Fiscal Accountability and Sustainable Trade (FAST) Assessment of Public Financial Management and Domestic Resource Mobilization in Sudan
ACKNOWLEDGEMENTS

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CONTENTS

ACKNOWLEDGEMENTS........................................................................................................I

ACRONYMS .......................................................................................................................... V

EXECUTIVE SUMMARY ...................................................................................................... VII

The Rationale and Scope for Donor Support to Reforms ............................................................... vii
The Transitional Government’s First Budget ................................................................................ vii
Major Findings .......................................................................................................................... viii
Guide to this Executive Summary .............................................................................................. viii
Recent Developments in Sudan .................................................................................................. ix
The General State of Sudan’s PFM System ................................................................................... ix
The DRM Space in Sudan ........................................................................................................... xi
Next Steps ...................................................................................................................................... xiv

I. INTRODUCTION .............................................................................................................. 15

Objective ......................................................................................................................................... 15
Guide to this Report ......................................................................................................................... 15
The National Political Economy Landscape ................................................................................... 15
Macro-Economic and Fiscal Context ............................................................................................... 18
Need and Appetite for Reform ......................................................................................................... 20
The Rationale and Scope for Donor Support to Reforms ............................................................... 21

II. BUDGET FORMULATION AND IMPLEMENTATION ..................................................... 23

The Case for Engaging in Sudan’s Budget Space .......................................................................... 23
The Transitional Government’s First Budget ............................................................................... 23
The General State of Sudan’s PFM System ................................................................................... 25
Recent Reform Efforts ...................................................................................................................... 28
Past, Ongoing, and Future Support from Development Partners .................................................. 28
Potential Areas for Additional Donor Support ............................................................................... 29
Assess, Reorganize, and Build Capacity of the MoFEP ................................................................ 30
Strengthen Budget Preparation Process ...................................................................................... 31
Expenditure Control ....................................................................................................................... 32
Reform Procurement ...................................................................................................................... 34
Bolster Capacity for Legislative Oversight ..................................................................................... 35
Improve the Level of Fiscal Transparency .................................................................................... 35
Enhance Public-Private Dialogue among Government, CSOs, and the Private Sector .................. 36
Longer-term Initiatives under a Future Project ............................................................................... 36
Risks, Consequences, and Mitigation .............................................................................................. 37

III. THE DRM SPACE IN SUDAN ......................................................................................... 39

The Case for Supporting Sudan in DRM ....................................................................................... 39
An Overview of the Tax System ..................................................................................................... 39
Revenue Performance in Sudan ...................................................................................................... 40
Benchmarking the Tax System ....................................................................................................... 42
Recent Reform Efforts .................................................................................................................... 43
### ACRONYMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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</thead>
<tbody>
<tr>
<td>AFD</td>
<td>Agence Française de Développement</td>
</tr>
<tr>
<td>AfDB</td>
<td>African Development Bank</td>
</tr>
<tr>
<td>AU</td>
<td>African Union</td>
</tr>
<tr>
<td>BOD</td>
<td>Board of Directors</td>
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<tr>
<td>CABRI</td>
<td>Collaborative Africa Budget Reform Initiative</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>CG</td>
<td>Commissioner General</td>
</tr>
<tr>
<td>CIT</td>
<td>Corporate Income Tax</td>
</tr>
<tr>
<td>COVID-19</td>
<td>Coronavirus disease 2019</td>
</tr>
<tr>
<td>CSO</td>
<td>Civil society organization</td>
</tr>
<tr>
<td>DB</td>
<td>Doing Business</td>
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<tr>
<td>DFID</td>
<td>Department for International Development</td>
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<tr>
<td>DRM</td>
<td>Domestic revenue mobilization</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FAST</td>
<td>Fiscal Accountability and Sustainable Trade</td>
</tr>
<tr>
<td>FCDO</td>
<td>Foreign, Commonwealth &amp; Development Office</td>
</tr>
<tr>
<td>FFC</td>
<td>Forces of Freedom and Change</td>
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<tr>
<td>FSR</td>
<td>Financing Self-Reliance</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross domestic product</td>
</tr>
<tr>
<td>GIZ</td>
<td>Deutsche Gesellschaft für Internationale Zusammenarbeit</td>
</tr>
<tr>
<td>HIPC</td>
<td>Heavily Indebted Poor Countries</td>
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<tr>
<td>IBP</td>
<td>International Budget Partnership</td>
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<tr>
<td>ICT</td>
<td>Information and communications technology</td>
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<tr>
<td>IDP</td>
<td>Internally displaced person</td>
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<tr>
<td>IIAG</td>
<td>Ibrahim Index of African Governance</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>INTOSAI</td>
<td>International Organization of Supreme Audit Institutions</td>
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<tr>
<td>LRA</td>
<td>Liberia Revenue Authority</td>
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<tr>
<td>MCD</td>
<td>Middle East and Central Asia</td>
</tr>
<tr>
<td>MoFEP</td>
<td>Ministry of Finance and Economic Planning</td>
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<td>MRA</td>
<td>Mauritius Revenue Authority</td>
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<tr>
<td>MSME</td>
<td>Micro, small, and medium enterprise</td>
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<tr>
<td>MTFF</td>
<td>Medium-term fiscal framework</td>
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<tr>
<td>NAC</td>
<td>National Audit Chambers</td>
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<tr>
<td>NTR</td>
<td>Non-tax revenue</td>
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<tr>
<td>OBS</td>
<td>Open Budget Survey</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Development and Cooperation</td>
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<tr>
<td>PBB</td>
<td>Program-based budgeting</td>
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<td>PEFA</td>
<td>Public Expenditure and Financial Accountability</td>
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<td>PFM</td>
<td>Public financial management</td>
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<td>PIT</td>
<td>Personal income tax</td>
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<tr>
<td>POA</td>
<td>Performance outcome areas</td>
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<td>PPD</td>
<td>Public-private dialogue</td>
</tr>
<tr>
<td>PRSP</td>
<td>Poverty Reduction Strategy Paper</td>
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<tr>
<td>SARA</td>
<td>Semi-Autonomous Revenue Authority</td>
</tr>
<tr>
<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>SDG</td>
<td>Sudanese Pounds</td>
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<td>SFSP</td>
<td>Sudan Family Support Program</td>
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<td>SIPF</td>
<td>Sudan International Partners Forum</td>
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<td>SMP</td>
<td>Staff Monitored Program</td>
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<tr>
<td>SOE</td>
<td>State-owned enterprise</td>
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<tr>
<td>SPC</td>
<td>Sudanese Petroleum Company</td>
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<tr>
<td>SSA</td>
<td>Sub-Saharan Africa</td>
</tr>
<tr>
<td>STC</td>
<td>Sudanese Tax Chamber</td>
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<tr>
<td>TADAT</td>
<td>Tax Administration Diagnostic Assessment Tool</td>
</tr>
<tr>
<td>TRC</td>
<td>Tax Reform Committee</td>
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<tr>
<td>TSA</td>
<td>Treasury Single Account</td>
</tr>
<tr>
<td>UBI</td>
<td>Quasi Universal Basic Income</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom of Great Britain and Northern Ireland</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
</tr>
<tr>
<td>UNICEF</td>
<td>United Nations Children’s Fund</td>
</tr>
<tr>
<td>USA</td>
<td>United States of America</td>
</tr>
<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
</tr>
<tr>
<td>USD</td>
<td>United States Dollar</td>
</tr>
<tr>
<td>USG</td>
<td>United States Government</td>
</tr>
<tr>
<td>VAT</td>
<td>Value added tax</td>
</tr>
<tr>
<td>VfM</td>
<td>Value for money</td>
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</tbody>
</table>
EXECUTIVE SUMMARY

The Rationale and Scope for Donor Support to Reforms

USAID, through the Fiscal Accountability and Sustainable Trade (FAST) project, commissioned this team to independently and objectively assess the feasibility of increasing support to economic reforms. Specific areas of support center around the budget process and domestic resource mobilization (DRM). This report presents the results of the assessment. The assessment addresses two main questions: (1) What is the strategic case for expanded donor intervention in the government budgeting space, and what are the options for engagement? and (2) What is the strategic case for expanded donor intervention in the DRM space, and what are the options for engagement? These two main questions are supplemented by specific questions which revolve around the following themes: context; current arrangements; existing weaknesses; likely political support; other developing partner initiatives; gaps that expanded donor support would fill; specific and feasible contributions that donors could make; and potential risks and mitigation measures.

The scope of work for this assessment aligns with the acclaimed strategy for financing self-reliance (FSR). The FSR strategy aims to support the achievement of “the conditions necessary to unlock and mobilize financing for development from several public and private sources.” The FSR framework comprises five pillars, three of which are covered by this assessment, namely: (1) DRM; (2) public financial management (PFM); and (3) fiscal transparency and accountability.

The Transitional Government’s First Budget

The Transitional Government enacted the 2020 budget in late December 2019. The budget projected revenues of SDG568.3 billion (US$12.63 billion), recurrent expenditures totaling SDG584.3 billion (US$12.99 billion), and capital expenditures of SDG58.0 billion (US$1.29 billion), resulting in an overall deficit of SDG73.0 billion (US$1.62 billion).

The functional sectors with the highest expenditure allocations were social protection; defense; economic affairs; and general public services. Almost half of the recurrent expenditure budget was allocated to social protection (see Figure ES1). To be clear, “social protection” spending is comprised predominantly of subsidies to fuel and wheat; indeed, wheat subsidies alone represented 46 percent of planned total government outlays. Budget allocations to the social sector, namely education and health, are minimal.

The initial 2020 budget estimates for revenue and expenditure exceeded the estimated outturns for 2019 by 244.8 percent and 184.6 percent, respectively. The initial budget could not be implemented; therefore, on August 9, 2020, the Transitional Government revised the budget. The government’s revised estimates factor in a fall in revenue (40 percent) and rise in expenditure, reputedly due to the COVID-19 pandemic and the devaluation of the currency.

1 This analysis is from December 2020 and may not be fully up-to-date with fast-breaking budgetary changes in 2021.
Major Findings

Sudan’s economy faces major obstacles, as the country suffers from declining living standards and economic imbalances that can lead to further social and political instability. At the heart of this situation is a weak public finance system.

The budget process, PFM, and fiscal accountability in Sudan are all weak. Specifically: (1) the macro-fiscal framework is not adequately utilized in budget planning; (2) budget formulation and execution are ineffective; (3) public procurement does not ensure value for money (VfM); (4) monitoring and reporting on the results of budget implementation are not timely; (5) public debt has reached unsustainable levels, indeed, the country is in default; and (6) systems for oversight do not function well.

When evaluated against the four characteristics specified in USAID’s strategy for FSR, DRM in Sudan is ineffectual. In particular: (1) the levels of revenue generated are very low; (2) the tax administration is perceived to be unfair and inefficient; (3) the tax base is narrow; and (4) tax evasion and leakages are substantial.

The government is aware of these problems and has communicated its intention to address them. Donors are providing assistance to Sudan to strengthen PFM and DRM, but the assistance is not fully articulated, somewhat scattered, and even when combined, falls far short of Sudan’s needs. The assessment team is therefore of the opinion that PFM cum DRM can be a viable path for donor support Sudan’s economic development and contribute to the long-term sustainable financing and delivery of essential services in the country.

Guide to this Executive Summary

The next sections summarize the team’s analysis of recent development in Sudan, recent reform efforts, PFM and DRM performance and shortfalls, and recommendations for next steps for international donor action.
Recent Developments in Sudan

Since independence in 1956, Sudan has been plagued by conflict; between 1958 and 2019, there were five military coups. Furthermore, apart from the 11-year period from 1972 to 1983, the North was at war continuously with the South. On July 11, 2011, following a referendum in which more than 98 percent of southerners voted to secede, South Sudan became a nation-state. In addition, Sudan’s human rights record and relations with the west deteriorated. As a result, the country’s economic situation was in dire straits; the distressed economy resulted in reduced incomes and increased poverty.

In April 2019, the Transitional Military Council replaced President Bashir in a military coup d’etat. Sudan is currently led by an 11-member Sovereign Council comprising five military personnel and six representatives from the protest umbrella Declaration of the Forces of Freedom and Change (FFC). Dr. Abdallah Hamdok, a former economist at the UN, serves as Prime Minister. His two priority areas are securing peace and economic recovery.

Sudan’s macro-economic challenges persisted after the revolution, forcing the government to declare a state of economic emergency on September 10, 2020. The economy continues to contract. Gross domestic product (GDP) is estimated to have declined by more than 8 percent in 2020. (IMF 2020e) The fiscal deficit (10.8 percent of GDP), arising from fiscal and external imbalances, has contributed to high inflation and the depreciation of the currency. The country has limited foreign exchange. Moreover, Sudan’s external debt (mostly in the form of public and publicly guaranteed debt) has been on the rise, estimated at 253.1 percent of GDP in 2020. (IMF 2020e)

Against this backdrop, Sudan remains one of the world’s least-developed countries. Poverty rates have been on the rise for several years. Recent projections indicate that poverty rates will increase from 14.2 percent and 47 percent of the population living on US$1.9 per day and US$3.2 per day in 2019 respectively, to 18.3 percent (on US$1.9 per day) and 53.5 percent (on US$3.2 per day) by 2023.

The General State of Sudan’s PFM System

A comparative assessment with other non-resource-rich sub-Saharan Africa (SSA) and Middle East and Central Asia (MCD) countries using two benchmarks; both Public Expenditure and Financial Accountability (PEFA) assessments and the results of the 2019 Open Budget Survey (OBS) indicate that Sudan’s PFM system is weak. Sudan underperformed on most PEFA indicators and has overall the most “D” scores out of the six countries shown in Figure ES2; it has no A scores.

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2 The authors use MCD countries for comparative basis to be consistent with relevant reports of the IMF.
Table ES1 presents the results of the 2019 OBS for five select SSA and MCD countries. Again, Sudan’s performance is very low. It only performs better than Qatar, Comoros, Venezuela, and Yemen.

Table ES1. Open Budget Survey Results for Select Countries, 2019

<table>
<thead>
<tr>
<th>Country</th>
<th>Transparency score out of 100</th>
<th>Rank out of 117 countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgia</td>
<td>81</td>
<td>5</td>
</tr>
<tr>
<td>Ghana</td>
<td>54</td>
<td>44</td>
</tr>
<tr>
<td>Jordan</td>
<td>61</td>
<td>31</td>
</tr>
<tr>
<td>Sudan</td>
<td>2</td>
<td>113</td>
</tr>
<tr>
<td>Uganda</td>
<td>58</td>
<td>36</td>
</tr>
</tbody>
</table>

Source: IBP, 2020

Recent Reform Efforts

Since 2014, with support from the International Monetary Fund (IMF) and other development partners, the government has to varying extents initiated PFM reforms. Reforms include: (1) the development of a medium-term fiscal framework; (2) cash management; (3) the initiation of a Poverty Reduction Strategy Paper (PRSP); and (4) a stock-taking of all state-owned enterprises.

Other priority reforms specified in the current IMF Staff Monitored Program (SMP) at the preliminary stages of development or implementation include: the implementation of a debt strategy; strengthening public procurement; cutting subsidies and allocating more resources to health and education; and making information (e.g., financial and audit reports) public.
Areas for Additional Donor Support

Although Sudan receives considerable support from ten key development partners, there are large gaps that present an opportunity for donors to work collaboratively with the authorities and international agencies, as well as to support the government in chartering critical reforms. The assessment team proposes six main interventions that donors may consider financing as part of a three- to five-year project.

The first intervention centers on ensuring that the Ministry of Finance and Economic Planning (MoFEP) is appropriately organized to operate efficiently and effectively. The remaining interventions aim to build up strategic components of the budget cycle, specifically: strengthen budget preparation; reform procurement; institute expenditure controls; bolster legislative oversight; and enhance fiscal transparency. These budget-related interventions are presented in Figure ES3. A key intervention will be to improve the level of fiscal transparency at all stages of the budget cycle.

Figure ES3. Potential Additional Donor Support during the Budget Cycle

The DRM Space in Sudan

Revenue Performance in Sudan

A review of Sudan’s domestic revenue performance presents a pattern of decline (see Figure ES4). In this regard, average revenue collections between 2015 and 2019 stood at 8.1 percent of GDP, with a high of 9.6 percent in 2015 and a low of 6.9 percent in 2017. Over and above the political economy dynamics presented earlier, the decline is largely attributable to the fall in other non-tax revenues, which consist primarily of revenue from domestically refined fuels sold by the Sudanese Petroleum Company.
It is also noteworthy that due to declining oil prices from 2014 and civil conflict, oil revenues deriving from South Sudan declined in 2016 and 2017.

**Figure ES4. Tax and Non-tax Revenue Contribution as a Percentage of GDP (2015–2019)**

![Bar chart showing tax and non-tax revenue contribution as a percentage of GDP (2015–2019). The chart shows a gradual decline in oil revenue and a steady increase in non-tax revenue.](image)

Data sources: IMF, 2017 and IMF, 2020b

Tax revenue contributed 70 percent of total domestic revenue. However, tax revenue as a percentage of GDP over the period was much lower than amounts collected by other non-resource rich comparators. Sudan loses revenue because it has a generous range of tax exemptions and incentives such as tax holidays; the tax base is narrow and not sufficiently progressive; the tax system is complicated by varying tax rates; and taxpayer compliance is low.

