THE ROLE OF INSTITUTIONS IN SUSTAINABLE DEVELOPMENT: THE EXPERIENCE OF SUDAN ECONOMY

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Abstract: Sustainable development involves many things. More appropriate technologies, supportive policies, different ethics, and changes in individual behaviour are among the more obvious factors. One contributing factor that deserves more attention is the element of institutions. Hence, recently, researchers, planners, policy makers and practitioners have paid a considerable attention to the role of adequate and effective institutions for development. In addition, it can be argued that institutions and the institutional arrangements and mechanisms for development provide the missing link that can explain the differences in growth rates and development trends across developing countries. It is, therefore, important to address the questions of how particular institutions work efficiently in developing countries and how to overcome existing institutional bottlenecks. The objective of this research paper is to highlight the importance of institutions with regard to economic development and in achieving sustainable development. It also examines the development plans carried out and investment programmes announced in Sudan since its Independence. This research paper constitutes five major sections in addition to the introduction and conclusion. Section one provides numerous definitions to what is meant by sustainable development and institutions and their classifications. Section two highlights the empirical links between institutions and development and the prevailing literature supporting that link. Section three discusses roles and functions played by institutions and the importance of effective legal systems and good governance in development. Section four illustrates functions of institutions in economic development. The research concludes that the experience of the Sudanese economy in building institutions provides a key reason for differences in development performance. It is not the quantity but the quality of government institutions and government intervention in the provision of quality institutions. This outcome invariably lies in politics and quality of the government. Those with stable politics and strong disciplined, honest and capable people in government will do much better than those without. Thus, in order to grow, Sudan needs to have not only a good set of institutions but the capacity to change those institutions overtime.

Keywords: development, institutions, link, Sudan, sustainable

INTRODUCTION

Sustainable development involves many things. More appropriate technologies, supportive policies, different ethics, and changes in individual behaviour are among the more obvious factors. One contributing factor that deserves more attention is the element of institutions. Hence, recently, researchers, planners, policy makers and practitioners have paid a considerable attention to the role of adequate and effective institutions for development.

In addition, it can be argued that institutions and the institutional arrangements and mechanisms for development provide the missing link that can explain the differences in growth rates and development trends across developing countries. It is, therefore, important to address the questions of how particular institutions work efficiently in developing countries and how to overcome existing institutional bottlenecks.

OBJECTIVES AND SCOPE OF THE RESEARCH

The objective of this research paper is to highlight the importance of institutions with regard to economic development and in achieving sustainable development. It also examines the development plans carried out and investment programmes announced in Sudan since its Independence.

This research paper constitutes five major sections in addition to the introduction and conclusion. Section one provides numerous definitions to what is meant by sustainable development and institutions and their classifications. Section two highlights the empirical links between institutions and development and the prevailing literature supporting that link. Section three discusses roles and functions played by institutions and the importance of effective legal systems and good governance in development. Section four illustrates functions of institutions in economic development.

SECTION ONE: DEFINITION OF SUSTAINABLE DEVELOPMENT, INSTITUTIONS AND CLASSIFICATION OF INSTITUTIONS

Definition of sustainable development

Following its initial popularization, the concept of sustainability has appeared in a wide range of forms in recent development literature. The concept of sustainability has been around for a very long time, but the concept of sustainable development is relatively a new concept. Some of its better known predecessors have been “appropriate technology” in the early 1970s and “basic needs” in the early 1980s. Like those concepts, sustainable development is a popular concept which people espouse even though they readily admit that they are not quite sure what it means. Left undefined, these originally well-meant concepts become catchwords that mean different things to different people until they degenerate into meaningless clichés that soon become obsolete.

It would be regrettable if this turns out to be the destiny of the concept of sustainable development for, if well-defined, sustainability could become a rigorous companion criterion of efficiency and equity in evaluating development performance and formulating development policy. The purpose of this section is to highlight critically the available definitions of sustainability and sustainable development documented in the literature. With regard to the definition of sustainability, there is no one single definition, but a whole host of views and approaches, as well as definitions.

Different authors have given the concept of sustainability a variety of meanings, and can be used in reference to a number of important issues. It has become a new watchword by which individuals, organizations, and nations are to assess human impacts on the natural environment and resource base. A concern that economic development, the exploitation of natural resources, and infringement on environmental resources are sustainable is expressed more and more frequently in analytical studies, conferences, and policy debates.

