

CHAPTER ONE

INTRODUCTION

1.1. Introduction

With a total area of 1690 million hectares, Sudan has a relatively huge economic potential measured in terms of its endowments of natural resources, including arable and grazing land, water, mineral resources, and a diversified and pervasive climatic zones. Despite this, in late 1970s and the 1980s Sudan faced serious economic difficulties which culminated in economic decline after the adoption of International Monetary Fund (IMF) and World Bank reform program, where real GDP has registered a negative growth rate of nearly 2.0% (Mahran, 2007).

The significant macroeconomic imbalances, increasing unemployment, and mounting poverty led in early 1990s to the adoption of adjustment and liberalization policies that were more stringent than what the International Monetary Fund, (IMF) would have thought of. Consequently, real GDP has registered an impressive growth rate of 10.22% during the period 1990-2002, and the economy has shown some signs of recovery, nevertheless Poverty indicators have continued their deterioration (Mahran, 2007).

Mounting political pressure on the government both from internal and external forces, together with the escalation of the civil war in the south have all led to a reduction in foreign aid and to a significant increase in the resources devoted to the war. These developments have frustrated the efforts to move the economy into a sustained growth path. Nonetheless, the advents of oil in late 1990s have contributed to a large extent to the relative economic stability that the Sudan has witnessed since then (Mahran, 2007).

The insufficient access to appropriate social services such as health, education, water, sanitation and nutrition present the major causes of poverty in Sudan. For instance, the low access to social services is mainly due to a deficient physical infrastructure (such as primary health care centers, dispensaries, rural hospitals

and health centers, primary and secondary schools, wells and latrines). The poor quality services are due to insufficient equipment, materials and human resources (such as medical equipment, trained medical staff, water engineers and teachers, medicines and basic food ingredients).

Poor quality and poor physical infrastructure of social services are a consequence of decreasing state expenditures in the health and education sectors. The lack of access to safe drinking water and inadequate sanitation, together with poor hygiene practices, directly impact on infant and child mortality and morbidity. In addition, inequality in access to social service exists between male and female i.e. girls have less access to education and, hence, higher illiteracy rates for women (United Nations Human Development Reports 1999, 2001).

Expenditures in social sector reflect urban-biased character in social policies that favor development of medical, educational and sanitary services to the detriment of rural areas. Public policies have the dual role of achieving efficiency by correcting numerous market failures, and equity through improving the distributional and poverty outcomes that would result from a market-based allocation of resources. While the redistributive role is played by direct taxation in developed economies, this role is usually assumed by public policies mainly through targeted government expenditures in the form of direct provision of certain public services such as education, health and housing.

Public policies are generally intended to affect the income of the entire population and subsequently to improve well being and reduce poverty. However, it may also affect income inequality that has a direct bearing on poverty as well. The final impact on the poor depends on the magnitude as well as the direction of these two effects. Analysis of the impact of policies aimed at increasing the mean income of the population on the poor, for a given state of the income distribution, has been treated thoroughly in the literature. (Ali, 2002)

The role of good governance as a key to development effectiveness has been emphasized in recent years. It is argued that merely allocating public resources for the right goods and services may not lead to desirable outcomes if budget

institutions—involving budget formulation, execution and monitoring are malfunctioning (World Bank, 2003).

While this proposition seems straightforward and difficult to disagree with, no serious empirical work has been done to support it. Poor budget management has frequently been cited as one of the main reasons why governments in developing countries find it difficult to translate public spending into effective services (World Bank, 2003). A reasonable proposition, therefore, can be made on the way of managing public resources to promote development requires well-trained and skillful personnel, as well as working in an institutional setting with an incentive system that reduces fraud and promotes cost efficiency. Thus, the principal objective of measuring social development is to evaluate the efforts made to bring about the goals of development and to assess the headway made in reaching these goals. Evaluation is necessary to show whether social development is proceeding apace toward the desired goals, or going off the path or moving forward too slowly. Setting development goals requires selecting a starting point for the development process; whether the means to realize development are assessed or not, objectives must be defined (World Bank, 2003).

Directly linked to this, the objectives of measuring and evaluating the progress of social development is to help those concerned with designing policy, managing the development process, following up and making decisions, each according to their interests and field of activity. The feedback from such measuring can be used to help speed up the process and keep it on track or alternatively, to redirect the focus of development as new areas of importance emerge. Therefore, one of the most important things in development progress is measuring social development in Sudan as one of the aims of development.

1.1.1. The Research Problem

Despite the considerable annual growth of real GDP growth rate of more than 6% in recent years, sustainability macroeconomic policies and rise in public revenues resulted from oil production and reformed taxation system, however, basic social services are still lagging behind. In particular, most of the social

services, which are delivered at market rates, resulted in massive poverty, migration from rural and marginal areas to the capital of Sudan (Khartoum). This led to increasing inequality among population and igniting wars and tribal conflicts in particular, in Darfur and Eastern Sudan. The research assumes that, all these problems are due to insufficient, unsuitable and unsustainable public spending on basic social services. In addition to this, lack of appropriate policies that are pro-poor has worsened the situation.