**Benchmarking the Tax System**

Two indicators from USAID’s Collecting Taxes Database show that Sudan underperforms relative to select SSA and MCD countries (see Table ES2). Indeed, Sudan has the third-lowest tax effort, ahead of only Myanmar and the Democratic Republic of the Congo. In other words, there is significant scope to reduce the gap between estimated potential and actual revenue—especially through the rationalization of tax exemptions and incentives; higher tax rates; and a simplified and user-friendly tax administration. Sudan could garner lessons from countries with a higher tax effort such as Djibouti, Georgia, Jordan, and Mauritius.
Table ES2. A Comparison of Tax Capacity and Effort

<table>
<thead>
<tr>
<th>Country</th>
<th>Tax capacity</th>
<th>Tax effort</th>
</tr>
</thead>
<tbody>
<tr>
<td>Djibouti</td>
<td>40.71</td>
<td>0.54</td>
</tr>
<tr>
<td>Georgia</td>
<td>42.23</td>
<td>0.53</td>
</tr>
<tr>
<td>Ghana</td>
<td>38.76</td>
<td>0.39</td>
</tr>
<tr>
<td>Jordan</td>
<td>41.95</td>
<td>0.43</td>
</tr>
<tr>
<td>Mauritius</td>
<td>41.67</td>
<td>0.45</td>
</tr>
<tr>
<td>Morocco</td>
<td>39.12</td>
<td>0.60</td>
</tr>
<tr>
<td>Sudan</td>
<td>28.04</td>
<td>0.24</td>
</tr>
<tr>
<td>Uganda</td>
<td>34.09</td>
<td>0.33</td>
</tr>
</tbody>
</table>

Note:  
Tax capacity is the empirical estimate or predicted value of the potential tax to the GDP ratio.  
Tax effort is the ratio between the share of actual tax collection (as a percent of GDP) and the tax capacity.

Sources: USAID, 2018; USAID, 2019

Achieving higher DRM targets will not be easy in a country where there is little tax consciousness. A perception survey conducted in 2014 found that the majority of taxpayers in Sudan have yet to embrace a patriotic spirit and culture of willingly meeting their obligations. In this regard, the survey reported taxpayers’ antipathy was influenced by a number of factors, including: a lack of transparency by authorities; wastage of public resources; a view that they received no direct benefits; and a perception that taxes were too high and the tax regime too complicated (Obeid, 2015). Furthermore, it would appear that previous political regimes did not effectively engage citizens in forging a fiscal contract as a means for engendering tax morale.3

Recent Reform Efforts

In 2014, the government’s stated objective was to raise tax revenue collections to 6.5 percent of GDP. To this end, in March 2014, it established a Tax and Customs Reform Committee for Revenue Mobilization. The committee finalized its report in September 2017. Its key recommendations related to: (1) revising tax and customs legislation; (2) establishing a National Revenue Authority; (3) capacity building; (4) realizing efficiencies; (5) improving the work environment; and (6) promoting taxpayer compliance. The committee proposed that legislation be revised to rationalize tax exemptions and incentives, increase tax rates, and update value added tax (VAT) provisions. It also highlighted the need to: build capacity for research and enforcement; strengthen processes such as appeals; and make better use of information and communications technology (ICT). Given the turmoil that Sudan has experienced in recent years, few of these recommendations have been implemented. However, the assessment team garnered from stakeholders that many of the committee’s recommendations remain relevant today.

Potential Areas for Additional Donor Support

Six key development partners have been or plan to support DRM reforms in Sudan. However, it would seem that there are wide gaps around supporting Sudan to foster political leadership, citizen engagement, and coordination; strengthen tax policy and legislation; and establish an efficient, effective,  

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3 The concept of a fiscal contract has its origins in agreements between European monarchies and the propertied class and merchants: that the latter would contribute to state coffers, especially to finance war, in return for specific benefits. In modern times, a fiscal contract would be characterized by government pledges of specific socio-economic benefits to justify taxation. This is a more realistic proposition in the context of a democratic polity.
and accountable semiautonomous revenue authority (SARA). Donors could support the government in these three areas through a technical assistance and capacity-building project as a means to achieve sustainable financing to deliver essential services. The project would probably need to run over a three- to-five-year period, with a team of full-time resident advisers who would call on short-term specialists. The proposed scope of interventions falls under three main areas: (1) foster political leadership, citizen engagement, and co-ordination; (2) strengthen tax policy and legislation; and possibly (3) establish an efficient, effective, and accountable SARA. If Sudan decides not to create a SARA, which would be a very complex undertaking, donor cooperation in modernizing the current tax administration (the Sudanese Taxation Chamber (STC), a department within the MoFEP), should be provided instead. Modernization would be nearly as complex a task and would focus on reengineering and automation of business processes, such as taxpayer registry, tax accounting, audit, taxpayer services, anti-fraud, appeals; overall human and institutional capacity development and specialized training to carry out modernized processes; and physical infrastructure.

**Next Steps**

There is great scope for further donor investment in both the budgeting and DRM spaces. In this regard, Sudan meets few if any of the characteristics of a country demonstrating strong FSR.

In the next six to twelve months, donors should take a number of steps to more precisely refine their plans for support. The first priority is to hold consultations with the government on PFM and DRM reforms. Second, it will be important to continue to dialogue with other development partners. Third, once donors identify and assess the level and composition of resources that are potentially available, they should select a menu of interventions to support. Absorption capacity and political will may be the greatest challenges at this point. Therefore, the completion of a Political Economy Analysis (PEA) might be necessary to fully determine appropriate and feasible next steps.
I. INTRODUCTION

Objective

This report is an independent and objective assessment of the context and rationale for assistance by the international donor community to the Civilian-Led Transitional Government in Sudan in domestic revenue mobilization (DRM) and budget formulation. It also seeks to provide a menu of options for donor programming in these areas. The results of this assessment will provide donors a foundation for informed decision-making related to investing in Sudan to support DRM and improved budget formulation.

Guide to this Report

The next sections of this introduction discuss the context for considering DRM and budget formulation support in Sudan. This includes a discussion of the national political economy landscape, the current macroeconomic and fiscal situation, the need and appetite for reform, and a rationale for additional donor support for reform. Section II presents analysis for budget formulation and implementation systems and processes, or public financial management (PFM) in general, and suggestions for donor support. The subsequent section presents information and analysis of DRM, including revenue performance, tax administration, recent reform efforts, and recommendations for donor support. In conclusion, Section IV provides recommendations for next steps for donors. The report text is followed by annexes that include a listing of persons consulted and questions raised in the scope of work for this assessment.

The National Political Economy Landscape

Throughout its history as an independent nation-state, Sudan has experienced political instability. Following independence in 1956, Sudan was ruled by a five-member council until it was overthrown in 1958 by General Ibrahim Abboud, who subsequently handed over power to a civilian government in 1964 (The New York Times, 1964). Ismail-al-Azahri served as President until 1969, when his government was overthrown by a military junta headed by Gaafar Nimeiry. Economic and political instability continued for the next 25 years, with several attempted and successful coups d’état.

In 1989, a Revolutionary Command Council headed by Ali Othman Mohammed Taha overthrew Sadiq al-Mahdi’s government. Omar Hassan al-Bashir, a brigadier in the Sudanese army, served as Minister of Defense (Moorcraft, 2015). In 1993, the Revolutionary Command Council was disbanded, and al-Bashir became President. During his twenty-six-year tenure as President, the socio-economic environment in Sudan deteriorated. The war with the Sudan People’s Liberation Army in the South continued until 2004, when both parties agreed to a permanent cease-fire. In January 2005, a comprehensive peace agreement was signed, which provided for South Sudan to vote on whether to secede or remain within the Republic of Sudan (Abdelgadir, 2015). On July 11, 2011, following a referendum in which more than 98 percent of southerners voted to secede, South Sudan became a nation-state (Martell, 2018).

Sudan’s human rights record deteriorated. Sharia laws became stricter, imprisonments were on the rise, and there were violations against women. In addition, government attacked South Kordofan and Blue Nile, where the populations were aligned with South Sudan, causing forced displacements, lack of access to health care, and food insecurity (ARC, 2018). Furthermore, the government entered into conflict in
the Darfur area in 2003 and hundreds of thousands of people lost their lives. The Janjawid, a militia funded by government, tortured, raped, looted, and destroyed property (Amnesty International, 2020).

During President al-Bashir’s rule, Sudan’s relations with the West deteriorated. Primary concerns evolved around human rights abuses; initiatives to destabilize neighboring countries; and apprehensions that the government was harboring terrorists (such as Osama Bin Laden, Mujahideen, Hezbollah and the Palestinian Liberation Organization). In 1997, President Bill Clinton issued an executive order placing economic sanctions on Sudan. In 2006, President George W. Bush expanded these sanctions (Office of Foreign Assets Control, 2008). Sanctions contributed to minimal foreign investment, limited access to equipment, hardware and software, limited collaboration with international academic institutions, skills shortages, a scarcity of foreign currency, and hyperinflation (Abdelaziz, 2018); (Bezuidenhout et al., 2019). The USG lifted sanctions in October 2017. A survey conducted thereafter reported that Sudanese informants applauded this action. However, the majority of respondents expressed concern that: “The lack of resolution of the conflicts in Darfur, South Kordofan, and Blue Nile, together with the rapid deterioration of the economy after sanctions were lifted, has overshadowed any merits of the U.S. action” (Verjee, 2018).

Sudan’s economic situation continued downward, partly due to reduced oil revenues from South Sudan, which had comprised 50 percent of government revenue and 80 percent of the country’s exports (see Figure 1) (The World Bank, 2020e). At independence, South Sudan was producing between 350,000 and 400,000 barrels of oil per day (Varadhan, 2019). However, in 2012, the newly independent nation accused Sudan of “stealing $815 million worth of its oil,” and shut down hundreds of oil wells (Staff and agencies, 2012). Furthermore, a civil war erupted in South Sudan and oil production grounded to a halt, with oil rigs shut down or destroyed. Drilling only resumed in 2019, after warring factions signed a peace deal. Still, recovery remains slow due to a “lack of funds for new machinery and fluctuating oil prices” and outdated infrastructure (Mednick, 2019).

Figure 1. Oil Revenues as a Percentage of Gross Domestic Product (GDP) (2009–2020)

Sources: International Monetary Fund (IMF), 2012; IMF, 2013; IMF, 2014; IMF 202f
The economic shock contributed to a rise in inflation and decline in the growth of the economy (see Figure 2). The distressed economy resulted in reduced incomes and increased poverty. In this regard, it is noteworthy that agriculture made a lesser but still significant contribution to GDP of 39.6 percent, compared to services at 57.8 percent. Industry constituted only 2.6 percent of GDP (CIA, 2020). Furthermore, “agriculture employed about 80 percent of the workforce” (The Heritage Foundation, 2020).

By the end of 2018, the population—especially youth and young professionals—had begun to protest. President Bashir refused to step down. Instead, he declared a state of emergency, banned public demonstrations, dissolved public institutions at a national and local government level, and replaced civil servants with military personnel. Even the military turned against him (LeRiche, 2019). Public protests persisted. In April 2019, the Transitional Military Council overthrew President Bashir. In December 2019, he was sentenced to a two-year jail term in a reform facility for “money-laundering and corruption after $130m was found in suitcases in his home” (The Economist, 2019). The authorities in Khartoum have indicated a willingness to extradite the former President to the Hague to face the International Criminal Court (Human Rights Watch, 2020).

Figure 2. GDP and Inflation Levels (2015–2019)

Sudan is currently led by an 11-member Sovereign Council comprising five military personnel and six representatives from the protest umbrella Declaration of the Forces of Freedom and Change (FFC), including two women, one of whom is a Coptic Christian. Its mandate is to address legal and economic reforms. The council will remain in power until a general election slated for 2022/3. In tandem, Dr. Abdallah Hamdok, a former economist at the UN, serves as Prime Minister. His two priority areas are securing peace and economic recovery (Hoskins, 2019). The media concurs with the Prime Minister’s agenda and also suggests that resolving monetary issues is a priority (Reuters, 2019).

The situation in Sudan remains fragile. There has already been an assassination attempt against Prime Minister Hamdok in March 2020 (El Wardany and Alamin, 2020). Mistrust between various factions prevails. There are also challenges revolving around Sudan’s massive debt, weak governance, and “unresolved conflicts in marginalized areas” (The Conversation, 2020). The government is urging the USG to remove Sudan from the list of state sponsors of terrorism—as a means for enabling it to start

Sources: IMF, 2020c; The World Bank and OECD, 2020
the debt-restructuring process—and in the words of the Prime Minister, attract foreign investment, particularly from the U.S., as a means of job creation (Chang, 2020).

**Macro-Economic and Fiscal Context**

Sudan’s macro-economic challenges have persisted and the government declared a state of economic emergency on September 10, 2020 (Reuters Staff, 2020). The economy continues to contract—in 2020, it was expected to shrink by 8 percent. The fiscal deficit (of 10.8 percent of GDP) has contributed to high inflation and has led to devaluations of the exchange rate (IMF, 2020e). Inflation was estimated at 167 percent in August 2020 (IMF, 2020e). Sudan’s inflation is the third-highest in the world, after Venezuela and Zimbabwe.

The country has limited foreign exchange. Reserves dwindled following the secession of South Sudan as a result of foreign exchange foregone from oil revenues. In addition, Sudan has a substantial negative trade balance; “imports surpass exports by 50 percent” (Schipani, 2020). These two factors have contributed to currency devaluations. The real value of the currency has fallen and there is a divergence between official and unofficial exchange rates. On November 25, 2020, the rate was 260 Sudanese Pounds (SDG) to 1 USD in the parallel market, as opposed to the official rate of SDG 50 to 1 USD (AlKhaleej Today, 2020).

Moreover, Sudan’s external debt has soared. This is partly due to exchange rate devaluations and government defaulting on concessionary loans (from the International Monetary Fund (IMF), World Bank, African Development Bank (AfDB)) leading it to borrow funds at much-higher interest rates from other lenders (see Figure 3). The country’s external debt, estimated at 253 percent of GDP (or US$ 57.5 billion) in 2020, is not sustainable. It is noteworthy that long-outstanding arrears comprise the bulk of the debt (89.2 percent in 2020) (IMF, 2020e). Against this backdrop, Sudan intends to develop and implement a strategy to clear its arrears, leading the government to request a 12-month IMF staff-monitored program (SMP) as a means for eventually seeking debt relief from Paris Club creditors under the heavily indebted poor countries (HIPC) initiative. In this latter regard, the authorities have undertaken to clear “its arrears with the IMF and have a fully financed plan and a timetable to clear arrears with the World Bank and the AfDB to restore its eligibility to borrow from these sources” (IMF, 2020e).

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4 This section may not consider changes after December 2020.
Fiscal imbalances\(^5\) are linked to several factors. First, public sector wages consume a third of the budget, which on its own is not excessive, but when matched with other extraordinary budget demands creates great budgetary rigidity. Military expenditure in the past few years constituted up to a quarter of the budget—much higher than in neighboring countries such as Chad (14 percent); Ethiopia (4 percent); and South Sudan (10 percent) (SIPRI, 2020). It is noteworthy that oil revenues enabled the government to push up the size of the army’s establishment from 65,000 to 100,000 (LeRiche, 2019). State-owned enterprises (SOEs) in Sudan have also been a drain on the public purse, as they have been poor performers. Sudan’s transitional government has indicated its willingness to divest over 650 SOEs, even those in the security sector (Abdelaziz, 2020).

Second, over the years Sudan has provided subsidies on fuel and certain foodstuffs. Fuel subsidies alone take up 36 percent of the country’s budget (The Associated Press, 2020a). The prices of petroleum products in Sudan are up to eight times cheaper than international prices (IMF, 2020c). Subsidies to wheat comprise another 10 percent of the budget and coupled with preferential exchange rates on imported product provided by the central bank, impose a considerable burden and market distortion. In addition, the wheat subsidy generally only benefits urban dwellers and disadvantages rural dwellers and farmers. It is noteworthy that the transitional government has indicated it will still subsidize the poor through cash transfers (The Associated Press, 2020b).

Third, a comparative analysis of tax performance presented in this report suggests that Sudan’s achievement in DRM, and taxes in particular, is at a level below the average for sub-Saharan African (SSA) countries. An IMF study set a benchmark tax revenue collection as a percentage of GDP for developing countries at 18 percent (Tanzi and Zee, 2001). Of course, there is no precise one-size-fits-all tax ratio, as at only 5.4 percent of GDP, Sudan’s is extremely low. Its tax effort is only 0.24, meaning it only collects about 24 percent of its tax capacity—half the average for all SSA. On USAID’s self-reliance dashboard, Sudan’s tax effectiveness indicator of 0.06 is substantially below the median value for

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\(^5\) Fiscal imbalance arises when there is a difference between government’s revenue streams and its expenditure responsibilities.
comparator countries. A shortfall in DRM means that Sudan does not have the resources needed to finance and sustain its development efforts.

Against this backdrop, Sudan remains one of the world’s least-developed countries. Poverty rates have been on the rise for several years. Recent projections indicate that poverty rates will increase: from 14.2 percent and 47 percent of the population living on US$1.9 per day and US$3.2 per day in 2019 respectively; to 18.3 percent (on US$1.9 per day) and 53.5 percent (on US$3.2 per day) by 2023. Moreover, “a more severe and prolonged coronavirus disease 2019 (COVID-19) outbreak than currently assumed could have further negative effects” (The World Bank, 2020g).

In addition to the above, the social sector faces severe problems. Human development is low. Sudan is ranked number 168 out of 189 countries in the UN's human development index rank, with a life expectancy of 65.1 years and only 3.7 mean years of schooling (UNDP, 2019). School enrollment is relatively low when compared to other countries in the Middle East and North Africa. “Seventy-six percent of primary age children attend school; in secondary, that figure dips to 28 percent” (UNICEF, 2020). The health sector faces challenges as well. There are severe shortages of essential drugs. Maternal health services are limited. Besides, it is estimated that 7.8 million people face mental and physical well-being issues, “including 1.6 million internally displaced people [IDPs] and 1.1 million refugees” (Wharton et al., 2020). These indicators suggest that Sudan may not attain the Sustainable Development Goals.

Transforming the agriculture sector in Sudan is a key driver for the achievement of the Sustainable Development Goals, in particular with respect to the following: “ending poverty (1); fighting hunger and malnutrition (2); improving health (3) and education (4); increasing decent work, employment opportunities, and economic growth (8); reducing inequality (10); [and] promoting peace and the settlement of people in stable societies (16)” (Government of Sudan, 2018). However, as much as five million acres of arable land is in foreign hands; large investors include those from Bahrain, Jordan, Pakistan, and Saudi Arabia. Owners have not developed the land due to concerns around Sudan’s political instability. Further: “there is no stability in agricultural policy…not even the minister knows what budget he’s getting”; and the enabling roads and rail infrastructure is in bad shape, making it more economical “to ship wheat from Australia to Sudan, over 6,000 miles, than to transport it the 500 miles from Port Sudan to its mills in Khartoum” (Schwartzstein, 2019).