The World Conservation Strategy defined conservation sustainability as: “ .. the management of human use of the biosphere so that it may yield the greatest sustainable development to present generations while maintaining its potential to meet the needs and aspirations of future generations”.[1]

The principal idea contained in the above stated definition is that any project, irrespective of whether it is in the agricultural, urban, industrial, transport, or power sectors, is designed to produce a continuous flow of outputs, benefits or services throughout its intended lifetime. In addition, the idea of focusing sustainability on individual projects and ignoring the impacts of these projects on broader developmental objectives has been frequently criticized. And even within a narrower sectoral framework it is frequently misleading to assess sustainability at the level of the individual project, and any meaningful analysis must focus on the broader issues of sustainable development.

A broader understanding of sustainable development was used by the United Nations Environment Programme (UNEP), in particular in the report Our Common Future, published by the World Commission on Environment and Development (WCED 1987). This Report is also known as the Brundtland Report, after its president. The now most widely used common and quoted definition of sustainable development given in the Brundtland Report is that: “Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs”[2]. The Report states further that in essence, sustainable development is a process of change in which the

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[1] Michael, B. and Shabbir, C., *Case Studies of Project Sustainability: Implications for Policy and Operations from Asia Experience*, (Washington D.C: World Bank, 1990), 7.

[2] Brundtland, 5.

exploitation of resources, the direction of investments, the orientation of technological development, and institutional change are all in harmony and enhance both current and future potential to meet human needs and aspirations[3]. Thus, sustainability involves some notion of respect for the interests of our descendants.

Such a definition contains two key concepts: the first is the concept of needs; in particular the essential needs of the world poor, to which overriding priority should be given. Seeing needs as socially and culturally determined, Brundtland argued that sustainable development requires the promotion of values that encourage consumption patterns that are within the bounds of the ecologically possible and to which all can reasonably aspire. The second is the idea of limitations imposed by the state of technology and social organization on the environment's ability to meet present and future needs. In addition, the Report argued that the concept provides a framework for the integration of environmental policies and development strategies, thus breaking the perception that environmental protection can only be achieved at the expense of economic development.

With the popularization of the Brundtland concept of sustainable development, environmental quality and economic development have come to be seen as interdependent and mutually reinforcing. Thus the mainstream debate has shifted from its earlier concern with whether the environment and development are compatible objectives to a new preoccupation with how to achieve environmentally sustainable forms of development.

Definition of institutions

According to Douglas C. North (1990) institutions are the rules of the games in a society or, more formally, humanly devised constraints that shape human interaction. Consequently, institutions structure incentives in human exchange in all aspects, being political, social or economic. Therefore, institutional change shapes the way societies evolve through time and is the key to understanding historical change[4]. Hence, institutions, broadly defined to include governments, private organizations, laws and social norms, contribute to the establishment of recognized standards and the enforcement of contracts, thus making possible transactions that would otherwise not occur.

Classifications of institutions

In the literature there are several ways of classifying institutions. They are regrouped into three approaches depending on: the degree of formality, different levels of hierarchy; and the area of analysis.

Degree of formality

Following Douglas, C. North (1990), institutions include any form of constraint that human beings devise to shape human interaction. These constraints include both what individuals are prohibited from doing and, sometimes, the conditions under which some individuals are permitted to undertake certain activities. In other words, they represent the framework within which human interactions take place. Institutions consist of formal written rules as well as typical unwritten codes of conduct that underlie and supplement formal rules. Formal rules and constraints are made of: constitutions, laws, property rights, bylaws, statute and common law and regulations as well as enforcement characteristics, social sanctions, and internally enforced standards of conduct[5].

That the informal constraints are important can be observed from the evidence that the same formal rules and constitutions imposed on different societies produce different outcomes. The informal and non-based institutions that small community-based groups rely on tend to support a less diverse community than do formal legal institutions.

Different levels of hierarchy

Oliver E. Williamson (2000) offers an alternative to a classification based on the formality of institutions. He proposes a classification scheme based on different hierarchical levels.[6] Level one, institutions are located at the social embeddedeness level. Social norms, customs and traditions are located at this level. These traditional institutions often date back many centuries and are relevant for people living in poor countries. Level two institutions relate to the rules of the game whose purpose is to define and enforce property rights. Most of them are formal institutions like conventions or laws. Institutions that relate to governance are classified as Level three institutions. These institutions create incentives, thereby setting up the governance structure of a society and building of certain organizations such as local or national government, state agencies, NGOs, etc. Finally, Level four institutions define the extent of adjustment which occurs through prices or

[3] Ibid., 46.

