PAN-AFRICAN CONFERENCE ON INEQUALITIES IN THE CONTEXT OF STRUCTURAL TRANSFORMATION

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in partnership with:
Development Thinking and Structural Transformation: Does Public Spending matter?

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OBJECTIVES OF THE PRESENTATION

• The first objective is to contribute to the ongoing debate in addressing structural transformation analysis, explain the recent findings in Social Sector analysis and whether time has come for new approach.

• The second objective is an attempt to present an overview and ideas about what we are planning to achieve in terms of addressing both Structural and Transitory inequality within the context of Public spending.
BACKGROUND

• This presentation reviews the current state of the debate to extract common policy conclusions where possible, and lays out the unresolved issues where extracting such conclusions is not possible. In doing so, the presentation raises more questions than it provides answers:

• Should there be new policy objectives to be considered in addressing structural inequality?

• What is the optimal arrangement for addressing both structural and transitory inequality in the process of transformation within the context of public spending?

• What should shape Government Policies in competing priorities and pressure from development partners to invest in certain sectors?
Composition of Public Spending as a Matter in Addressing Structural Transformation

• Over the last decades development Partners have required governments to identify and increase the share of “pro-poor” expenditure in the context of the enhanced HIPC initiative and PRSP implementation.

• What account for the unusual consensus among the donors regarding social sector spending as key to poverty reduction and achieving MDGs and reduce the gap between poor and rich?
• However, the belief that increasing social spending budget through targeted public spending or donor’s assistance to the sector is not always necessary associated with better outcome in social indicators. Through facile reasoning, the pro-poor approach was advocated as a new conditionality and instrument aims to achieve the ambitious stated benchmark goals.

• The absence of an appropriate conceptual framework to investigate the link between public spending and its impact on poverty reduction and MDGs targets is a weakness that has contributed to ad hoc approaches to public expenditure policy and become one of major intellectual deficit.
Providing Social Services or Access to Economic Opportunities?

• There is growing concern regarding the wisdom and bias of relying so heavily on social sector spending to alleviate poverty and addressing horizontal inequality.

• The first wave of advocacy campaign for more spending to the social sector or activities that classified as “pro-poor” in complex environment in the course of economic where everything is a priority derived by INGOs.

• Along similar line, the advocacy for social sector has created irrationality in economic analysis in addressing the fundamental and structural rigidities as preconditions for policy changes.
1- Continue spending in social sector will deprive the poor to leap some developmental steps including access to innovation. Infrastructure development works as prerequisite for not only improving social sector indicators but also creates economic opportunities in addressing the horizontal inequality.

2- As evident from empirical results, The Continuation in current approach may result in long term serious structural inequality between leading and lacking areas.
The Failure of Policies from SAPs to PRSP to Address Structural Transformation:

- Perhaps, it is important to note that however, **most PRSPs fall short of providing a strategic roadmap for policy making, especially in the area of macroeconomic and related structural policies. The focus of most PRSPs is on the composition of public expenditures, especially social sector spending, with much less emphasis on other aspects of a broader strategy to encourage poverty-reducing growth** [emphasis ours]. (IMF, 2004, p. 4).

- One of the weaknesses of the pro-poor approach is that it has used facile reasoning to link inputs (public spending) and outcomes (absolute poverty levels). An unintended consequence of this approach is that it has suppressed the essential discussion of the linkages between public spending policy and its direct and indirect effects and short- and long-term consequences.
A second criticism of the pro-poor expenditure approach is that it obscures the contribution of economic growth-promoting interventions and contributes to a false dichotomy between growth and poverty reduction.