Need and Appetite for Reform

In 2019, the transitional government started to rebuild Sudan’s relationships with the international development community. In this regard, for example, Prime Minister Hamdok was the first premier to visit the U.S. (in December 2019) since 1985. In a public address, he indicated Sudan’s intention, over the transition period, to tackle the following 10 priorities:

1. Stop conflicts across the country and deal with the issue of IDPs
2. Revive the national economy—especially the price of commodities, hardships faced by the population, and the debt issue
3. Reform the structures of public institutions
4. Build a solid foundation with respect to the rule of law to ensure accountability, transparency, and justice
5. Combat corruption and recover stolen assets
6. Promote women’s participation in the structures of the transitional government
7. Build a balanced foreign policy, guided by Sudan’s interests
8. Address youth unemployment by creating opportunities for them
9. Allocate more resources to health, education, and human development
10. Hold a constitutional conference to give the nation an opportunity to address issues such as national identity and politics. The conference will take place before the elections (Atlantic Council, 2019).

The transitional government also participated in a virtual “Partners’ Forum for Sudan,” held in June 2020, which was sponsored by UNDP, the European Union (EU) and the Federal Republic of Germany. At the forum, in which 45 countries participated, Prime Minister Hamdok reiterated the transitional government’s reform priorities. Sudan received pledges totaling US$1.8 billion. While pledges will help Sudan start its reform journey, there is acknowledgement that overseas development assistance will not fully fill the:

…Hole in Sudan’s state budget or fully fund the ambitious [Sudan] Family Support Program [SFSP] that intends to lessen the pain of the country’s orthodox economic reform program by providing 80 percent of citizens a modest US$5 per month stipend. Rather it is about creating enduring partnerships that Sudan needs to revitalize its economy and to put the country on a long-term development footing. (Hudson, 2020)

The transitional government has already begun to address the issues above. Specifically, there are more women in senior leadership positions, including the first female Chief Justice and Minister of Foreign Affairs (Mohiedeen, 2020). Moreover, by late May 2020, about US$4 billion worth of assets had been seized from former President Bashir, his family and associates (Alamin, 2020).

In August 2020, Sudan signed a peace deal with rebel groups from Darfur, South Kordofan, and the Blue Nile, which was “widely viewed as a critical first step to a more enduring peace.” The deal makes provisions for: sharing power, justice during the transition period, managing IDPs, and integrating rebels into the army (Dahir, 2020).

At the end of September 2020, the government organized a three-day economic conference, at which a proposal “to replace commodity subsidies with direct cash transfers to vulnerable families” was approved, despite protests from the FFC and youth groups (Sudan Tribune, 2020a). In addition, in October 2020:

- Sudan normalized relations with Israel and agreed to “to pay $335m into a fund for American victims of terrorism to win removal from the state-sponsors list” (The Economist, 2020). The Central Bank transferred the full amount in the same month (Lewis et al., 2020). On October 26, 2020, the Chairman of the U.S. House Committee on Foreign Affairs welcomed the administration’s notification that the USG intends to remove Sudan from the state-sponsors list. He remarked that this “historic development ends a dark chapter in U.S.-Sudan relations, and opens up a new era in the bilateral relationship” (Engel, 2020);
- The Board of the World Bank approved a US$ 200 million pre-arrears clearance grant for the SFSP. “This is in addition to $200 million approved by Management from the Sudan Transition and Recovery Support Trust Fund…, of which $170 million has been received from donors to date for the first phase of the SFSP” (The World Bank, 2020f).

The Rationale and Scope for Donor Support to Reforms

The developments above led to the drafting of The Sudan Democratic Transition, Accountability, and Fiscal Transparency Act of 2020 (H.R. 6094), which is at the early stages of the legislative process. Once promulgated, the Act aims to foster “a civilian-led democratic transition, promote accountability for human rights abuses, and encourage fiscal transparency in Sudan, and for other purposes” (2020). The
Bill also provides for the USG Treasury and State Department to monitor and report to Congress on progress during implementation of initiatives deriving from the act. USAID has been active in Sudan, particularly in providing humanitarian assistance. In 2019, USAID disbursed US$103.4 million to Sudan in the form of emergency assistance and initiatives aimed at resolving conflict, peace and security (USAID, 2020a). More recently, at the “Partners’ Forum for Sudan” USAID pledged US$356.2 million toward Sudan’s democratic transition process, which included US$20 million for the SFSP (USAID, 2020b).

USAID, through the Fiscal Accountability and Sustainable Trade (FAST) program, has commissioned a team to independently and objectively assess the feasibility of additional donor support to economic reforms. Specific areas of support center around the budget process (Section II) and DRM (Section III). This report presents the results of the assessment. The assessment is informed by two main questions: (1) What is the strategic case for additional donor intervention in the government budgeting space, and what are the options for engagement? and (2) What is the strategic case for donor intervention in the DRM space, and what are the options for engagement? These two main questions are supplemented by specific questions which revolve around the following themes: context; current arrangements; existing weaknesses; likely political support; other developing partner initiatives; gaps that additional donor support would fill; specific and feasible contributions that donors could make; and potential risks and mitigation measures.

The scope of work for this assessment aligns with USAID’s strategy for financing self-reliance (FSR). Over a five-year period to 2023, the strategy for FSR aims to support the achievement of “the conditions necessary to unlock and mobilize financing for development from several public and private sources.” The FSR framework comprises five pillars, three of which are covered by this assessment, namely: (1) DRM; (2) PFM; and (3) fiscal transparency and accountability (USAID, 2019b).

USAID envisaged that the assessment would comprise a desk review as well as an in-country mission. However, due to COVID-19, the assessors worked with a senior local consultant and conducted virtual meetings with as many stakeholders as was possible (see Annex A). The virtual meetings sought to deepen the team’s contextual understanding of the issues and to garner feedback on possible donor support. However, despite many attempts, the assessment team was unable to meet with key officials in the Ministry of Finance and Economic Planning (MoFEP) and Sudanese Tax Chamber (STC), limiting the range and depth of consultations.

Absorption capacity and political will may be the greatest challenges at this point. Therefore, the completion of a Political Economy Analysis (PEA) might be necessary to fully determine appropriate and feasible next steps.
II. BUDGET FORMULATION AND IMPLEMENTATION

The Case for Engaging in Sudan’s Budget Space

PFM and fiscal accountability in Sudan are weak. It is the assessment team’s view that Sudan does not meet many of the characteristics of strong FSR. Specifically: (1) the macro-fiscal framework is not adequately utilized in budget planning; (2) budget formulation and execution are ineffective; (3) public procurement does not ensure value for money (VfM); (4) monitoring and reporting on the results of budget implementation are not timely; (5) public debt has reached unsustainable levels; and (6) systems for oversight do not function well. The government is aware of these limitations, and has indicated its commitment to tackle them (IMF, 2020e). The authorities could do with support from donors in meetings its fiscal consolidation objectives.

The Transitional Government’s First Budget

The Transitional Government passed the 2020 budget in late December 2019 (Awadalla and Ahmed, 2019). The budget projected revenues of SDG568.3 billion (US$12.63 billion), recurrent expenditures totaling SDG584.3 billion (US$12.99 billion), and capital expenditures of SDG58.0 billion (US$1.29 billion), resulting in an overall deficit of SDG73.0 billion (US$1.62 billion). (See Box 1 for a brief description of the budget process according to law.)

Box 1. Overview of the budget process

Sudan’s fiscal year runs from January 1 to December 31. The budget preparation process starts in April of the preceding year, with the Under Secretary of Finance in the MoFEP issuing a budget circular which sets out development priorities prescribed by Parliament; provides public institutions with guidance on preparing proposals by main revenue and expenditure categories; and sets out a submission deadline (MoFEP, 2016).

On receipt of budget submissions in August (or a later date given by the MoFEP), various committees review and comment on them. Proposals are also reviewed and approved by the Cabinet. In the past, the President submitted the consolidated budget to the National Assembly for deliberation and subsequent appropriation before December 31 (Siddig and Ismail, 2018). Under Sudan’s current interim constitution, the Transitional Legislative Council is responsible for approving the budget; however, it has yet to be formed ((International IDEA, 2020); (Dabanga, 2020a)). Therefore, the 2020 budget was approved by the Sovereign Council and Cabinet (Awadalla and Ahmed, 2019).

Budget implementation is guided by the Financial and Accounting Procedures Law of 2007 and accompanying regulations of 2011. Per these legislative and regulatory frameworks, public institutions should receive approved allocations on the basis of the appropriated budget to implement planned initiatives and report back on their use. The National Audit Chambers (NAC) is mandated through its enabling legislation of 2015 to undertake financial and other audits, review contracts/loans/grant agreements, and assess internal controls in public institutions and report to the legislature within nine months of the end of the financial year.

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6 This analysis was fully valid as of December 2020.
The economic sectors with the highest expenditure allocations were: social protection; defense; economic affairs; and general public services. It is noteworthy that almost half of the recurrent expenditure budget was allocated to social protection (see Figure 4). In this latter regard, the budget book states that:

Social protection services coverage includes the provision of financial aid via direct cash transfers so that coverage will involve about 80 percent of the population (32 million people), within the budget of 2020 which will be distributed under the system UBI (Quasi Universal Basic Income) at a cost of 9.1 billion USD, in the context of financial inclusion and cash coordination and the enhancement of the financial payment system. (MoFEP, 2019)

Budget allocations to the social sector are very low. In particular, the health allocation of 4.4 percent of the total recurrent budget falls well below the 15 percent that African Union (AU) leaders pledged to commit in their national budgets in the Abuja Declaration (AU, 2001). The education allocation of 3.5 percent of the total recurrent budget is substantially lower than countries such as Georgia (12.67 percent), Ghana (20.99 percent), Jordan (13.45 percent in 2016), and Uganda (10.88 percent) (University of Oxford, 2016).

The agriculture sector, which needs to be revived, does not appear in Figure 4. However, 2020 budget estimates provided for SDG 6.15 billion for the sector, or 1 percent of the total budget (MoFEP, 2019). This target falls short of the target agreed by AU Heads of State. Specifically: “Through the 2003 Maputo Declaration, African Leaders pledged to reverse decades of underinvestment in the sector by allocating at least 10% of their national budgets to agriculture and to achieve 6% annual agriculture growth” (One, 2013).

Figure 4. Recurrent Expenditure Budget Allocations, by Function

Source: MoFEP, 2019

It is noteworthy that the initial 2020 budget estimates for revenue and expenditure exceeded the estimated outturns for 2019 by 244.8 percent and 184.6 percent respectively. In this regard, during the Article IV consultations, the IMF remarked that the “2020 budget as passed incorporates optimistic revenue projections and large expenditure increases” (IMF, 2020c). The initial budget could not be implemented. Therefore, on August 9, 2020, the Transitional Government revised the budget (see Table 1). The government’s revised estimates factor in a fall in revenues and rise in expenditure due to the COVID-19 pandemic; and the devaluation of the exchange rate ((Abdelaziz et al., 2020); (Dabanga, 2020b)). The latest IMF SMP report estimates that revenue collections will be even lower, at 46.4
percent less than the initial estimates, allowing for a 2.1 percent increase in current expenditures compared to initial estimates (IMF, 2020e).

Table 1. Sudan: Initial and Revised Budget Estimates for 2020

<table>
<thead>
<tr>
<th>Description</th>
<th>Initial estimates</th>
<th>Revised estimates</th>
<th>% change</th>
<th>IMF SMP estimates</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>568.3</td>
<td>396.1</td>
<td>-30.3%</td>
<td>304.7</td>
<td>-46.4%</td>
</tr>
<tr>
<td>Current expenditures</td>
<td>584.3</td>
<td>635.4</td>
<td>8.7%</td>
<td>596.7</td>
<td>2.1%</td>
</tr>
<tr>
<td>Current deficit</td>
<td>-16</td>
<td>-239.3</td>
<td>1395.6%</td>
<td>-292</td>
<td>1725.0%</td>
</tr>
<tr>
<td>Net acquisition of non-financial assets</td>
<td>-57</td>
<td>-16</td>
<td>-71.9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total deficit</td>
<td>-73</td>
<td>-239.3</td>
<td>-308</td>
<td>321.9%</td>
<td></td>
</tr>
</tbody>
</table>

Sources: MoFEP and IMF

The General State of Sudan’s PFM System

The state of Sudan’s PFM system can be revealed through a comparative assessment with other non-resource-rich SSA and Middle East and Central Asia (MCD) countries using two benchmarks: Public Expenditure and Financial Accountability (PEFA) assessments, and the results of the 2019 Open Budget Survey (OBS). MCD is the grouping of the IMF’s Middle East and Central Asia Department. While other comparator countries are used as well, MCD is particularly convenient because relevant analyses using this grouping already exist and provide useful information. One such useful analytic document using the MCD grouping is IMF’s (2019) Regional Economic Outlook: Middle East and Central Asia. At the time of this writing, a second PEFA exercise was ongoing in Sudan. A key informant indicated the preliminary results of the exercise suggest limited or no improvement since the last PEFA exercise, undertaken in 2010. Therefore, the assessment team considers that the results from 2010 can provide useful insights.

Until 2015, the PEFA framework specified 28 performance indicators to evaluate each country’s PFM system that evolved around: budget credibility; comprehensiveness and transparency of the budget; budget policy; budget execution; accounting and reporting; and external scrutiny and audit. Each indicator receives a score ranging from A (fully meets the predetermined criteria) to D (the requirements for any higher score are not met) (PEFA Secretariat, 2011).

Table 2 presents the PEFA results for six countries, including Sudan. It is noteworthy that Sudan underperformed on most indicators, with the exception of: aggregate revenue outturn compared to original budget (3); orderliness and participation in the annual budget process (11); scope, nature, and follow-up of external audit (26); and legislative scrutiny of external audit reports (28). Problem areas have to do with: management of payment arrears (4); unreported operations (7); poor oversight of fiscal risk; (8) weak linkages between the budget and multi-year plans (12); unpredictability of funds during budget implementation (16); ineffective cash and debt management (17); inadequate internal controls (18, 20, and 21); non-transparent procurement arrangements (19); poor quality and untimely reporting (24 and 25); and insufficient legislative scrutiny of the budget (27) (PEFA Secretariat, 2020).
Table 2. A Comparison of PEFA Assessments using Select Indicators

| Country   | Dimension | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 |
|-----------|-----------|---|---|---|---|---|---|---|---|---|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|

Key: 1 = Aggregate expenditure out-turn compared to original approved budget; 2 = Composition of expenditure out-turn compared to original approved budget; 3 = Aggregate revenue out-turn compared to original approved budget; 4 = Stock and monitoring of expenditure payment arrears; 5 = Classification of the budget; 6 = Comprehensiveness of information included in budget information; 7 = Extent of unreported government operations; 8 = Transparency of intergovernmental fiscal relations; 9 = Oversight of aggregate fiscal risk from other public sector entities; 10 = Public access to key fiscal information; 11 = Orderliness and participation in the annual budget process; 12 = Multi-year perspective in fiscal planning, expenditure policy and budgeting; 16 = Predictability in the availability of funds for commitment expenditures; 17 = Recording and management of cash balances, debt and guarantees; 18 = Effectiveness of payroll controls; 19 = Transparency, competition and complaint mechanisms in procurement; 20 = Effectiveness of internal controls for non-salary expenditure; 21 = Effectiveness of internal audit; 24 = Quality and timeliness of in-year budgets; 25 = Quality and timeliness of annual financial statements; 26 = Scope, nature and follow-up of external audit; 27 = Legislative scrutiny of annual budget law; and 28 = Legislative scrutiny of external audit reports.

Source: PEFA, 2020
Overall, Sudan has the most “D” scores out of the six countries (see Figure 5). In contrast, Georgia has the highest and lowest number of A and D scores respectively. The 2013 assessment gave accolades to Georgia for its “strong tools for managing aggregate fiscal positions… established controls over debt and guarantee issuance…,” improved reporting, and maintaining a low stock of expenditure arrears (The World Bank, 2013). The 2018 PEFA assessment in Georgia reported that on the whole, it maintained the same levels and/or, in some cases, improved performance (PEFA Secretariat, 2020).

The OBS conducted by the International Budget Partnership (IBP), is a rigorous evidence-based survey that compares governance and accountability in terms of budget transparency, participation, and openness across countries. Table 3 presents the results of the 2019 survey for five select SSA and MCD countries. Again, Sudan’s performance is very low. It only performs better than Qatar, Comoros, Venezuela, and Yemen.

<table>
<thead>
<tr>
<th>Country</th>
<th>Transparency score out of 100</th>
<th>Rank out of 117 countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgia</td>
<td>81</td>
<td>5</td>
</tr>
<tr>
<td>Ghana</td>
<td>54</td>
<td>44</td>
</tr>
<tr>
<td>Jordan</td>
<td>61</td>
<td>31</td>
</tr>
<tr>
<td>Sudan</td>
<td>2</td>
<td>113</td>
</tr>
<tr>
<td>Uganda</td>
<td>58</td>
<td>36</td>
</tr>
</tbody>
</table>

Source: IBP, 2020

Sudan’s transparency score fell from 10 in 2015 to 2 in 2019. Although the authorities provide the public with a pre-budget statement, the enacted budget, in-year, year-end, and audit reports are not readily available. Furthermore, the authorities do not produce a citizen’s budget. In contrast, Georgia’s...
transparency score has steadily increased over the past decade, from 55 in 2010 to 81 in 2019. In Georgia, all eight budget documents\(^7\) are publicly available (IBP, 2020).

**Recent Reform Efforts**

Since 2014, the government, with support from the IMF and other development partners, has implemented PFM reforms to varying extents. The development of a medium-term fiscal framework (MTFF) to strengthen “macroeconomic management and facilitate poverty reduction policies” underpins the reform effort (IMF, 2014). However, an initiative to ensure that the MTFF informs budget planning has lagged (IMF, 2020d).