[4] North, D.C., *Institutions, Institutional Change and Economic Development*, (London: Cambridge University Press, 1990), 3 .

[5] Ibid, 4.

[6] Williamson, O.E., "The New Institutional Economics: Taking Stock, Looking Ahead", *The Journal of Economics Literature*, Vol. 38, no.3 (2000): 595-613.

quantities, and specify the resource allocation mechanism.

Area of analysis

Finally, a third alternative used in the literature to classify institutions is to differentiate between them based on various areas of analysis. The four categories most commonly found in the literature are: Economic institutions whose responsibility is to cater for national economic incentives and organizations, political institutions, legal institutions and social institutions.[7]

SECTION TWO: LITERATURE REVIEW: LINKS BETWEEN INSTITUTIONS AND ECONOMIC DEVELOPMENT

Empirical link between institutions and development

This section addresses the important question of the impact of institutions on development outcomes and growth.

The World Bank's Report (2003): Sustainable Development in a Dynamic World argues that often-appropriate policies are known but not implemented because of distributional issues and institutional weakness. What is needed, it says, is for policy makers to focus on institutions (rules and organizations, both formal and informal) to get the government, non-governmental organizations (NGOs), and the private sector to manage a broad portfolio of assets, not just human and physical capital but also environmental assets, and social assets.[8]

The IMF, in its annual Report (2002), when discussing the issue of the institution of development, argues that weak institutions impede growth and undermine the implementation of sound macroeconomic policies. Therefore, the IMF-supported programmes often include measures designed to address institutional weakness, reduce opportunities for corruption and other forms of rent-seeking, and promote good governance. The IMF's involvement is generally aimed at increasing the transparency of government activities, the effectiveness of public resource management, and the stability and transparency of the environment in which the public sector operates. The IMF also seeks to strengthen governance of the financial sector, including technical assistance to improve supervisory capacity and central bank and bank legislation.[9]

As a result, in the 1990s, about two-thirds of the IMF-supported programmes included some conditionality that would contribute to good governance, either directly or by improving economic management more generally. The IMF also provides technical assistance to help countries strengthen their institutional capacities in various ways. Such support includes, for instance, assistance designed to address budget preparation and approval procedures, tax administration, accounting and auditing, central bank operations and official statistics.[10]

Moreover, the structure of both formal and informal rules and the character of their enforcement are what define the incentives and wealth-maximizing opportunities of individuals and organizations. North (1990) asserts that Third World countries are poor because the institutional constraints define a set of pay-offs to political economic activity that do not encourage productive activities. Such rules affect both individuals and organizations, defined as political organizations, economic organizations, educational bodies and social organizations.[11]

Therefore, the institutional framework affects growth because it is related to the amount spent on both the costs of the transactions and the cost of transformation in the production process. Transaction costs, for example, are far higher when property rights or the rule of law are not reliable. In such situations, private firms typically operate on a small scale, perhaps illegally in an underground economy, and may rely on bribery and corruption to facilitate operations. When institutions are properly outlined and well-defined or there are a few formal institutions, economic activities are restricted to interpersonal exchanges.

In this regard, a growing literature, including Rodrik (1999, 2000) suggests that successful market-based economies need institutions that will fulfil the following requirements: (a) Provide property rights, uphold the rule of law, and rein in corruption; (b) Provide appropriate regulation of products, and financial markets to counteract the sources or consequences of market failure; (c) Support macroeconomic stabilization, including the value of money and ensuring a sustainable fiscal stance, and; (d) Protect social cohesion and stability, including guarding against extremes of poverty, reducing social conflicts,

[7] Jutting, J., "Institutions and Development: A Critical Review", Technical Paper No. 210, OECD Development Centre, (2003): 13-14.

[8] World Development Report, *Sustainable Development in a Dynamic World: Transforming Institutions, Growth, and Quality of Life*, (Oxford: Oxford University Press, 2003), 37-58.

[9] International Monetary Fund, *Guidelines on Conditionality*, (Washington D.C.: IMF, 2002).122.

