensure that at least a minimum level of development is achieved. There should be concentration on the provision of the basic needs and

services such as health, basic education and access to safe drinking water.

3. An important element in the effectiveness of this system is the efficient management of the bulk of the resources. The FFAMC should allocate resources to build human capacity at the state level to improve monitoring and evaluation . Efficient monitoring and evaluation will enhance the effectiveness of the transfer system in achieving the development goals and objectives.
4. The bulk of the resources should be modeled within a national budgetary macroeconomic framework. The transfers also should be built within a medium term national development strategy .

5. **Conclusion:**

The signed three peace agreements to resolve the conflicts in southern Sudan, western and eastern of Sudan forced the GNU to adopt fiscal arrangements that embody a system of intergovernmental transfers. The main objective is to allocate and transfer adequate resources to these conflict areas in order to realize genuine development in these regions and mobilize human resources in a way that will consolidate peace building, reduce poverty and increase the standard of living among the rural communities through the provision of basic services.

The system proved to be quite effective in availing substantial resources to serve these objectives and the system empowered the state governments to exercise some degrees of fiscal freedom in sense that the state governments will have more power to plan and allocate various and diverse fiscal resources among different expenditure items.

The current transfer system provides the necessary but not sufficient elements of effective fiscal arrangements that could

serve as an effective arm in putting an end to the armed conflicts in Sudan. It will redirect substantial resources for the benefit of the people of Sudan.
More reforms were required to strengthen the system specially in the areas of fiscal and financial management, expenditure control and cash management.

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