A second key reform centers on cash management. In particular, introducing a Treasury Single Account (TSA) for federal level budget entities, institutionalizing cash flow forecasting and strengthening budgetary controls. The TSA has not been fully implemented, and cash forecasting still needs to be improved to facilitate predictability of quarterly cash allocations to public institutions during budget implementation (IMF, 2020e).

Third, in 2014, the authorities embarked on an exercise to develop a Poverty Reduction Strategy Paper (PRSP) as a prerequisite for applying for relief under the HIPC initiative and to access concessional financing. A project implementation unit within the MoFEP was established to coordinate this effort. However, the PRSP was not delivered because the authorities would not release the results of a household poverty survey (African Development Fund, 2018). There is an ongoing exercise to prepare a full PRSP document.

Fourth, in 2020, the government embarked on an extensive effort to take stock of all SOEs. It intends to prepare “proposals and draft laws for a comprehensive reform that addresses the governance gap…[and] to liquidate a large number of [SOEs],” especially those that do no function, are not profitable, or do not constitute the core roles of government (Sudan Tribune, 2020b).

Other priority public-finance-related reforms specified in the current SMP at the preliminary stages of development or implementation include: the implementation of a debt strategy; strengthening public procurement; eliminating subsidies and allocating more resources to the social sector; and making information (e.g., financial and audit reports) public. Exchange rate unification is also part of the SMP and affects the budget in several ways, including revenue mobilization, spending, and debt valuation. In sum, “regime change has created a window of opportunity for fundamental reforms to address major macro imbalances and lay the groundwork for inclusive growth” (IMF, 2020e).

**Past, Ongoing, and Future Support from Development Partners**

Table 4 sets out a list of the ten key development partners that have been and continue to be active in assisting with the implementation of PFM reforms in Sudan, as well as their areas of focus. It is noteworthy that some of the areas of support cater to the outstanding priority reforms listed above. For example, the IMF will continue to work with authorities on the MTFF and TSA; the World Bank and AfDB are helping with the preparation of the PRSP; the EU and Foreign Commonwealth and Development Office (FCDO) are building capacity in MoFEP’s newly established Analysis and Monitoring

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\(^7\) The eight budget documents are: (1) Pre-Budget Statement; (2) Executive’s Budget Proposal; (3) Enacted Budget; (4) Citizens Budget; (5) In-Year Reports; (6) Mid-Year Review; (7) Year-End Report; and (8) Audit Report.
Unit; and the Agence Française de Développement (AFD) plans to provide assistance to parastatal reforms. It is worth pointing out that some of the EU-funded support is provided by the World Bank.

There are development partners providing support outside the priority areas. The EU, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), and the Netherlands are collaborating with the NAC. In addition, UNDP coordinates and harmonizes development partners through the Sudan International Partners’ Forum (SIPF). It is envisaged that the SIPF will engage with government through a PFM Steering Committee (EU, 2020).

Table 4. Development Partners’ Activity in the PFM Space in Sudan

<table>
<thead>
<tr>
<th>Institution</th>
<th>Areas of support</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMF</td>
<td>Development of MTFF</td>
<td>P</td>
</tr>
<tr>
<td></td>
<td>Energy subsidy reform</td>
<td>P</td>
</tr>
<tr>
<td></td>
<td>Linking MTFF to budget planning</td>
<td>F</td>
</tr>
<tr>
<td></td>
<td>Identification, monitoring and management of fiscal risk</td>
<td>F</td>
</tr>
<tr>
<td></td>
<td>Debt reconciliation</td>
<td>O</td>
</tr>
<tr>
<td></td>
<td>TSA implementation and cash management</td>
<td>P and F</td>
</tr>
<tr>
<td>World Bank</td>
<td>Energy subsidy reform</td>
<td>P</td>
</tr>
<tr>
<td></td>
<td>Debt reconciliation</td>
<td>O</td>
</tr>
<tr>
<td></td>
<td>Strengthening debt management capacity</td>
<td>F</td>
</tr>
<tr>
<td></td>
<td>PEFA assessment</td>
<td>O</td>
</tr>
<tr>
<td></td>
<td>Preparation of PRSP</td>
<td>O</td>
</tr>
<tr>
<td></td>
<td>Strengthening public procurement (legislative and regulatory framework and e-procurement)</td>
<td>O and F</td>
</tr>
<tr>
<td>AfDB</td>
<td>Developing public financial and debt management systems</td>
<td>P</td>
</tr>
<tr>
<td></td>
<td>Preparation of PRSP</td>
<td>P and O</td>
</tr>
<tr>
<td></td>
<td>Emergency budget support for Covid-19</td>
<td>O</td>
</tr>
<tr>
<td>EU</td>
<td>Strengthening MoFEP’s institutional capacity</td>
<td>O and F</td>
</tr>
<tr>
<td></td>
<td>Strengthening external audit</td>
<td>O and F</td>
</tr>
<tr>
<td></td>
<td>Strengthening PFM in the health sector</td>
<td>O and F</td>
</tr>
<tr>
<td>U.S. Treasury</td>
<td>Assessed audit actions related to military budget funding</td>
<td>P</td>
</tr>
<tr>
<td>FCDO</td>
<td>Improving public reporting on the budget</td>
<td>O</td>
</tr>
<tr>
<td></td>
<td>Training journalists on economic matters</td>
<td>O</td>
</tr>
<tr>
<td></td>
<td>Embedded three advisors in MoFEP’s Analysis and Monitoring Unit</td>
<td>O</td>
</tr>
<tr>
<td>GIZ</td>
<td>Support to the Public Management Forum</td>
<td>O</td>
</tr>
<tr>
<td></td>
<td>Technical assistance to the NAC</td>
<td>O</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Cooperative agreement between the Netherlands Court of Audit and NAC to tackle integrity risks and review implementation of the Sustainable Development Goals under the Shakara Programme</td>
<td>O and F</td>
</tr>
<tr>
<td>AFD</td>
<td>Reform of parastatals/SOEs</td>
<td>F</td>
</tr>
<tr>
<td>UN</td>
<td>Coordination and harmonization of development partners (SIPF)</td>
<td>O and F</td>
</tr>
<tr>
<td></td>
<td>Development of the third UN Development Assistance Framework</td>
<td>O</td>
</tr>
</tbody>
</table>

Key: P = Past, O = Ongoing and F = Future

Sources: IMF, 2020d; EU, 2020; The Court of Audits, 2020; and informants during the assessment

Potential Areas for Additional Donor Support

Although Sudan receives considerable support from the development partners listed in Table 4 above, there are gaps which present an opportunity for donors to work collaboratively with the authorities and international agencies, as well as assist government in chartering untapped but critical reforms. The
remainder of this section proposes six main interventions that donors could consider financing as part of a three-to-five-year project.

The first intervention centers on ensuring that the MoFEP is sufficiently organized to operate efficiently and effectively. The remaining interventions aim to strengthen and support the budget cycle, specifically: strengthen budget preparation; reform procurement; institute expenditure controls; bolster legislative oversight; and enhance fiscal transparency. These budget-related interventions are presented in Figure 6. A key intervention will be to improve the level of fiscal transparency at all stages of the budget cycle. There are also prospects for supporting PFM reforms in the longer term; these are summarized after the next sub-section.

Figure 6. Potential Donor Support during the Budget Cycle

Assess, Reorganize, and Build Capacity of the MoFEP

During this assessment, key informants were of the view that MoFEP, as it exists, needs considerable strengthening to enable it to effectively and proactively discharge its mandate. Furthermore, in recent years it would appear that MoFEP has established new units within the Ministry on an ad hoc basis, such as the Cash Management Unit and the Analysis and Monitoring Unit. Lessons of experience suggest that ad hoc changes may contribute to fragmentation. They also tend to “lengthen and complicate

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8 The Cash Management Unit prepares cash plans based on spending unit’s work plans, revenue reports from STC, outturn data, and other information available at MoFEP.

9 The Analysis and Monitoring Unit supports monitoring, oversight, and reporting during budget implementation. It should produce internationally comparable fiscal data and statistics.
business processes, and increase inefficiencies and staffing costs” (Allen et al., 2015). Against this backdrop, a functional review of the Ministry would provide an opportunity to critically assess its capacity and organizational development needs.

A donor-funded project team could support the functional review. The work would entail assessing the core PFM functions and capabilities by analyzing its existing structure, staff, and operations. Good practice suggests that the assessment should be able to respond to three questions:

- What is MoFEP supposed to do?
- What is it currently doing?
- What hurdles prevent it from performing? (OPM, 2019)

The team would also propose reform options with respect to the organization, its processes, systems, and people. Options would focus on enabling MoFEP to respond more effectively to and anticipate challenges. A donor-funded project team could also assist MoFEP in operationalizing the preferred options. Reorganizing MoFEP is an imperative for enhancing its capacity to discharge its mandate and ultimately improving fiscal performance. As no other development partner has indicated it will assist in this area, donor support can be very forward leading.

**Strengthen Budget Preparation Process**

There are three critical outputs during the budget-preparation process that a donor-supported project could assist in improving and introducing—the pre-budget statement, the budget circular, and a citizen’s budget. First, the quality of Sudan’s pre-budget statement is low. It does not clearly explain the overall objectives of the budget, its basis in terms of revenue forecasts, and the economy. Good practice recommends that a strong pre-budget statement should aim to promote: “Awareness and debate on the budget aggregates, the implications of maintaining existing policies, and interactions with the broader economy, it sets expectations for the budget and paves the way for an informed scrutiny of the actual budget” (OECD, 2017).

In addition to the above, a budget circular should reinforce the importance of compliance with a fixed timetable by budgetary institutions. In this regard, the assessment team was informed that budgetary institutions do not adhere to the budget calendar and delays negatively affect the credibility and transparency of the budget formulation. A door-funded project could support MoFEP in ensuring deadlines are met.

Third, as indicated earlier, Sudan does not prepare a citizen’s budget. According to the Collaborative Africa Budget Reform Initiative (CABRI), the purposes of such a document are to explain “to a very broad audience the main objectives, importance and components of the budget, using non-technical terms”; and for government to communicate “budget policy priorities and all the opportunities and challenges that [it] might face while executing the budget” (CABRI, 2018). Donors could provide technical assistance in drafting a citizen’s budget at least during the first two years of the project. In line with recommended practice, the process entails the following five steps: (1) develop a strategy; (2) hold consultations with potential users; (3) draft the citizen’s budget; (4) disseminate the budget; and (5) evaluate the exercise (IBP, 2012). The expected result of this assistance is that citizens would have a better grasp of how public finances are managed and will be better positioned to hold government accountable, which would in turn contribute to fiscal transparency and the democratization process.
Expenditure Control

To ensure that Sudan’s PFM arrangements are effective, effective controls must be in place during budget execution. Such controls enable resources to be utilized efficiently, ensure incurred obligations are cleared in a timely manner, prevent the abuse and misappropriation of public money, and facilitate private actors to compete for government contracts on a level playing field. In this regard:

Fiscal rules, medium-term budget plans, and annual budgets are meaningless if expenditure cannot be controlled during execution...A lack of effective expenditure controls not only threatens macroeconomic stability and fiscal discipline, but can also call into question the integrity of the public financial management system and undermine trust in a government’s stewardship of public resources. (Pattanayak, 2016)

The 2010 PEFA assessment reported that control over government expenditure was a problem. In particular, Sudan achieved D+ scores for indicators 18, 20, and 21, which all have to do with expenditure controls (see Table 2 above). It is against this background that the assessment team considers that donors could support the strengthening of expenditure controls.

Figure 7 analyzes the categories of expenditure in Sudan’s 2020 budget. The proposed focus of this intervention would be on controlling the wage bill, strengthening commitment controls, clearing any arrears and strengthening internal audit. Note that the share of the 2020 budget allocated to defense is much reduced from prior years.

Develop and Implement Checks on the Wage Bill

In 2020, the wage bill grew by 168 percent from 2019. The government’s justification for this increase was to “accommodate for [hikes in salaries of 100 percent for technical personnel such as doctors and teachers] and...to eliminate distortions and differences in the salaries and wages of” civil servants and security personnel, and cater for inflation (MoFEP, 2019). Under the SMP, the authorities have committed to “keep the wage bill constant as a share of GDP” in subsequent years (IMF, 2020e).

However, the PEFA 2010 results suggests that controls over payroll are weak. Experience from other countries in the region is that “the systems for collecting, processing, maintaining, and reporting data on public servants” are inadequate and could undermine the completeness and reliability of wage bill computations (Kariuki and Kiragu, 2011). Given that the wage bill constitutes 22.4 percent of the recurrent budget in 2020, measures need to be taken to make the system more efficient and potentially...
reduce the wage bill. Savings could then be spent “on other, critical non-wage priorities” (Van Acker and Hasnain, 2019).

A donor-supported project could support the review of controls over payroll. The scope of work would include:

- Analyzing whatever information is available on the public service establishment and costs, with a view to generating trend information that identifies the magnitude of any overruns and scale of volatility;
- Reviewing the efficiency and effectiveness of the existing organizational and institutional arrangements, mechanisms and controls for processes such as: annual personnel budget preparation; budget implementation—particularly mechanisms in place to examine and approve payroll, the basis on which the Treasury releases funding, controls instituted to ensure actual expenditure is in line with budget on a month-on-month and cumulative basis, and management information generated to support decision-making. Thereafter, recommending changes to processes and controls;
- Reviewing human resource management processes and controls (e.g., recruitment, disciplinary actions, salary increments, promotions, death, retirement, etc.) which have an impact on the wage bill and pension costs. Thereafter, recommending changes to processes and controls;
- Assessing the nature and magnitude of the potential problem of ghost employees on the payroll. In sequel, defining a strategy for dealing with the problem of ghost employees and recommending a costed plan of action to deal with the problem on both a short- and long-term basis;
- Supporting government to facilitate a stakeholders’ forum to discuss options for the way forward;
- Supporting the design of guidelines and implementation of approved reforms.

**Strengthen Commitment Controls**

“Arrears have been an issue in a significant number of [IMF-supported programs]” (Radev and Khemani, 2009). Therefore, it will be beneficial to review commitment controls, as they are key to ensuring overall expenditure control. The key objective of commitment control is to manage the initial incurrence of obligations in order to enforce expenditure ceilings and avoid expenditure arrears. The scope of work would include establishing whether:

- Commitments made are backed by budget appropriations and cash releases from MoFEP;
- Commitments cover all categories of expenditure;
- All payments are based on approved commitments;
- Outstanding commitments and unpaid invoices are monitored. If so, taking note of how often;
- There are any outstanding expenditure arrears.

**Clear Expenditure Arrears**

The PEFA 2010 indicates that Sudan has expenditure arrears which include payments that are “overdue based on a particular legal obligation (such as…salaries), a specific contractual commitment (such as…[an infrastructure contract]), or a continuing service arrangement (such as…[utilities]).” The accumulation of arrears can contribute to reduced economic growth; disruptions to the delivery of public services; increased costs of service provision; increased interest rates; job losses in the private sector; the erosion of trust in government’s regulations; and reduced confidence in fiscal policy (Flynn
and Pessoa, 2014). It is therefore critical to establish an arrears clearance strategy, which restores government’s credibility.

A donor-sponsored project could support the development and implementation of an arrears clearance strategy. The strategy preparation would involve five steps:

- Stock-take: conduct an in-depth survey to understand the extent of problem, the types of arrears, and creditors;
- Verification: establish the legitimacy of claims through external audit, inspectorates, or private auditors;
- Classification: analyze the dates of original invoices; amounts; suppliers; agencies; type of arrears; currency, etc.;
- Prioritization: agree on a set of criteria for liquidating the arrears;
- Liquidation: draw up a liquidation policy.

**Build Internal Audit Capacity**

Historically, the role of the internal audit function within government has been to undertake administrative activities such as “checking the accuracy of transactions, pre-payment verification and control, counting assets, and reporting” to management on past events (Khoury, 2011). However, over the past decade, the accounting and auditing profession has deliberated and reached consensus on how the internal audit function can be advanced. The evolving role of internal auditors is to promote “continuous improvement of the organization’s governance, risk management, and control processes” (The Institute of Internal Auditors, 2019).

It would seem that none of the development partners listed in Table 4 above plan to strengthen the internal audit function. A donor project could take up this initiative, with a view to improving Sudan’s PEFA score for internal audit. The project would sensitize Sudan’s internal audit function on developments, including the International Standards for the Professional Practice of Internal Auditing; facilitate the establishment of audit committees; develop and train staff in the use of audit methodologies to support assurance, advisory, and fraud investigation activities; support staff in the development and implementation of an audit charter and risk-based plans; and encourage collaboration with the NAC.

**Reform Procurement**

Procurement is a prominent activity during budget implementation. In this regard, in 2020, at least 6 percent of the recurrent budget (see Figure 7), was allocated to the procurement of goods and services. An additional SDG 58 billion (US$1.29 billion) was set aside for capital expenditure at the federal level, most of which will go towards the procurement of goods, works, and services.

There is concern that public procurement in Sudan is not transparent. “A system of patronage, cronyism, and nepotism distorts market competition. The state has direct or indirect stakes in many enterprises and even owns many” (Gan Integrity, 2020). In other words, procurement risk is high.

In the context of the above, the World Bank is assisting the government to strengthen the legislative and regulatory framework for procurement. In addition, the bank intends to assist the authorities with the implementation of an e-procurement system. The new system is expected to promote “transparency by collecting and publishing public procurement information and enhancing access for suppliers and other stakeholders through standardized and simplified processes.” It is anticipated that e-procurement will also deliver VfM by encouraging competition, thereby lowering prices (The World Bank, 2016).
A donor-funded project could complement the World Bank initiatives by building capacity of the procurement regulatory body, internal audit, and the NAC to undertake performance audits at different points in the procurement cycle. This initiative would be guided by procedures issued by the International Organization of Supreme Audit Institutions (INTOSAI). In particular, the project would build capacity in areas such as identification of risks; planning; audit methodologies; collection and analysis of audit evidence; audit documentation; evaluating performance and reporting (INTOSAI, 2016).