The general lack of interest and negligence to address inequality issues in the new framework is surprising. Higher inequality reduce the impact of growth where high poverty found in combination with inequality. Inequality treated as a means but not an end in itself (Klugman, 2002).
### FIGURE 1. A Comparison of the Main Characteristics of Structural Adjustment Programs and Poverty Reduction Strategy Papers

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<th>Structural adjustment programs</th>
<th>Poverty reduction strategy papers</th>
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<td>Ownership</td>
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<td>Country assistance strategy (World Bank)</td>
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<td>Enhanced structural adjustment facility (IMF)</td>
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<td>Donor coordination</td>
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<tr>
<td><strong>Handling of debt</strong></td>
<td>Indirect (Paris Club)</td>
<td>Debt alleviation (HIPC, BWIs)</td>
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<td><strong>Preparation</strong></td>
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<td>Secretive</td>
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<td><strong>Accounting for country specificity</strong></td>
<td>Weak</td>
<td>Strong</td>
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Source: Cling, Razafindrakoto, and Roubaud (2003).
RESHAPING ECONOMIC GEOGRAPHY: An Overview of the desirability of “balanced” growth

• How space and places influence economic geography is central question of the spatial dimension of development recognizing the uneven development between regions (WDR 2009).
Sudan’s Poverty Line Ranked by States

Source: NBHS 2009.
THE DANGER OF SPATIAL DEVELOPMENT IN CREATING DISPARITIES & STRUCTURAL INEQUALITY

• Rising geographic disparities and institutionalized inequality are obviously and not specific to Africa.

• In this respect, What are the real factors than income explaining sources of rising both structural and transitional inequality? Public spending and Uneven distribution of infrastructures creates unfavourable economic geography between leading and lacking areas. Addressing disparity will offer an opportunity for both poor and climate for investment for job creation and the other way.
Lorenz for Sudan (Rural Urban)
INEQUALITY OR FAIRNESS: Are We Facing Intellectual Deficit?

• Should we seek for Fairness or Equalizing Income (through tax increase or distribution and later cry for recession) in arena of inequality institutionalized and derived by entrepreneurship, innovation and advancement?

• Is it fair and makes economic sense to address the inequality in expense of those doing responsible things?

• Is it fair to reward those not doing anything? It should be fair to address the matter from the opportunities that should be fairly available to everyone

• Is it fair for those isolated in remote village to any of exposure of modern life to justify to keep them in their villages and avoid agglomeration in towns?
Structural Transformation, Poverty Trap and Inequality: Back to Basics

When the poor have not sufficient access to productive Assets

When the poor fail to switch in High return activities

When the poor living in absolute Term
Even the Debate in Devolution went Wrong and Disguised Politician may rather exacerbates inequality! Devolution offer opportunity ad also challenge Sudan: Mores resources allocated to States with poor outcome.
Despite Horizontal Expansion (supply) in Number of Schools, Poverty line correlate Positively with Enrolment and dropout Ratios within states characterize with low infrastructure (Roads, electricity...ect)
Increasing Number of Primary and Secondary school Does not Mean High enrolment!!!!!
CONCLUSION

The presentation is an attempt to contribute to the ongoing debate on conceptualizing the need for new policy to address structural transformation and institutionalized inequality through revisit the current approaches in public spending.

At this stage, creation and debating ideas is necessary and should work as prerequisite for any endeavour or new approaches. The absorption of ideas may facilitate putting together a sound framework.

• The rejection of bad ideas is equally important as the acceptance of good ideas. A bad idea may derive out good ideas. However, if ideas are to be more influential, they will have to evolve from rigorous analysis and imperial testing.
The elaboration of economic policies to alleviate poverty is difficult exercise. From legitimacy and capacity I do not single criteria that allow civil society to take part in defining economic policy?

For this reason, in the absence of theory and conceptual framework in public spending, one would have to look to both applied welfare economics and the theory of economic growth to derive the necessary guidance on if and how public spending could be used to stimulate growth, improve the distribution of income reduce poverty and structural inequality.

Advocacy approaches of NGOs are welcome but NOT to suppress the overall long term economic and public policy objectives to address the bewildering dilemma in structural issues which require long term vision rather than fire fighting approach.
Thank You