In spite of recognizing the significant role of public services for poverty reduction, deficiencies in service delivery continues to act as a major drag on Sudan's development efforts. In addition to inadequate social services coverage, poor management and inefficient public services utilities that have created a huge fiscal burden and constrained the much-needed expansion on public services to meet the growing needs of the people. But despite the extensive effort wielded by the country to expand and develop basic public services, progress in this regard it is still slow. So, this research is an attempt to assessing the impact of the public expenditure on social development indicators namely, education and health in Sudan during the period (1980 - 2009). Health and education sectors are two vital sectors that can play a crucial role in determining the level of social development of a nation.

1.1.2. The Research Objectives

The main objective of this research is to examine the impact of fiscal policy on the provision of basic social services in Sudan mainly education and health. More specifically, these objectives include the following:

1. Provide some descriptive statistical of fiscal spending devote to these services
2. Review the policies adopted by the government during the period (1980-2009) to enhancing social services for the poor.
3. Assess empirically the role of public expenditure on health and education infrastructure on social development index in Sudan.

1.1.3. The Research Questions

The main argument in this research is that, unless public expenditure on social services is dominated by pro-poor policies, the outcome of increasing social spending will not translated into real benefit to the poor. Thus, in view of this quarrels, our research seeks to answer the following questions:

1. Have the government fiscal policies succeeded in improving the social development indicators?
2. What are the main factors affecting basic social services?
3. Do poor people have access to public services in term of availability, adequate finance, adequate equipment, appropriate location of services and mode of transportation?

Answering these questions reflects the actual level and status of social development in Sudan and then, recommends policies that should be adopted with regard to social development in Sudan.

1.1.4. The Research Importance

The ultimate goal of any society striving for development is to empower its citizens and place them with access to information, education, health care, and decent standard of living. Thus, the importance of this study stems from the importance of social development in realizing economic development and welfare for the society. Human beings are the key element of any development program and efforts throughout the world; they are the final target of all development programs. In addition to that, the development programs must be carried out by them. Social development also leads to the realization of Millennium Development Goals (MDGs). Thus, it is highly important to shed light on this issue. Identifying the performance level of the Sudan economy is very important with regard to public expenditure for providing basic social services to population. This constitutes essential and initial starting point in promoting quality of life through providing and establishing well-build basic social services mainly, education and health. Thus, the importance of the research emanates from the following:

1. Investigating the decisive and critical aspects of social development process in Sudan.

2. Assessment social services performance at macro level and its significant role on poverty reduction through enhancing income of poor.
3. Filling gap in due to scarcity of relevant studies in this area of investigation.

1.1.5. The Research Hypothesis

To investigate the impacts of public expenditure on basic social services in Sudan the research hypothesis that, the first hypothesis is that, “given the positive economic growth achievements over a relatively long time period, perhaps it is not more straightforward to establish a link between public spending and social services” the second hypothesis is “public expenditure is directly linked with social services in Sudan given the positive economic growth for the long period of time” and the third hypothesis is “poor people dose not benefit more as rich ones from public expenditure on social services”.

1.1.6. Data Sources

In calculations the impact of public expenditure on social services namely education and health, the research uses secondary time series data covering the period (1980 - 2009), collected from different sources namely, Sudanese Census 2008, the Federal Ministry of Health, the Federal Ministry of Education, and the States support Fund, the Ministry of Finance and National Economy, and the Central Bureau of Statistics. Also for the previous purpose, and to ensure the large possible number of observations to make it possible to conduct a statistically meaningful econometric analysis on social development indicators for the period (1980-2009), the quantitative analysis conduct, focusing mainly on the effect of public expenditure on provision social services in Sudan.

1.2. The Research Structure

The research contains six chapters. The first chapter is an introduction outlining the objectives and scope of the research. The second chapter is a theoretical framework concerning the theory of macroeconomic policies mainly “public spending” in Sudan. Given that, public expenditure and social development will be discussed. Also we explain public expenditure outcome on health and education. In addition to that, the effects of public expenditure on economic growth and quality of life will be investigated. Moreover, we describe the

concepts, indicators and types of social development that measures health and education outcomes.

In the third chapter, we describe some empirical literature review on the effects of public expenditure policies on social services in Sudan offering board background of macroeconomic policies in Sudan since early 1970s. Furthermore, we explain the Sudan macroeconomic performance exploring stabilization programs and performance during various episodes. In addition to that we discuss the structural adjustment policies and structural changes in macroeconomic taking into consideration, poverty and inequality, growth-poverty nexus in Sudan respectively. Also, our discussion extended to public finance in term of revenue and expenditure in some details, beside that we discuss the federal government budget by focusing on government expenditure and the structure of federal expenditure during the 1980s up to 2000s. Before finishing this chapter, we provide some empirical literature review on the role of public expenditure on provision of health and education in Sudan.

In the forth chapter, we review some empirical literature on social development in Sudan. Focusing on the expenditure on social services especially health and education. The chapter also discusses the health and social development in some details giving a brief background on health status, the effects of structural adjustment programs on health sector and then, the health system in terms of organization and finance. In addition, we present education and social development giving background and characteristics of educational policies. In the fifth chapter, we explain construction of composite social development index in particular, the construction of health and education indices. The chapter explains the methodology and techniques which are adopted in investigating the impact of public expenditure on social development index. In the sixth chapter, we report the empirical results, identifying the most important variables that determine heath and education indices. The research ends with some final remarks.