**Bolster Capacity for Legislative Oversight**

The establishment of the Transitional Legislative Council was delayed until December 31, 2020 to allow for consensus to be reached on how the various factions will share seats in the Parliamentary structure (Dabanga, 2020a). However, this deadline had not been met as of this writing. The U.S. Department of State’s Under Secretary for Political Affairs recently urged Sudan’s Minister of Foreign Affairs to form the legislative body (Hernandez, 2021). The interim constitution states that it will be responsible for “approving the general budget of the state.” The interim constitution also provides for the Auditor-General to operate in accordance with its “organizing law” (International IDEA, 2020). Specifically, under the NAC Act of 2015, the Auditor-General is required to submit audit reports to the Head of State and Parliament.

The Transitional Legislative Council will comprise 300 completely new members from Sudanese society. It is likely that they will need to be educated on their fiscal oversight responsibilities, especially in scrutinizing budget submissions and ensuring that members hold the executive accountable for the use of appropriated resources. A donor-funded project could support building their capacity to: (1) understand budgets; (2) examine audited financial reports; (3) assess whether the government spent funds in accordance with the intended purposes; (4) gauge whether government took into consideration VfM; (5) interrogate witnesses; (6) make recommendations; and (7) follow up with public institutions to establish whether their recommendations have been implemented.

**Improve the Level of Fiscal Transparency**

To usher in confidence in a nation that has been afflicted by prolonged conflict, the profound confidence of citizens is of paramount importance. Various mechanisms to give citizens a voice in service delivery would offer assurances. As such, participation by the citizens to boost transparency should be increased directly and indirectly through media or civil society organizations (CSOs). This is mainly relevant at the policy-making stage (e.g., the forthcoming preparation of the PRSP), while budget preparation itself can be viewed as a more technical exercise requiring decisions under a rigid deadline. Even without formal public participation, greater transparency in the government’s budget preparation process (e.g., through improvements in publicly available budget documentation) can help strengthen ownership.

The assessment team found it challenging to access fiscal information on Sudan from government sources. This view is consistent with the results of the OBS presented earlier in this section. One way in which governments in Argentina, Brazil (see Box 2), El Salvador, Indonesia, Mexico, the Dominican Republic, South Africa, and Uruguay have enhanced transparency is to set up fiscal-transparency portals. A fiscal-transparency portal is “A type of digital tool built on new technological possibilities, acting as [a] consolidated entry point to fiscal information that is subsequently more clear, reliable, frequent, timely, relevant, comprehensive, and accessible” (Gracida and Del Paso, 2019).
Box 2. Brazil’s fiscal-transparency portal

In 2004, the Brazilian Office of the Comptroller General created the Transparency Portal, a tool that aims to increase fiscal transparency of the Brazilian Federal Government through open government budget data. Developed in partnership with the Federal Data Processing Service, the Transparency Portal relies on the collaboration of diverse ministries and bodies of the Federal Public Administration to advance transparency and to offer a tool that stimulates citizen participation. As the quality and quantity of data on the portal have improved over the past decade, the Transparency Portal is now one of the country’s primary anti-corruption tools, registering an average of 900,000 unique visitors each month. The project is regarded as one of the most important e-government initiatives with regard to control over public spending. Local governments throughout Brazil and three other Latin American countries have modelled similar financial transparency initiatives after Brazil’s Transparency Portal.

Source: Graft et al., 2016

The benefits of a fiscal-transparency portal include that it provides a repository where key government documents can be accessed; assists in the identification of unlawful or wasteful expenditure; and provides a channel for obtaining feedback from citizens and civil society. A portal ultimately helps to “shape both policy makers’ and citizens’ understanding of budget policy and impact” (The World Bank, 2020b).

A donor-funded project could assist the government in developing a portal. The scope of activities would include defining the purpose, objectives, and performance metrics; identifying and segmenting users; establishing internal coordination mechanisms; designing the portal; and monitoring and evaluating the initiative.

Enhance Public-Private Dialogue among Government, CSOs, and the Private Sector

Public-private dialogue (PPD) is an essential ingredient to building the social contract. This is the case in both the DRM and PFM arenas. Sudan needs CSOs, chambers of commerce, labor associations, and others that can represent the broader public interest or provide a forum for dialogue among interested parties and government and parliamentary leaders. To be effective, these participants must understand the intricacies of public policy, taxation, and budgeting. They must have in-house expertise, as well as a capacity to invoke meetings and call together stakeholders to foster civil discussion and help develop solutions.

Donors can foster PPD by providing grants to qualified CSOs, as well as by providing training and other capacity-building assistance to targeted CSOs to enable to carry out and advance the cause of better taxation and budgeting. PPD activities can serve to bolster effective demand for good governance and fiscal transparency. PPD activities can be engaged separately from assistance to the MoFEP and need not wait until agreement with MoFEP is in hand.

Longer-term Initiatives under a Future Project

Three initiatives that a longer-term donor-funded project could support are multi-year budgeting, program budgeting and the revision of the PFM law. First, a multi-year budget would enable authorities “to gain a full appreciation of the future spending implications of present policy decisions. Nowhere is
this more important than on the recurrent costs of capital spending” (Potter and Diamond, 1999). A medium-term expenditure framework can also be a useful tool in translating Sudan’s PRSP “into public expenditure programs within a coherent multi-year macroeconomic and fiscal framework” (The World Bank, 2002).

Second, public institutions in the general government sector prepare their budget estimates on a line-item basis (e.g., covering inputs such as salaries, supplies, maintenance, utilities, and so on). In the longer-term, authorities may wish to consider introducing program-based budgeting (PBB) with a view to enhancing the efficiency and effectiveness of resource utilization in public institutions, thereby promoting greater alignment with national priorities. A key feature of PBB is that it embraces performance management, encouraging public institutions to focus on the achievement of outcomes and outputs.

Third, the Financial and Accounting Procedures Act of 2007 has gaps and needs to be replaced with a new PFM law. The new legislation would address various objectives, including: (1) improvements in specific budget-related problems; (2) new budgetary principles, such as transparency, accountability, fiscal stability and sustainability, and budget performance; and (3) strengthening the Cabinet and Legislative oversight of public finances. Good practice recommends that “a first step would be to conduct a diagnostic review of the country’s budget system, its fiscal institutions and decision-making processes. Any weaknesses or omissions could be addressed in the” new legislation (Lienert, 2013).

Risks, Consequences, and Mitigation

Table 5 is a risk-assessment matrix relative to the success or failure of the proposed interventions above. These are risks to successful project (i.e., reform) outcome. Each risk is assessed as low (L), medium (M), or high (H). The table also presents potential consequences as well as mitigation measures. Risk assessment is based on materiality (how big the impact) and likelihood that the adverse event might occur.

Table 5. Matrix of Risks, Consequences, and Mitigation Measures

<table>
<thead>
<tr>
<th>Risk</th>
<th>Rating</th>
<th>Potential consequences</th>
<th>Mitigation measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>There could be too many reform initiatives.</td>
<td>H</td>
<td>Development partner initiatives overlap or contribute to contradictory advice. The government makes no or slow progress in the implementation of PFM reforms.</td>
<td>Implementation should be sequenced, gradual, and flexible given the fragile social and economic conditions in Sudan. Coordinate development partners through the Steering Committee and SIP.</td>
</tr>
<tr>
<td>The institutional capacity, particularly in MoFEP, remains weak.</td>
<td>H</td>
<td>The government makes no or slow progress in the implementation of PFM reforms.</td>
<td>Implement the recommendations of the functional review of MoFEP. Development partners to provide substantial implementation support through technical assistance and skills transfer.</td>
</tr>
<tr>
<td>Those who have benefited from the lack of enforcement of the PFM regulatory framework could undermine reforms.</td>
<td>H</td>
<td>Fiduciary risks, particularly around procurement, remain high.</td>
<td>Change management and regular communication need to be embedded in the reform effort The government should enforce anti-corruption measures Civil society participation should be encouraged</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Risk</th>
<th>Rating</th>
<th>Potential consequences</th>
<th>Mitigation measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members of the Transitional Legislative Council are replaced following the general election.</td>
<td>M</td>
<td>Institutional capacity built is lost.</td>
<td>Closely monitor procurement processes through performance audits</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Plan to rebuild capacity in the medium-term</td>
<td></td>
</tr>
<tr>
<td>Political leaders lose ambition, focus, and commitment to inclusive growth and poverty reduction.</td>
<td>M</td>
<td>Limited programs for socio-economic transformation and poverty reduction are implemented.</td>
<td>The Prime Minister to provide leadership in articulating among national leaders the nexus between Sudan’s long-term vision and goals and the pursuit of PFM reforms</td>
</tr>
</tbody>
</table>

Source: Authors
III. THE DRM SPACE IN SUDAN

The Case for Supporting Sudan in DRM

When evaluated against the four characteristics specified in USAID’s strategy for FSR, DRM in Sudan is ineffectual (USAID, 2019b). In particular: (1) the levels of revenue generated are very low; (2) the tax administration is perceived to be unfair and inefficient; (3) the tax base is narrow; and (4) tax evasion and leakages are substantial. The government is aware of these problems, and has communicated its intention to address them (IMF, 2020e). The assessment team is therefore of the view that DRM can be a viable path for donor support Sudan’s economic development and contribute to the long-term, sustainable financing and delivery of essential services in the country. This section elaborates on the challenges faced and options for donor engagement.

An Overview of the Tax System

There are ten key taxes in Sudan (see Table 6). Employer-paid social security contributions and sales tax have the highest tax rates; they are levied at 17 percent of gross salaries and value added respectively. Corporate Income Tax (CIT) is levied at 15 percent of taxable profit; however, CIT is a median rate (there are five rates). On the lowest end, agri-businesses are exempt from CIT, whereas oil and gas entities pay CIT at the highest rate of 35 percent (IMF, 2020d). The total tax contribution rate as a percentage of a corporate entity’s profit of 45.4, is slightly lower than the SSA average of 47.4 (The World Bank Group, 2020).

Table 6. Key Taxes and Contribution Rates in Sudan as of 2020

<table>
<thead>
<tr>
<th>Tax or mandatory contribution</th>
<th>Statutory tax Rate</th>
<th>Tax base</th>
<th>Total tax and contribution rate (% of profit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer-paid social security contributions</td>
<td>17%</td>
<td>Gross salaries</td>
<td>19.8</td>
</tr>
<tr>
<td>CIT</td>
<td>15%</td>
<td>Taxable profit</td>
<td>11.29</td>
</tr>
<tr>
<td>State business tax</td>
<td>SDG 20,000</td>
<td>Entity unit</td>
<td>6.45</td>
</tr>
<tr>
<td>Vehicle license tax</td>
<td>SDG 17,000</td>
<td>Vehicle unit</td>
<td>5.48</td>
</tr>
<tr>
<td>Capital tax</td>
<td>5%</td>
<td>Land and vehicle value</td>
<td>2.74</td>
</tr>
<tr>
<td>Capital gains tax</td>
<td>5%</td>
<td>Capital gains</td>
<td>0.25</td>
</tr>
<tr>
<td>Stamp duty</td>
<td>SDG 10</td>
<td>Item</td>
<td>0.04</td>
</tr>
<tr>
<td>Employee-paid social security contributions</td>
<td>8%</td>
<td>Gross salaries</td>
<td>0.00</td>
</tr>
<tr>
<td>Municipal business tax</td>
<td>Various rates</td>
<td></td>
<td>0.00</td>
</tr>
<tr>
<td>Sales tax</td>
<td>17%</td>
<td>Value added</td>
<td>0.00</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>45.4</td>
</tr>
</tbody>
</table>

Note: US$1.00 is equivalent to Sudanese Pounds (SDG) 55.33.

Source: The World Bank Group, 2020

Statutory tax rates differ across countries. In select SSA and MCD countries:

- Employer-paid social security contributions tend to be lower, ranging from 8.5 percent (Mauritius) to 15.7 percent (Djibouti). However, Morocco levies this tax at 21.1 percent;
• The CIT rate is similar in Georgia (15 percent), Mauritius (15 percent), and Jordan (14 percent). It is highest in Uganda, at 30 percent of taxable profit;
• The value-added tax rate is about the same as Sudan’s sales tax rate—Georgia (18 percent), Uganda (18 percent), Jordan (16 percent), and Mauritius (15 percent). Djibouti has the lowest rate, at 10 percent.

In terms of non-tax revenue, oil is the highest source of revenue. In 2012, South Sudan and Sudan entered into an agreement on “oil and related economic matters.” As part of this agreement, Sudan receives fees of: US$9.48 per barrel for use of its pipeline to transport oil from the south to its Red Sea ports; and US$15 per barrel to cover the cost of debt repayments (Governments of the Republics of South Sudan and Sudan, 2012). In 2019, the two governments renewed this agreement for another three years (Sudan Tribune, 2019).

It is noteworthy that non-tax revenue excludes Zakat contributions by wealthy Muslims. Zakat is an obligatory payment under Islamic law and, in Sudan, is a mandatory contribution legislated under an Act passed in 2001. It is levied at 2.5 percent of annual income to individuals earning more than SDG 10,000 ($180) a year. Proceeds should go towards providing social welfare to the poor. Contributions are managed by the Zakat Chamber, which falls under the Ministry of Security and Social Development. Zakat revenue collections, which are extra-budgetary, are significant given that in 2013 they amounted to 26 percent of non-tax revenue ([IMF, 2014]; (Bilo and Machado, 2020)). The authorities are planning to review how Zakat is administered due to concerns about misuse of funds (Dabanga, 2020c).

**Revenue Performance in Sudan**

A review of Sudan’s domestic revenue performance presents a pattern of decline (see Figure 8). In this regard, average revenue collections between 2015 and 2019 stood at 8.1 percent of GDP, with a high of 9.6 percent in 2015 and a low of 6.9 percent in 2017 (IMF, 2017; IMF, 2020c). Over and above the political economy dynamics presented earlier, the decline is mostly attributable to the fall in other non-tax revenues, which mainly consist of revenue from domestically refined fuels sold by the Sudanese Petroleum Company (SPC) (IMF, 2012). SPC was liquidated in 2019 (Reuters Staff, 2019). It is also noteworthy that oil revenues from South Sudan declined in 2016 and 2017 due to declining oil prices from 2014 and civil conflict (EIA, 2019).

*Figure 8. Tax and Non-tax Revenue Contribution as a Percentage of GDP (2015–2019)*

Data sources: IMF, 2017 and IMF, 2020b
Tax revenue contributed 70 percent of total domestic revenue. However, it is noteworthy that tax revenue as a percentage of GDP over the period was much lower than amounts collected in SSA countries. Figure 9 shows the distribution of tax-to-GDP ratios among SSA where Sudan, indicated by the darker gray bar, is among the lowest ten countries. Sudan’s tax ratio is lower than the average of 11.9 percent for low- and middle-income countries. Income tax rates in Sudan are low and the tax is not adequately enforced (Jewell et al., 2015). Furthermore, Sudan loses revenue because it has a generous range of tax exemptions and incentives such as tax holidays; the tax base is narrow and not sufficiently progressive; the tax system is complicated by varying tax rates; and taxpayer compliance is low (IMF, 2014; IMF, 2020d). In a recent press conference, the Minister of Finance acknowledged that this issue of exemptions is a serious concern—in particular, he stated that “60 percent of economic activity is tax exempt” (Abdelaziz, 2019).

Figure 9. A Comparison of Tax Revenue in Sudan and Sub-Saharan Africa

![Graph showing tax revenue distribution among SSA countries.](image)

Data sources: USAID (2020) Collecting Taxes Database

Similarly, non-tax revenues (NTRs) fall short of amounts collected elsewhere (see Table 7). In this regard, there is a view that Sudan has the potential to raise the level of NTR from licenses, fees, charges, dividends, and royalties. This potential can only be realized by the comprehensive reform of associated policies and administrative arrangements. In this regard, opportunities exist to:

- Raise revenues from the mining sector. Sudan is rich in minerals such as gold, silver, platinum, base metals, and gemstones, for which the government is entitled to royalties ranging from 5 to 7 percent of value (Fatima, 2019). Going forward, royalties could be a significant source of NTR as the government recently opened up opportunities for the private sector to export up to 70 percent of gold produced, expected to reduce smuggling (Mirghani and Abdelaziz, 2020);
- Improve the management of dividends to ensure that any remaining SOEs pay government its share. The ongoing exercise to take stock of the number of SOEs, rationalize them, and strengthen oversight arrangements, will be a useful starting point (Abdelaziz, 2020);

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10 World Development Indicators do not include an average tax ratio value for low-income countries.
• More effectively exploit the property tax by: (1) developing the property market; (2) updating property registers and valuation roles; (3) strengthening institutional capacity; (4) removing exemptions; and (5) discouraging political interference (Fjeldstad, 2016).

Table 7. A Comparison of NTR in Sudan with Select MCD and SSA Countries in 2019

<table>
<thead>
<tr>
<th>Country</th>
<th>NTR as a% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Djibouti</td>
<td>6.9</td>
</tr>
<tr>
<td>Georgia</td>
<td>2.1</td>
</tr>
<tr>
<td>Ghana</td>
<td>1.4</td>
</tr>
<tr>
<td>Jordan</td>
<td>7.7</td>
</tr>
<tr>
<td>Mauritius</td>
<td>1.0</td>
</tr>
<tr>
<td>Morocco</td>
<td>3.9</td>
</tr>
<tr>
<td>Sudan</td>
<td>0.6</td>
</tr>
<tr>
<td>Uganda</td>
<td>0.9</td>
</tr>
</tbody>
</table>

Data sources: IMF: (IMF, 2019a); (IMF, 2020a); (IMF, 2019b); (IMF, 2019c); (IMF, 2019d); (IMF, 2019e); (IMF, 2020c); (IMF, 2019f)

Benchmarking the Tax System

Table 8 compares how Sudan fares relative to select MCD and SSA countries in terms of the effectiveness of the tax system in generating revenues. Two indicators from USAID’s collecting taxes database show that Sudan underperforms relative to the countries in the table. The tax capacity indicator shows that the amount of revenue that could be generated in Sudan is relatively low but tax effort, i.e., ratio of amount collected to tax capacity, is very low. There is significant scope to reduce the gap between estimated potential and actual revenue—especially through the rationalization of tax exemptions and incentives; higher tax rates; and a simplified and user-friendly tax administration. Sudan could garner lessons from countries with a higher tax capacity and tax effort such as Djibouti, Georgia, Jordan, and Mauritius.