[10] Ibid, 125

[11] North, D.C., 15.

and muting the adverse consequences of economic dislocation and change.[12]

In his attempt to determine to what extent institutions affect economic performance, Hali Edison (2003), developed a simple econometric framework relating the macroeconomic outcome for some countries to a measure of their institutions. The study finds that institutional quality does have a significant effect, not only on the level of income but also on growth and the volatility of growth. The findings are also consistent for all measures of institutions. On the impact of institutions on incomes, the research revealed that institutions have a statistically significant influence on economic performance, substantially, increasing the level of per capita GDP. These results suggest that economic outcomes could be substantially improved if developing countries, like Sudan, strengthened the quality of their institutions.[13]

In a separate study, and when explaining the wide gap in average incomes between the world's richest and poorest nations, Dani Rodrick (2003) and others, seek guidance from three strands of thought, among them is the role of institutions, in particular, the role of property rights and the rule of the law. They added that in the absence of such institutions, markets either do not exist or perform very poorly. They urge efforts to build three types of institutions to sustain the growth momentum, build resilience to shocks and facilitate socially acceptable burden sharing in response to such shocks. Those institutions include: market regulating, market stabilizing, and market legitimizing institutions.[14]

When seeking the fundamental causes of why Sub-Saharan countries and other poor countries often lack functioning markets, their population are poorly educated, and their machinery and technology are outdated, Daron Acemoglu (2003) assumes that all those weaknesses are due to geographical and institutional factors. To him, good institutions encourage investment in machinery, human capital, better technology, and consequently, these countries achieve economic prosperity.[15]

Moreover, Christian Eigen (2003) concludes that although many of the institutions are needed for strong income growth and asset accumulation, which are equally important in fostering social and environmental assets, the institutional underpinnings of sustainable development are somewhat broader. The key findings from the empirical studies in the above cited studies are that institutional quality has a significant impact on economic performance. Specifically, improvements in institutions lead to higher incomes, stronger growth, and lower volatility.[16]

SECTION THREE: FUNCTIONS AND ROLES OF INSTITUTIONS

General functions of institutions

There is a wide range of key functions to be played by the institutional environment in promoting human well-being. Among the most important ones, is that institutions must have the capability to pick up signals about needs and problems. This involves getting essential information and disseminating it among the required sectors of the economy. In addition, institutions should give citizens a voice, responding to their feedback and also fostering learning.

Furthermore, institutions should be equipped to balance interests, negotiate changes and forge agreements, and also avoid conflict. Therefore, institutions must execute and implement solutions by following through agreements in a credible manner. In addition to that, the role of institutions is to plan, implement and monitor various key development policies in order to establish market mechanisms, reduce distortions, excesses and unintended implications.

Douglas North argues that institutions also play the role of reducing uncertainty by providing a structure to everyday life, and they are a guide to human interaction. In relating the institutional role to economic development, he adds that institutions have their effects upon the performance of the economy by their effect on the costs of exchange and production. In addition to the costs of technology utilized in the production process, institutions constitute the

[12] Rodrick, D., "Institutions for High Quality Growth: What they are and How to Acquire Them", IMF Discussion Paper, 1999.

[13] Edison, H., "Testing the Links: How Strong are the Links between Institutional Quality and Economic Performance", in *Finance & Development*, (June 2003): 35-3.

[14] Rordirck, D. et al., "The Primacy of Institutions: And What this does and does not Mean", in *Finance & Development*, (June 2003): 31-34.

[15] Acemoglu, D., "Root Causes: A Historical Approach to Assessing the Role of Institutions in Economic Development", in *Finance & Development*, (June 2003): 27-30.

[16] Eigen-Zucchi, C., et al., "Institutions Needed for More than Growth", in *Finance & Growth*, (June 2003): 42-43.

remaining part of total cost. Therefore, institutions play a key role in the costs of production, and hence the profitability and feasibility of engaging in economic activity. Furthermore, North argues that the most fundamental role of institutions in societies is that they are the underlying determinant of the long-run performance of economies.[17]

Moreover, institutions, such as local governments, user associations, or service organizations are important for sustainable development for a number of reasons: (a) For sustainable development, institutions, especially at local levels, are important for mobilizing resources and regulating their use with a view to maintaining a long- term base for productive activity; (b) available resources can be put to their most efficient and sustainable use with location-specific knowledge, which is best generated and interpreted locally; (c) Monitoring changes in resources' status can be quicker and less costly where local people are involved; speeding up adaptive changes in resource use where local decision-making has become institutionalized; (d) While local institutions are not always able to resolve resource management conflicts, if they are absent, all conflicts must be dealt with at higher levels, yielding slower and often less appropriate outcomes; (e) People's behaviour is conditioned by community norms and consensus, so preserving or instituting practices that are environmentally sound requires more than just individual incentives and persuasion; and (f) Institutions encourage people to take a longer-term view by creating common expectations and a basis for cooperation that goes beyond individual interests. To the extent institutions are regarded as legitimate, people comply with inducements and sanctions.