Table 8. A Comparison of Tax Capacity and Effort

<table>
<thead>
<tr>
<th>Country</th>
<th>Tax capacity</th>
<th>Tax effort</th>
</tr>
</thead>
<tbody>
<tr>
<td>Djibouti</td>
<td>40.71</td>
<td>0.54</td>
</tr>
<tr>
<td>Georgia</td>
<td>42.23</td>
<td>0.53</td>
</tr>
<tr>
<td>Ghana</td>
<td>38.76</td>
<td>0.39</td>
</tr>
<tr>
<td>Jordan</td>
<td>41.95</td>
<td>0.43</td>
</tr>
<tr>
<td>Mauritius</td>
<td>41.67</td>
<td>0.45</td>
</tr>
<tr>
<td>Morocco</td>
<td>39.12</td>
<td>0.60</td>
</tr>
<tr>
<td>Sudan</td>
<td>28.04</td>
<td>0.24</td>
</tr>
<tr>
<td>Uganda</td>
<td>34.09</td>
<td>0.33</td>
</tr>
</tbody>
</table>

Note: Tax capacity is the empirical estimate or predicted value of the potential tax to the Gross National Product (GDP) ratio. Tax effort is the ratio between the share of actual tax collection (as a percent of GDP) and the predicted tax capacity.

Sources: USAID, 2018; USAID, 2019
Going by the World Bank’s Doing Business (DB) survey, Sudan places a heavy administrative burden on its corporate taxpayers when compared to the same select group of MCD and SSA countries (Table 9). In particular, in 2020 the DB survey ranked Sudan number 164 out of 190 countries in terms of ease of paying taxes. It has the greatest number of tax payments a year. In addition, Sudan has the lowest post-filing index, which is the “time to comply with value added tax (VAT) refund, time to obtain VAT refund, time to comply with a corporate income tax correction and time to complete a corporate income tax correction” (The World Bank, 2020c). These results support the case for reforming Sudan’s tax administration. Again, Sudan could draw on the experiences of countries such as Mauritius, Georgia, and Morocco which are ranked globally as 5, 14, and 24 respectively, in terms of ease of paying taxes.

Table 9. A Comparison of Ease of Paying Taxes, Indicators for 2020

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of payments a year</th>
<th>Time (hours a year)</th>
<th>Post-filing index (out of 100)</th>
<th>Overall rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Djibouti</td>
<td>35</td>
<td>76</td>
<td>25.2</td>
<td>133</td>
</tr>
<tr>
<td>Georgia</td>
<td>5</td>
<td>216</td>
<td>85.9</td>
<td>14</td>
</tr>
<tr>
<td>Ghana</td>
<td>36</td>
<td>226</td>
<td>49.5</td>
<td>152</td>
</tr>
<tr>
<td>Jordan</td>
<td>9</td>
<td>97</td>
<td>35.7</td>
<td>62</td>
</tr>
<tr>
<td>Mauritius</td>
<td>8</td>
<td>140</td>
<td>98.3</td>
<td>5</td>
</tr>
<tr>
<td>Morocco</td>
<td>6</td>
<td>155</td>
<td>98.6</td>
<td>24</td>
</tr>
<tr>
<td>Sudan</td>
<td>42</td>
<td>180</td>
<td>20.2</td>
<td>164</td>
</tr>
<tr>
<td>Uganda</td>
<td>31</td>
<td>195</td>
<td>72.3</td>
<td>92</td>
</tr>
<tr>
<td>SSA average</td>
<td>36.6</td>
<td>280.6</td>
<td>55.9</td>
<td>-</td>
</tr>
<tr>
<td>Middle East and North Africa average</td>
<td>16.5</td>
<td>202.6</td>
<td>53.3</td>
<td>-</td>
</tr>
<tr>
<td>Europe and Central Asia average</td>
<td>14.4</td>
<td>213.1</td>
<td>68.2</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: World Bank, 2020b

Recent Reform Efforts

In 2014, the government stated that its objective was to raise tax revenue collections to 6.5 percent of GDP. To this end, in March 2014, it established a Tax and Customs Reform Committee for Revenue Mobilization. The committee, which was chaired by the Minister of Finance, comprised representatives from public service institutions, academia, and the private sector. Its brief was to “review tax exemptions and the application of the VAT, and incorporate advice on developing more efficient tax policies to enhance non-oil tax revenues” (IMF, 2014).

The committee finalized its report in September 2017. Its key recommendations related to: (1) revising tax and customs legislation; (2) establishing a National Revenue Authority; (3) capacity building; (4) realizing efficiencies; (5) improving the work environment; and (6) promoting taxpayer compliance. The committee proposed that legislation be revised to rationalize tax exemptions and incentives, increase tax rates, and update VAT provisions. It also highlighted the need to: build capacity for research and enforcement; strengthen processes such as appeals; and make better use of information and communications technology (ICT) (Government of Sudan, 2017). Given the turmoil that Sudan has experienced in recent years, few if any of these recommendations have been implemented.
However, the assessment team garnered from stakeholders that many of the committee’s recommendations remain relevant today. In this regard, the authorities recently indicated to the IMF that it is committed to reforming the tax system and has already instituted several immediate measures in the 2020 supplementary budget including, for instance:

(i) removing VAT exemptions granted to the sales of sports equipment (local and imported), manufacturing inputs, plates and plate-printing machines, diesel, gasoline, and sugar; (ii) raising the VAT rate on telecommunication services from 35 percent to 40 percent; and (iii) raising corporate income tax rates from 10–12 percent to 15–25 percent and the property lease tax rate from 10 percent to 12 percent. (IMF, 2020e)

Past, Ongoing, and Future Support from Development Partners

Sudan is potentially eligible to receive relief from the HIPC initiative. The write-off of debt will enable it to allocate more resources to the social sector. To this end, in 2013 the government prepared an interim PRSP. While the PRSP needs to be updated, many of the tax reform issues remain relevant to date, including the need to:

Diversify and widen the tax base, strengthen revenue administration, increase the efficiency, transparency and equity of revenue collection, and eliminate tax exemptions and revenue earmarking. Measures to strengthen revenue administration include: improvements in the taxpayer identification system; improvement in controls especially with respect to the VAT; and increased use of computer systems. To strengthen the customs administration, the government will reorganize customs services, strengthen verification and control, and improve equipment in operational units. (Government of Sudan, 2013)

The Government of Sudan had requested technical and financial assistance to implement tax reforms. Up until now, there has been limited development-partner support in this area. FCDO has provided support through the International Growth Center in the areas of fuel subsidies and use of electronic fiscal devices. Future assistance by development partners include the following:

- GIZ has pledged to support tax reforms through a second phase of the Public Budget Management Forum.
- AFD has also committed to supporting tax administration strengthening.
- The IMF plans to provide advice aimed at strengthening revenue and customs administration and governance through a series of brief technical assistance missions (IMF, 2020c).
- The STC requested the World Bank for support in: (1) undertaking basic audits; (2) strengthening the operations in the large taxpayer office; (3) business intelligence and data analytics; and (4) enhancing revenue administration in the mining sector. The World Bank support is currently being delivered by one short-term consultant. STC has also indicated that it needs support in setting up a semi-autonomous revenue authority (SARA) (The World Bank, 2020a).
- The EU has an indicative program, which may provide assistance on tax policy and administration, particularly funding assessors to carry out a Tax Policy Assessment Framework, an incipient tool to assess tax policy, and a tax administration performance evaluation prepared using the Tax Administration Diagnostic Assessment Tool (TADAT) assessment.
Potential Areas for Support

There are large gaps around supporting Sudan to foster political leadership, citizen engagement, and coordination; strengthen tax policy and legislation; and establish an efficient, effective and accountable SARA. Donors could support the government in these three areas through a technical assistance and capacity-building project as a means to achieve sustainable financing needed to deliver essential services. The project would probably need to run over a three-to-five-year period, with a team of full-time resident advisers who would call on short-term specialists on an as-needed basis. In the medium to long term, the project would contribute to the achievement of the eleven outcomes presented in Table 10. The proposed scope of interventions described below fall under main three areas: (1) foster political leadership, citizen engagement, and coordination; (2) strengthen tax policy and legislation; and (3) establish an efficient, effective, and accountable SARA.

Table 10. Matrix of Key Result Areas and Broad Outcomes Anticipated from Tax Reforms

<table>
<thead>
<tr>
<th>Key result area</th>
<th>Broad outcome (O) sought</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Revenue collections</td>
<td>O1 – Increased revenue collections for development</td>
</tr>
<tr>
<td>2. Modernization</td>
<td>O2 – Operations modernized through automation</td>
</tr>
<tr>
<td>3. Taxpayer services</td>
<td>O3 – Improved taxpayer services</td>
</tr>
<tr>
<td>4. Compliance</td>
<td>O4 – Taxpayers find it easy to pay taxes and hence comply</td>
</tr>
<tr>
<td>5. Equity</td>
<td>O5 – The tax system is equitable and fair</td>
</tr>
<tr>
<td>6. Enforcement</td>
<td>O6 – Deliberate non-compliance effectively addressed through enforcement and encourages voluntary compliance</td>
</tr>
<tr>
<td>7. SARA costs</td>
<td>O7 – The SARA operates efficiently and effectively</td>
</tr>
<tr>
<td>8. Protection of borders and trade facilitation</td>
<td>O8 – Size of the illicit economy minimized</td>
</tr>
<tr>
<td></td>
<td>O9 – Legitimate trade enhanced</td>
</tr>
<tr>
<td>9. SARA internal capacity</td>
<td>O10 – Staff capacity and/or administrative systems strengthened</td>
</tr>
<tr>
<td>10. SARA work environment</td>
<td>O11 – An enabling work environment in place</td>
</tr>
</tbody>
</table>

Source: Kariuki, 2012

Foster Political Leadership, Citizen Engagement, and Coordination

A perception survey conducted in 2014 found that the majority of taxpayers in Sudan have yet to embrace a patriotic spirit and culture of willingly meeting their obligations. In this regard, the survey reported taxpayers’ antipathy was influenced by a number of factors, including: a lack of transparency by authorities; wastage of public resources; a view that they received no direct benefits; and a perception that taxes were too high and the tax regime too complicated (Obeid, 2015). Furthermore, it would appear that previous political regimes did not effectively engage citizens in forging a fiscal contract as a means for engendering tax morale.\textsuperscript{11}

Against this background, lessons of experience from elsewhere show that there is merit in ensuring that there is active involvement by the political leadership in fostering a tax-compliance culture, by convincing

\textsuperscript{11} The concept of a fiscal contract has its origins in agreements between European monarchies and the propertied class and merchants: that the latter would contribute to state coffers, especially to finance war, in return for specific benefits. In modern times, a fiscal contract would be characterized by government pledges of specific socio-economic benefits to justify taxation. This is a more realistic proposition in the context of a democratic polity.
taxpayers that tax revenues are put to beneficial use and that the tax system is fair (AfDB, 2011). There is also a need for the political leadership to be involved in designing reforms; championing reforms; promoting active participation by non-state actors; demonstrating their commitment and tenacity in supporting decisions made; overseeing monitoring and evaluation activities; and regularly communicating progress to all taxpayers. To these ends, the project could gainfully support the design and implementation of appropriate institutional arrangements that include the Cabinet at the helm, public institutions implementing tax reforms, local stakeholders, and the SIPF.

**Strengthen Tax Policy Making and Legislation**

A Donor-funded project could usefully place a full-time resident advisor to support issues to do with tax policy, legislation, and research. The advisor would work closely with the policy function within MoFEP and a possible future policy, planning, and research unit within the tax administration. Four priority areas are presented below. The advisor and short-term advisors would provide training and other capacity-building assistance.

**Strengthen Capacity for Policy Making**

Successive IMF staff reports suggest that the capacity of Sudan’s tax policy function remains too low to proactively engage in addressing policy issues. Moreover, the nature of policy challenges keeps changing. For example, with respect to VAT, unlike many other countries there is no refund mechanism (The World Bank Group, 2019). Rather, the VAT Act of 1999 provides for a taxpayer to deduct the cost of inputs from tax due. This arrangement is open to abuse and is not informed by good practice—a refund system based on self-assessment and a risk-based approach to enforcement (Harrison and Krelove, 2015).

A tax policy unit within MoFEP with an adequate range of competencies in research and policy analysis will yield substantial benefits to Sudan in the long term. In terms of appropriate staffing and organization of a tax policy making function, based on a survey of developed countries, Wales and Wales (2012) suggest that such a department should have: diversity of staff including economists, accountants, lawyers, and generalists; training programs that encourage an inflow of alternative experience; and mechanisms and a culture of coordinating with other government departments and stakeholders. A donor-funded project could advise and support the restructuring of the policy unit within MoFEP; recruitment where there are skills gaps; and on-the-job training.

**Undertake a Comprehensive Review of Tax Legislation**

The current primary legislation has been in place for decades and it is therefore likely that it fails to reflect good practices in model legislation and strategic purpose. Principal pieces of legislation include the: (1) Income Tax Act of 1986; (2) Customs Act of 1986; (3) VAT Act of 1999; and (4) Stamp Duty Act of 2002. It is likely the case that legislative changes over the years have been undertaken on a piece-meal basis. Furthermore, under the IMF’s SMP, government has been urged to consider both broadening personal income tax (PIT) brackets (as a means of making the tax system more progressive and to widen the taxpayer base) and unifying CIT rates. Therefore, there is a prima facie case for an initiative to comprehensively review the tax legislation regime.

There is a window of opportunity for government to appoint a multi-disciplinary team of researchers and policy makers to undertake the task of supporting the development and implementation of a comprehensive package of reform of the tax regime. The review team could be facilitated by the project. Sudan can borrow a leaf from such initiatives as South Africa’s Katz Commission and Davis Tax Committee (see Box 3), the Mirrlees Review (UK), the Carter Commission Report (Canada), the Mintz
Report (Canada) and the President’s Economic Recovery Advisory Board’s Report on Options for Changes in the Tax System (USA).

Box 3. Legislative reviews in South Africa

In 1993, the newly formed Government of South Africa established a Commission of Inquiry into Certain Aspects of the Tax Structure (popularly known as the Katz Commission). The Katz Commission researched the country’s tax system and developed reform strategies and policies over five years. Its policy and legislative prescriptions were comprehensive and included: the rationalization of the income tax rate and structure; the removal of certain loopholes in the income tax law (e.g., allowances and taxing residents on a worldwide basis); the introduction of a capital gains tax; the imposition of environmental taxes; that government offer a tax amnesty; and the establishment of South African Revenue Service etc. It issued nine interim reports over a five-year period, which set the stage on which to anchor future reform efforts.

In 2013, the Minister of Finance, Pravin Gordhan, appointed an eight-member Tax Review Committee (TRC), chaired by Judge Dennis Davis. The Committee was tasked to review and advise government on how the tax policy framework can promote inclusive growth, employment, development, and fiscal sustainability. Through a participatory process, TRC evaluated “the South African tax system against internationally accepted tax trends, principles and practices, as well as recent international initiatives to improve tax compliance and deal with problems of base erosion.” The TRC examined: personal income tax, CIT, and VAT; wealth tax; the impact of the tax regime on small and medium enterprises; and appraised the appropriateness of the current mining tax regime.

Sources: The Davis Tax Committee, 2013; Katz Commission, 2020

Minimize and Ensure Efficiency of Tax Incentives and Exemptions

The level of tax exemptions and incentives that are available in Sudan contribute to substantial revenue losses, probably accounting for its low tax capacity and tax effort (see Table 8 above). The results of the most recent analytical work indicate that Sudan could make progress towards realizing a tax revenue collection target of 13 percent of GDP by rationalizing exemptions, particularly:

- In the agriculture sector, where 46 percent of employees do not pay PIT and in which firms are exempt from CIT. The level of revenue loss from agriculture is significant, given that the sector contributed 39.6 percent of Sudan’s GDP in 2017 (CIA, 2020);
- In international trade, where the percentage of tax revenue lost in 2017 from customs duty and VAT imports was 43 and 37 percent respectively (IMF, 2020d);
- With respect to VAT. The VAT gross compliance ratio of 46 percent is lower than the SSA and World averages of 47 and 64 percent respectively (Rosado, 2020). Exemptions contribute to this rate. It is noteworthy that the VAT Act of 1999 exempts several goods and services, including but not limited to all agricultural products; drugs; bread; financial, educational, and medical services; and persons covered by the Immunities and Privileges Act of 1956.

There are also exemptions and incentives available to investors. The National Investment Encouragement Act of 2013 seeks to promote investments in projects that align with Sudan’s development priorities. Firms that invest SDG 500,000 in projects approved by the Investment Supreme Council benefit from a range of exemptions and incentives under the Act, including but not limited to: (1) access to free zones in Khartoum, Port Sudan and Suakin; (2) not having to pay profits tax for the first 15 years; (3) PIT exemptions; (4) customs duty exemptions on products imported into free zones; (5) capital allowances; and (6) the ability to remit net sale proceeds out of Sudan (KPMG, 2016).
The provision of tax holidays may promote investment. To yield strategic and enduring results, however, tax incentives need to be combined with a broader set of policy tools (e.g., legislative framework to protect property rights, the development of infrastructure such as roads, energy, ports, financial services, etc.). In other words, “the effectiveness of tax incentives—in the absence of other necessary fundamentals—is highly questionable” (Tanzi and Zee, 2001). Moreover, the “excessive use of tax incentives complicates administration, facilitates evasion, and encourages corruption” and they are difficult to eliminate (Bird, 2008).

A donor-funded project team could assist MoFEP’s policy unit and the SARA in three main ways. First, undertake a comprehensive stock-take and analysis of the current incentives and exemptions, as a basis for demonstrating to political leadership the fiscal and economic benefits of the recommended measures. Second, develop a transparent policy framework to minimize exemptions and incentives. Third, institutionalize the analysis and reporting of tax expenditures.

**Simplify the Tax Regime for Small Taxpayers**

A significant part of Sudan’s economy is in the informal sector. One estimate of the proportion of self-employed compared to all non-farm employment in Sudan is 40.7 percent (Adams et al., 2013). Another study estimates the size of the shadow economy to constitute 20.2 percent of GDP (Arabi, 2016).

It is relatively easy for the informal sector to remain outside the tax net, as their businesses are largely cash-based. Furthermore, the CIT system in place for formalized businesses (the standard tax schedule) may be too complicated for micro, small, and medium enterprises (MSMEs). Therefore, in line with good practice, there is a case for introducing a presumptive tax regime for the informal sector that is fair and simple. A presumptive tax is typically provided for within a country’s Income Tax Act.

There are five main methods used to levy a presumptive tax (see Figure 10). Each method is ranked against the economic cost of administering it and its equity. At one extreme, the simple patent which levies tax on the basis of activity is easy to administer, but regressive. At the other extreme is the forfeit system, which is fairer in than it accommodates taxpayer specifics, but requires the collection and analysis of considerable amounts of data (The World Bank Group and DFID 2007). At the end of the day, the choice of method should be driven by the following four factors:

- The preferred MSME taxation system should be one that MSMEs and the revenue administration have the capacity to operate.
- The system should take heterogeneity into account.
- The system should encourage MSMEs to grow and graduate to the standard tax schedule.
- Lastly, there is need to make a distinction between businesses that are likely to benefit from formalizing their operations and those which operate purely for subsistence purposes (James, 2008).
A donor-supported project could advise MoFEP on the most appropriate presumptive tax system for Sudan. Project advisers could also participate in the process of making legislative provisions and drawing up accompanying regulations. There may also be a need to support the preparation of a simplified taxation and accounting system and guides for taxpayers and participate in sensitization workshops.

Support Comprehensive Program of Tax Administration Modernization

The Ministry of Finance and Economic Planning (2015) recognizes the need to implement reforms to tax administration. Based on the team’s review of revenue performance and discussions with interlocutors, these requirements are as valid today as they were in 2015. Some of the identified reforms are being addressed with assistance from the IMF, World Bank, and other donors, but there is much room for additional assistance. The following lists areas where assistance is needed. This list is in two parts: those that should begin immediately, the first of which would be benchmarking; and intermediate, where measures can be initiated in the immediate term, but implemented over the longer term or on a continual basis.

Immediate program:

1. A full tax benchmarking. This is a USAID specialized tool and should be used with a precision tax system to identify performance and weaknesses, links to tax administration organization, processes, resources, and institutional and human capacities;

2. Improve taxpayer registration and link it directly to the National Center for Information;

---

12 Forfait tax uses several factors to determine the taxpayer’s obligation.
3. Simplify and make more objective the taxpayer appeals process by improving the principles and practices that ensure fair treatment, as well as improve information systems to ensure fair and speedy access to necessary information for appeals cases;
4. Strengthen tax audit through better processes, training, and regulations;
5. Remove any obstacles to the taxpayer certification processes (certification is required before taxpayers can do business with the government);
6. Improve taxpayer services, information, and relations;
7. Provide technical support to the MoFEP and STC for their representation in the committee for reviewing and auditing oil costs formed by the Ministry of Petroleum. This may entail specialized audit expertise as well as risk management techniques.

Intermediate program:
1. Strengthen corporate functions, especially planning, human resources, and training;
2. Provide Business Process Analysis and Reengineering documentation and training;
3. Support automation of new processes;
4. Provide ICT strategy and support for implementation, including an e-tax system and MIS for the STC;
5. Train in all areas: audit, specialized audit, audit selection, taxpayer registry, identification of non-filers and stop-filers and notification systems, controls on taxpayer arrears, enforced collections, debt management, appeals, among others;
6. Provide support for information technology equipment, database creation, and controls.

Establish an Efficient, Effective, and Accountable SARA

We emphatically recommend that donors support either tax system modernization with the STC or assist with the conversion from the STC to a SARA: not both.

One of the Tax and Customs Reform Committee’s recommendations is to establish a national SARA. This proposal is in line with a practice adopted elsewhere in low- and middle-income countries in Anglophone Africa, Eastern Europe, and Latin America. Various reasons are advanced for setting up a SARA, as follows:

- “The structure reduces political interference in revenue administration operations; it provides more responsibility and accountability for managers to achieve their objectives; and it increases management capacity, especially in terms of budgeting decisions and human resource policies” (Junquera-Varela et al., 2019).
- A SARA “can lead to better performance by removing impediments to effective and efficient management while maintaining appropriate accountability and transparency” (Crandall, 2010).

It could take up to 16 years for a SARA to be fully efficient and effective. At that point, it would be expected to “collect the right amount of tax, at the right time, and...at minimal cost to the government and the least burden to taxpayers” (Deloitte Consulting LLP, 2013). To achieve these results, a number of conditions need to be met, including: (1) promoting wide stakeholder consultation; (2) promulgating enabling legislation and regulations; (3) ensuring that the SARA is organized on the basis of its key functions; (4) simplifying, integrating, and modernizing key business process and work tools; and (5) making sure that the SARA’s initiatives complement the country’s wider anti-corruption efforts (Junquera-Varela et al., 2019).
The assessment team is not recommending replacing the current STC be replaced by a new SARA, but should that be the decision, creating this new organization will require a great deal of support. There are three ways that nimble donor assistance could be most immediately useful:

1. Work with MoFEP and other to review international evidence, the domestic situation, and weigh the costs and benefits of undertaking such a radical institutional reform
2. Develop the legislation and regulations needed to create the new SARA. This will include review of international experience and good practice
3. Develop a plan for the roll-out of the new SARA

To ensure that the transition is manageable, reforms should be phased. Figure 11 presents five building blocks that could inform initiatives in Sudan. In this regard, lessons of experience suggest that a five-year project should aim to support initiatives under the first three building blocks. Initiatives are described in detail below and summarized as follows:

- **Get the basics right.** This involves establishing the SARA through legislation; designing the organizational structure; filling positions within the structure; developing staff and financial management policies and procedures; and developing the first medium-term strategic plan.
- **Attain an enabling social-political institutional environment.** This encompasses designing and implementing policies which promote ethics and professionalism; launching a taxpayer education program; and commissioning studies and holding seminars to enhance understanding of industry trends and risks.
- **Design and implement comprehensive reforms.** This includes developing the second medium-term strategic plan; streamlining procedures and routines; launching a taxpayer compliance program; and developing an ICT strategy.

**Figure 11. Five Building Blocks**

Source: Kariuki, 2013
**Draw Up and Promulgate SARA Legislation**

The SARA will require enabling legislation that is based around four policy choices covering the following main areas: the degree of autonomy; the governance framework; accountability arrangements; and scope of functions. Table II sets out the issues that will need to be considered under each area.

A donor could deploy a team to review existing laws, consult stakeholders, draft the SARA bill, make explanatory notes, and prepare presentations. The team would be required to work closely with the Ministry of Justice, Ministry of Finance, Legislators, and other stakeholders.

Table II. Policy Issues to be Considered for Enabling Legislation

<table>
<thead>
<tr>
<th>Policy area</th>
<th>Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Autonomy</strong></td>
<td>What legal form and status will the SARA take? What will be the roles and responsibilities of the Minister of Finance? Will staff be treated as civil servant or will they be employed on special terms? How much operational autonomy will the SARA have?</td>
</tr>
<tr>
<td><strong>2. Governance</strong></td>
<td>Who will constitute the Board? What will the functions of the board? What will be the roles and responsibilities of the Chief Executive?</td>
</tr>
<tr>
<td><strong>3. Accountability</strong></td>
<td>What arrangements will be put in place for reporting to government and parliament? Who will audit the SARA?</td>
</tr>
<tr>
<td><strong>4. Scope</strong></td>
<td>What will the functions of the SARA be? Which taxes and what taxing agencies will fall under the SARA?</td>
</tr>
</tbody>
</table>

Sources: Based on Crandall and Kidd, 2010; Trinidad and Tobago Revenue Authority Bill of 2018

**Design an Organization Structure**

The performance of the SARA will be heavily influenced by its organization design, including structure, leadership, people, processes, practices, and so forth. To this end, like any organization, the design of Sudan’s organization structure will benefit from observations and experiences elsewhere (Burton and Obel, 2018). Many SARAs have adopted function-based structures with a strong headquarters function, as opposed to structures organized by tax heads.

Typical functions that are housed at the headquarters level include taxpayer services and education; returns processing and payment; collection and enforcement; audit and investigations; tax operations policy; and support functions (e.g., finance, human resources, and ICT). Field operations typically include small, medium, and large taxpayer offices; and regional, district, and customs border offices. A functional structure promotes:

- Standardization and specialization across the SARA
- Greater compliance as the SARA has a “whole view” of a taxpayer
- A reduced taxpayer burden and lower administrative costs as it enables common processes to be applied
- Integrity of SARA staff, as duties are segregated (Kidd, 2010)

A donor-funded technical assistance project could facilitate the design of the most appropriate and effective organizational structure for Sudan’s SARA. The scope of the technical advice would cover the following activities: generate and obtain feedback on the organization design and staffing options; use the preferred organization design to undertake a job analysis; prepare job descriptions for each job type;
collaboratively work with stakeholders to classify jobs; collect benchmark salary data; propose a salary structure; and develop human resource and staffing policies.

**Deploy and/or Recruit Staff**

As part of the operational readiness process, government will need to appoint the Board of Directors (BOD) and Chief Executive Officer (CEO)/Commissioner General (CG). Appointments will be informed by the SARA’s enabling legislation which, for example, should specify the size and composition of the BOD and the criteria for selecting members. Typically, the BOD will include government and private sector representatives and the CEO/CG. The Head of State/Minister of Finance often appoints non-state actors and the first CEO/CG (who may need to be vetted by Parliament).

Once the BOD is appointed, it will be tasked to review, comment, and eventually approve human resource and staffing policies; thereafter, it will participate in the recruitment of the SARA’s senior executives. A donor project could support the BOD during these recruitments by conducting research on prospective applicants; running assessment centers; short-listing candidates; scheduling interviews; checking references; and extending offers of employment on behalf of the SARA. The project could also support newly appointed senior executives to recruit/deploy the remaining staff.

**Develop Financial Procedures and the First-Year Budget**

Two other pre-operational activities that a donor-funded project team could support are the development of financial procedures and the authority’s first-year budget. A financial procedures manual would include initial accounting, budgeting, procurement, cash management, reporting, and audit arrangements. The authority’s first-year budget would probably be prepared on a line-item basis to cover priority recurrent, operational, and capital expenditures.

**Prepare and Implement the First Strategic Plan**

Most SARAs collaboratively prepare medium-term (three-to-five-year) strategic plans. Tax administrators are of the view that a strategic plan enables a SARA “to diagnose the tax administration’s principal problems, design a strategy for actions to be taken, and agree on…scope and timing” (Silvani and Baer, 1997). In the words of the former CG of Liberia Revenue Authority (LRA), a strategic plan “marshals the envisaged transformation and modernization agenda…over the next five years” (LRA, 2016). Many SARAs also publish strategic plans as a means of demonstrating their commitment to open government; accountability; and the delivery of results (OECD, 2015).

The preparation of the first strategic plan will involve the BOD and staff at all levels of the SARA. Project advisers could facilitate the various design and implementation activities, including: (1) pre-planning; (2) preparing the strategic plan; (3) allocating resources for implementation; (4) deploying the plan; (5) cascading objectives and metrics in the plan to staff to ensure discipline and performance; (6) implementing the plan; (7) monitoring and evaluating the plan; and (8) producing annual reports which inform stakeholders on the results of implementation.

**Design and Implement a Code of Ethics and Conduct**

A code of ethics and conduct constitutes “a part of the canon in the in the litany of anti-corruption measures” (Mayville, 2005). It will, therefore, be important that the SARA build a culture of ethics and positive behavior. This will entail culture change and staff development over time.

A code of ethics and conduct should include the following topics: (1) extracts from the SARA’s strategic plan (e.g., vision, mission, and core values); (2) its purpose; (3) code of ethics and conduct guidelines (e.g., on respect, conflict of interest, gifts and benefits, personal conduct, etc.); and a summary of laws
administered by the SARA. The Mauritius Revenue Authority’s (MRA’s) code is a good example (MRA, 2014).

A donor-funded project could support the preparation of a code of ethics and conduct; the delivery of seminars aimed at sensitizing staff; provide guidance on how the code will be enforced; and the conduct of baseline and repeat stakeholder surveys to garner opinions on issues such as accountability, transparency, integrity, and unethical practices.

**Launch Taxpayer Services**

It is good practice for a SARA to provide taxpayer services. “Tax knowledge is an important factor for tax compliance” (Muhammad et al., 2018). Furthermore, if well planned, a taxpayer service offering can enable a SARA to manage its costs in the long term.

There are a range of taxpayer requests, including but not limited to the need to obtain forms and publications; follow up on notices sent by the SARA; get guidance on tax matters; follow up on refunds or payments; and register as a taxpayer. A SARA can provide these services through various channels, such as call centers; a self-service portal; written correspondence; seminars; and face-to-face interactions at service centers (Dohrmann and Pinshaw, 2009).

A donor-funded project could work with SARA staff and key stakeholders to develop and cost a taxpayer services plan. The plan would contain a prioritized menu of service offerings and the most appropriate channels for delivering them. The effectiveness of this initiative could be measured through taxpayer satisfaction surveys.

**Undertake Research**

An effective research function within a SARA should provide valuable information on the underlying drivers of non-compliance by certain taxpayers. This type of research seeks to establish what is taking place in the economy, which taxpayer groups are involved, and the reasons for their actions (OECD, 2004). In the latter perspective, in recent years, SARAs elsewhere have tended to focus on topical issues such as taxation of the informal sector; taxation of the construction industry; and transfer pricing (Tanzania Revenue Authority, 2012); (Ensor, 2014); (Li et al., 2017).

A donor-funded project could assist in strengthening the SARA’s research capacity. The first strategic plan, findings from the audit, enforcement, and investigations functions, top management guidance and media reports would be useful in identifying studies to be undertaken. The project’s technical advisers would then guide research staff on how to undertake a literature review; extract data from taxpayer files; design data collection tools; and undertake the research, analysis, and reporting.

**Prepare and Implement a Second Strategic Plan**

Within three to five years of being operational, it will be necessary for the SARA to prepare its second strategic plan. Again, a donor-funded project could support this initiative by assisting with a review of the previous plan and associated annual reports and facilitating the planning and development activities as before. The aims of the review will be to assess performance against targets; identify lessons learned; determine whether the SARA’s initial objectives remain relevant; and consider which challenges and risks remain and/or any that have emerged. Some SARAs include the results of the review of previous plans as a chapter in the subsequent strategic plan (Ghana Revenue Authority, 2019); (Kenya Revenue Authority, 2018); (Mauritius Revenue Authority, 2018); (Uganda Revenue Authority, 2020).
Streamline Procedures and Routines

As indicated earlier in Table 9, companies in Sudan find it cumbersome to pay taxes. A typical business in Sudan makes 42 payments a year, for a combination of 10 major tax and non-tax heads, and spends 180 hours complying with filing requirements (The World Bank, 2020c). Furthermore, data from a 2014–15 survey of 662 firms reported that 71.5 percent of firms identified tax administration as a major constraint. In contrast, 29.2 and 22.8 percent of SSA and all countries respectively reported that tax administration was a major obstacle.

Given the limitations above, it would be beneficial for the SARA, with support from a project team, to undertake process mapping of the major taxes. The aim will be to identify where procedures and routines do not function efficiently and which of them can either be streamlined or enhanced; attention should be accorded to registration, filing, declaration, payment, audit, and appeals. The team of technical advisers would assist with the:

- Definition of the administrative processes for all major taxes
- Development of detailed process maps for existing “as is” processes
- Design of new “to be” processes
- Development of standard operating procedures for each process
- Recommendations and plans for automation of processes
- Building of capacity through the transfer of knowledge, content, and methodology

Develop and Launch Taxpayer Compliance Program

A low level of compliance is one of the factors that undermines Sudan’s tax effort. One reason given for a low level of compliance in the 2014 stakeholder perception survey is that taxpayers are intimidated by tax officials (Obeid, 2015). Further, the 2014–15 enterprise survey reported that 94.9 percent of firms were visited or required to meet with tax officials, as opposed to 69.8 and 53.2 percent of firms in SSA and all countries respectively (The World Bank, 2020d). In other words, tax administrators have used an adversarial approach, which is not effective. Elsewhere, SARAs have shifted towards a cooperative compliance approach. In this regard, South Africa is a pioneer in the region and describes a program to promote cooperative compliance as: “The themes, aspects and areas we choose to focus on for a particular planning and reporting period in order to leverage our resources and to create clarity, certainty, and transparency for taxpayers and traders” (South African Revenue Service, 2019).

Against this background, Sudan’s SARA could benefit from a taxpayer compliance program. The objective of the program would be to “identify and respond to the most significant risks in the tax system…and achieve the widest possible impact on voluntary compliance” (Russell, 2010). A donor-funded project team could support the development of Sudan’s compliance program. The program would need to be: (1) developed for each key taxpayer segment; (2) anchored on rigorous analysis of each segment’s economic, revenue, and business characteristics; and (3) underpinned by an analysis of risks and compliance issues. Any research studies undertaken by Sudan’s SARA would be useful. The program development activities would inform the generation of initiatives to promote compliance, which must be monitored and reported on periodically.

Prepare and Implement an ICT Strategy

In recent years, the world has witnessed a number of technological trends. Rapid automation has aided the growth of digital transactions and the amount of available data. As a result, tax administrations all over the globe have been forced to embrace ICT to administer their functions. Key initiatives include: digitizing taxpayer services; applying data analytics “to segment taxpayers, prioritize examinations [and]
create early warning systems”; and automating processes (Barnay et al., 2018). “Taken individually or together, these trends have the power to increase taxpayer satisfaction, empower tax agency employees, optimize operations and modernize services” (Microsoft and PwC, 2018).

If government chooses to invest in technology, the SARA will need to develop an ICT strategy to guide the transformation process. The ICT strategy should be informed by the SARA’s strategic plan. An ICT strategy typically includes:

- The objectives and scope of the strategy
- Institutional and administrative arrangements
- The SARA’s ICT requirements and how, if at all, the different systems are interfaced
- An indication of who will deliver the ICT services. Is there an in-house team or will the services be outsourced?
- Estimates of human and financial resources needed to implement ICT projects contained in the strategy
- Details of capacity-building needs
- Proposals on how any linkages with other government systems will be managed
- An analysis of risks and mitigation strategies (Cotton and Dark, 2017)

A donor-funded project team could provide overall direction during the development of the SARA’s ICT strategy. Major tasks would include: the review of the existing ICT organization and services; undertaking a stock-take of existing technology; conducting an environmental analysis; and developing a three-year ICT strategy.

**Undertake a Benchmarking Exercise**

Lessons of experience promote the use of benchmarks to compare a “set of specific indicators that capture the essence of most any tax system to either international best or…relevant practices…[and to] facilitate establishing goals and specific targets for…improvement and modernization” (Gallagher, 2004). USAID has supported benchmarking initiatives in other jurisdictions such as Moldovia, Jordan and Liberia (Gallagher et al., 2008); (Akashah et al., 2013); (Kitan et al., 2017). A donor-funded project in Sudan could commission such an initiative to cover aspects of tax administration and customs operations. The results of the benchmarking exercise would inform the development of a prioritized set of recommendations.

**Commission a Tax Administration Diagnostic Assessment**

Half-way or toward the end of implementing the reforms above, it would be beneficial to commission an independent assessment of the SARA’s performance. To promote an objective and standardized approach to assess the relative strengths and weaknesses of a country’s tax administration system, a secretariat housed by the IMF has developed the Tax Administration Diagnostic Assessment Tool (TADAT). TADAT appraises “the health of key components of a country’s tax administration system and its level of maturity in the context of international good practice” (TADAT Secretariat, 2019). The assessment covers the nine performance outcome areas that form the heart of the TADAT tool.

A project team could support the SARA in liaising with the TADAT Secretariat to field a team of assessors and could even fund some of the TADAT team members. (USG has provided assessors to TADAT teams in several other countries, such as Liberia and Guatemala). The TADAT secretariat is a collaborative effort of the IMF, World Bank, and six governments.13 Once a team of assessors is in

13 Germany, Japan, the Netherlands, Norway, Switzerland, and the United Kingdom.
Sudan, the project team would organize logistics, such as nominating SARA staff to attend TADAT awareness training and arranging meetings and field visits. On completion of the assessment, the team would work with the SARA’s management to draw up an action plan with strategies to improve scores.

**Longer-term Initiatives under a Future Project**

At the end of the first donor-funded project, three of the building blocks illustrated in Figure 11 should have been accomplished. However, there will be scope to continue to fund a follow-on project to cover the remaining building blocks and move the SARA toward attaining world-class status. Figure 12 illustrates the reform trajectory. Key reform initiatives under the remaining two building blocks include, but are not limited to, the following:

- **Modernize the tax system** by fully implementing projects in the ICT strategy, continuing to promote capacity building, implementing service improvements, furthering policy research and consolidating culture change initiatives.
- **Attain world-class status** through sustained quality performance, ongoing communication of results, and continuous dialogue with stakeholders.

There is also the issue of NTRs. A donor-funded project could support a comprehensive study of NTRs. The study would: (1) assess NTR potential in public sector agencies; (2) review the institutional and legal frameworks that enable and regulate each type of revenue; (3) review the administrative practices and capacity in collecting agencies; (4) evaluate the accountability arrangements for the revenues collected; and (5) determine the overall feasibility of significant increases in revenue, and the contribution to national development efforts.

**Figure 12. The Trajectory to World-class Status**

Source: Kariuki, 2013

**Value for Money**

Sudan’s tax effort is extremely low at only 0.24, compared to Sub-Saharan Africa average of 0.50. If this gap could be closed by half, which should be possible by taking the actions above, this would yield an
additional $3 billion in tax revenue per year. The assessment team’s baseline estimate is that donor investment could yield new revenues of more than $200 per one dollar of assistance over the next five years. Coupled with improvements in PFM and allocations, this could go quite far in furthering the country’s development and foster self-reliance. While this possible return is quite high, there are considerable risks that could place this in jeopardy. These risks are touched upon in the next section.

Risks, Consequences, and Mitigation

Table 12 is a risk-assessment matrix relative to the success or failure of the proposed interventions above. Risks expound on the potential consequences of implementing or not implementing interventions. These are risks to successful project (i.e., reform) outcome. Each risk is assessed as low (L), medium (M), or high (H). The table also presents potential consequences as well as mitigation measures. Risk assessment is based on materiality (how big the impact) and likelihood that the adverse event might occur.
### Table 12. Matrix of Risks to Reform, Consequences, and Mitigation Measures

<table>
<thead>
<tr>
<th>Risk</th>
<th>Rating</th>
<th>Potential consequences</th>
<th>Mitigation measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax morale among the citizenry is low.</td>
<td>H</td>
<td>Tax evasion prevails at an unacceptably high level</td>
<td>Tax administration to promote compliance and strengthen enforcement in the short- to medium-term Engender tax morale through public education and a fiscal contract</td>
</tr>
<tr>
<td></td>
<td></td>
<td>High levels of delinquency among existing taxpayers</td>
<td></td>
</tr>
<tr>
<td>Weak political support for taxation of the informal sector is sustained.</td>
<td>H</td>
<td>A narrow tax base</td>
<td>Consensus between tax policymakers and administrators on the one hand and political leaders on the other on the objectives and strategies for bringing the informal sector into the tax net Political leaders and SARA to systematically inform and educate taxpayers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Considerable revenue leakages</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tax morale undermined among existing and potential taxpayers</td>
<td></td>
</tr>
<tr>
<td>Delays and/or fragmented approach to the reform and modernization of tax legislation.</td>
<td>H</td>
<td>Taxpayers find the system complex and compliance is undermined</td>
<td>MoFEP to commission and manage a comprehensive review of revenue policies and legislation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tax revenue losses</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>High costs of administration</td>
<td></td>
</tr>
<tr>
<td>Political leaders lose focus and commitment to inclusive growth and poverty reduction.</td>
<td>M</td>
<td>Limited programs for socio-economic transformation and poverty reduction.</td>
<td>The Prime Minister to provide leadership in articulating among national leaders the nexus between Sudan’s long-term vision and goals and the pursuit of the sustainable development goals and DRM</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Comparatively low demand for domestic resources</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Inertia and complacency in DRM among national leaders</td>
<td></td>
</tr>
<tr>
<td>An inefficient and ineffective tax incentives and exemptions regime is maintained.</td>
<td>M</td>
<td>Considerable revenue leakages</td>
<td>MoFEP to initiate the rationalization of the tax incentives and exemptions Regular reporting of tax expenditures</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tax morale undermined among existing and potential taxpayers</td>
<td></td>
</tr>
<tr>
<td>There are delays and lapses in the implementation of the modernization program.</td>
<td>H</td>
<td>Overall delay in closing the tax gap</td>
<td>MoFEP to ensure that adequate resources are available to implement the program the tax administration to ensure that there is capacity to implement, monitor, and take correct action</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tax revenue losses</td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors
IV. NEXT STEPS

Summary of Assessment Findings

The assessment established that there is a great deal of scope for further donor intervention in both the budgeting and DRM spaces. Sudan maintains few, if any, characteristics of a country demonstrating strong FSR.

Options for increased donor involvement in the budget space are presented in Table 13. A useful and immediate initiative will be to undertake a functional review of MoFEP. Other quick wins include: supporting the development a pre-budget statement and citizens’ budget; instituting wage bill controls; establishing commitment controls; educating the legislature; and launching a fiscal transparency portal. The team’s approach to sequencing and prioritizing is informed by that proposed in Gallagher (2007) for post-conflict countries.

Table 13. A Timeline for Options for Engagement in the Budget Space

<table>
<thead>
<tr>
<th>Main area</th>
<th>Initiative</th>
<th>Time frame for support (S,M,L)</th>
<th>Level of priority (1,2 and 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reorganize and build capacity of the MoFEP</td>
<td>Undertake a functional review</td>
<td>S</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Implement the recommendations of the review</td>
<td>M</td>
<td>3</td>
</tr>
<tr>
<td>Strengthen the budget preparation process</td>
<td>Support the preparation of pre-budget statement</td>
<td>S</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Re-enforce compliance with the budget circular</td>
<td>S</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Support the preparation of a citizens’ budget</td>
<td>S to M</td>
<td>2</td>
</tr>
<tr>
<td>Expenditure control</td>
<td>Develop and implement checks on the wage bill</td>
<td>S</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Strengthen commitment controls</td>
<td>S</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Clear expenditure arrears</td>
<td>M</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Build internal audit capacity</td>
<td>M</td>
<td>2</td>
</tr>
<tr>
<td>Procurement reform</td>
<td>Build capacity to undertake procurement audits</td>
<td>M</td>
<td>2</td>
</tr>
<tr>
<td>Capacity for legislative oversight</td>
<td>Educate the Transitional Legislative Council members on their oversight responsibilities</td>
<td>S</td>
<td>1</td>
</tr>
<tr>
<td>Fiscal transparency</td>
<td>Develop, implement, and monitor fiscal transparency portal</td>
<td>S to M</td>
<td>1</td>
</tr>
<tr>
<td>Foster PPD</td>
<td>Provide grants to qualified CSOs</td>
<td>S</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Build CSO capacity</td>
<td>S</td>
<td>1</td>
</tr>
<tr>
<td>Multi-year budgeting</td>
<td>Introduce multi-year budgeting</td>
<td>L</td>
<td>3</td>
</tr>
<tr>
<td>PBB</td>
<td>Introduce PBB</td>
<td>L</td>
<td>3</td>
</tr>
<tr>
<td>PFM law</td>
<td>Draft new PFM law and regulations</td>
<td>L</td>
<td>2</td>
</tr>
</tbody>
</table>

Key: S = Short-term (0-12 months); M = Medium-term (more than 12 – and up to 36 months); and L=Long-term (more than 36 months) . 1 = High priority; 2 = Medium priority; and 3 = Low priority

Source: Assessment team

Options for engagement in the DRM space are summarized in Table 14. Initiatives that are amenable for support in the short-term evolve around the design and implementation of institutional
arrangements and setting up the SARA. Initiatives around building tax policy capacity and amending legislation will need more time.

Table 14. A Timeline for Options for Engagement in the DRM Space

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Time frame for support (S,M,L)</th>
<th>Level of priority (1,2 and 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Foster political leadership, citizen engagement and coordination</strong></td>
<td>Design and implement appropriate institutional arrangements</td>
<td>S</td>
</tr>
<tr>
<td><strong>Strengthen tax policy and legislation</strong></td>
<td>Strengthen capacity for policymaking</td>
<td>M</td>
</tr>
<tr>
<td></td>
<td>Undertake a comprehensive review of tax legislation</td>
<td>M</td>
</tr>
<tr>
<td></td>
<td>Minimize and ensure efficiency and transparency of tax incentives and exemptions</td>
<td>M</td>
</tr>
<tr>
<td></td>
<td>Simplify the tax regime for small taxpayers</td>
<td>M</td>
</tr>
<tr>
<td><strong>Support comprehensive program of tax administration modernization, contingent on decision not to create a SARA</strong></td>
<td>Implement immediate program but start with full tax benchmarking.</td>
<td>S, M</td>
</tr>
<tr>
<td></td>
<td>Implement intermediate program.</td>
<td>M, L</td>
</tr>
<tr>
<td><strong>Establish an efficient, effective, and accountable SARA, contingent on decisions to proceed.</strong></td>
<td>Assist MoFEP in decision making regarding whether or not to create SARA. All actions below are contingent upon this decision.</td>
<td>S</td>
</tr>
<tr>
<td></td>
<td>Draw up and promulgate SARA legislation</td>
<td>S</td>
</tr>
<tr>
<td></td>
<td>Design an organizational structure</td>
<td>S</td>
</tr>
<tr>
<td></td>
<td>Deploy and/or recruit staff</td>
<td>S</td>
</tr>
<tr>
<td></td>
<td>Develop financial procedures and the first-year budget</td>
<td>S</td>
</tr>
<tr>
<td></td>
<td>Prepare and implement the first strategic plan</td>
<td>M</td>
</tr>
<tr>
<td></td>
<td>Design and implement a code of conduct</td>
<td>M</td>
</tr>
<tr>
<td></td>
<td>Launch taxpayer services</td>
<td>M</td>
</tr>
<tr>
<td></td>
<td>Undertake research</td>
<td>M to L</td>
</tr>
<tr>
<td></td>
<td>Prepare and implement second strategic plan</td>
<td>M to L</td>
</tr>
<tr>
<td></td>
<td>Streamline procedures and routines</td>
<td>M to L</td>
</tr>
<tr>
<td></td>
<td>Develop and launch taxpayer compliance program</td>
<td>M to L</td>
</tr>
<tr>
<td></td>
<td>Prepare and implement an ICT strategy</td>
<td>M to L</td>
</tr>
<tr>
<td></td>
<td>Undertake a benchmarking exercise</td>
<td>M to L</td>
</tr>
<tr>
<td></td>
<td>Commission a TADAT</td>
<td>M to L</td>
</tr>
<tr>
<td><strong>Future project</strong></td>
<td>Modernize the tax system</td>
<td>L</td>
</tr>
<tr>
<td></td>
<td>Attain world-class status</td>
<td>L</td>
</tr>
<tr>
<td></td>
<td>Reform NTRs</td>
<td>L</td>
</tr>
</tbody>
</table>

Key: S = Short-term (0-12 months); M = Medium-term (more than 12 – and up to 36 months); and L=Long-term (more than 36 months). 1 = High priority; 2 = Medium priority; and 3 = Low priority.

Source: Assessment team
Proposed Actions Going Forward

In the next six to twelve months, there are three main measures that should be taken. The top priority is to hold further consultations with the government on PFM and DRM reforms. As part of this engagement, it will be important to ascertain how the government intends to strengthen institutional, organizational, and individual capacity in this area. This report will serve as a useful guide to this engagement with counterparts. Absorption capacity and political will may be the greatest challenges at this point. Therefore, the completion of a PEA might be necessary to fully determine appropriate and feasible next steps.

Second, it will be important to continue dialogue with other development partners. The SIPF and other relevant thematic working groups will serve as useful settings for facilitating the exchange of information and experiences and enabling coordination and complementarity among partners.

Third, once donors identify and assess the level and composition of resources that are potentially available, they should select a menu of interventions to support. They will need to be costed, scopes of work developed, and detailed results frameworks prepared. Such support should largely be determined by the extent of the Sudan authorities’ buy-in and capacity to absorb assistance. Absorption capacity may be the single greatest challenge at this point.
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ANNEX A: STAKEHOLDERS CONSULTED

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Alwaleed Alatabani
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Ms. Abda Yahia El-Mahdi

Ministry of Labor and Social Development
Mohamed Idris, Policy Advisor to Minister
ANNEX B: REVISED QUESTIONS FROM SCOPE OF WORK

Below are the two questions that this report addresses throughout the text, tables, and boxes. The report addresses PFM before DRM issues since this was a smoother flow of analysis.

The report: makes a strategic and development case for donor intervention in both DRM and PFM; explains the country context; identifies major weaknesses, we do not find any strengths; lays out in two tables other donor support or anticipated support; provides actionable, programmatic recommendations for donor assistance in each section; discusses the most important risks to providing support.

The report also provides information about how the current budget system is performing and the adjustments that were made in 2020, not necessarily with respect to COVID-19, especially as budget revenues experienced a shortfall of 40%.

The report discusses indication of Sudanese desire for reform based on documents, news reports, and discussions with other donors.

SOW Questions:

The assessment team will address two broad questions:

Question 1: What is the strategic case for donor intervention in the DRM space, and what are the options for engagement?

To answer this question, the team will investigate several sub-questions:

- What is the context for domestic revenue mobilization in Sudan?
- How does the current tax system perform against international benchmarks?
- Where are the major weaknesses, both in tax policy and administration?
- What is the level of domestic political support for DRM?
- What are other development partners doing in this space?
- What could donors feasibly do to support DRM in Sudan? Specifically, what near-term, medium-term, and long-term options exist for DRM strengthening? Among these options, are there any “low-hanging fruit?”
- What gap would new assistance fill, and what might donor assistance have a comparative advantage in filling it?
- What are key risks to success of the proposed DRM intervention?

Consideration shall be given to the role of the tax system in the promotion of inclusive economic growth, employment creation, fiscal sustainability and democratic accountability. The assessment team will take into account in its work recent domestic and global developments.

In addressing these questions, the assessment will consider best practices in taxation, key stakeholder perspectives, and the feasibility, scope, and sequencing of implementation. It is expected that short-, medium-, and longer-term intervention options will be identified.

Question 2: What is the strategic case for donor intervention in the government budgeting space, and what are the options for engagement?

- What is the context for government budget planning and formulation in Sudan?
- What criteria or norms should be used for evaluating the budget system, and how does the current budgeting approach perform against them?
To what extent does the budget system conform to desirable levels of transparency, public and governmental oversight, and public participation?

Where are the major weaknesses in the budget planning and formulation processes?

What is the level of domestic political support for an improved budget process?

What are other development partners doing in this sphere?

What could a donor-funded activity feasibly do to promote a strengthened budget system in Sudan? Specifically, what near-term, medium-term, and long-term options exist for improving the transparency and coherence of budget formulation? Among these options, are there any “low-hanging fruit?”

What gap would new assistance fill, and what is donor community comparative advantage in filling it?

What are key risks to success of the proposed budget strengthening intervention?

How was the budget plan adjusted for COVID-19?