However, it must be recognized that local institutions can produce practices that do not favour sustainability. If factionalism prevails, some group may use them to exploit local resources to their short-term advantage and others' loss. Institutions that regulate resource use may break down and limits of regeneration may be exceeded when people do not understand these limits or feel they have no alternative.

The role of financial institutions in sustainability

Financial institutions have several important roles to play in achieving sustainability. Such roles can be classified in terms of the commitments of the financial institutions to include the following.

Commitment to sustainability

The financial institutions must expand their mission from one that prioritizes profit maximization to a vision of social and environmental sustainability. A commitment to sustainability would require financial institutions to fully integrate the considerations of ecological limits, social equity and economic justice into corporate strategies and core business areas, to put sustainability objectives on an equal footing with shareholders' maximization and clients' satisfaction, and to actively strive to finance transactions that promote sustainability. The goal of integrated economic growth, social development, and environmental protection is always managed by institutions which are independent and fragmented and that respond to a narrow mandate with closed decision making. However, the concept of sustainable development stresses the importance of institutions that have the will to integrate economic growth, social development and environmental protection at all levels of development policy and the decision making process.

Commitment to do no harm

Financial institutions should be committed to doing no harm by preventing and minimizing the environmentally and socially detrimental impacts of their portfolio and operations. Financial institutions should adopt policies, procedures and standards based on the precautionary principle to minimize environmental and social harm, improve social and environmental conditions where they and their clients operate and avoid involvement in transactions that undermine sustainability.

Commitment to accountability

Financial institutions must be accountable to their stakeholders, particularly those that are affected by the companies and activities they finance. Accountability means that stakeholders must have an influential voice in financial decisions that affect the quality of their environments and their lives.

Commitment to transparency

Financial institutions must be transparent to stakeholders, not only through robust, regular and standardized disclosure, but also by being responsible to stakeholders' needs for specialized information on financial institutions' policies, procedures and transactions.

Commitment to responsibility

Financial institutions should bear full responsibility for the environmental and social impacts of their transactions. Financial institutions must also take their full and fair share of the risks they accept and create. These include financial risks, as well as the social and environmental costs that are borne by communities.

[17] North, D.C., 110.

Commitment to sustainable markets and governance

Financial institutions should ensure that markets are more capable of fostering sustainability by actively supporting public policy, regulatory and market mechanisms which facilitate sustainability and that foster the full cost accounting of social and environmental externalities.

In addition, for financial market participants to process information and design contracts that insulate the remaining information gaps, they need the support of public policies to develop accounting and disclosure systems and fraud and to improve legal infrastructure. Without these building blocks, the development of the formal financial system will be stymied. If instead, the country provides reliable and comprehensive information about firms, and if its legal system enforces contracts rapidly, effectively, and transparently, imposing penalties for fraud and breach of contract, they will enjoy greater financial development and faster economic growth. Therefore, economies with better financial institutions grow faster; those with weak ones are more vulnerable to financial crises and the slow growth that typically follows.

The existence of effective legal systems

It is a fundamental prerequisite for any country to build its own legal system. Taking the example of development economics into account, trade involves many transactions over time and merchants are often involved in disputes in their daily business activities. Therefore, they have to enter into agreements which are valid and the consequences of which are as foreseeable as possible. Other necessary prerequisites are the use of means of payments and the removal of the ineffective traditional systems of charging interests. Therefore, an insurance system, for example, was built to increase the opportunities for trade.

The World Bank argues that the legal system in a country is considered as essential for economic, political, as well as social development. The creation of wealth through the human development, technical advancement and capital resources depends to a large extent, on a set of rules and regulations that secure property rights, governing civil and commercial behaviour, and limiting the power of the state. In addition, the Bank argues that the legal framework has an effective impact upon the lives of the poor, and as such, has become an essential dimension of strategies for poverty alleviation.[18]

What can be understood from the World Bank arguments is that the Bank gives its heavy involvement in the effective legal framework that has its direct and obvious links to economic development. Such links should have a direct relevance to the proper functioning of the economy and the conduct of economic activities. In this sense, the reform of the judiciary system and the other regulatory bodies which assist in achieving the efficient and adequate performance of contracts and laws and regulations is strongly linked to the economic development process.

Taking the experience of the Sudanese economy, the problem is not the absence of laws and regulations but the lack of credible enforcement. Thus the existence of effective and independent institutions is essential in implementing rules and regulations such as those related to bankruptcy, contract enforcement, bank regulation, and formal measures.

Moreover, there are several reasons why conservation laws have seldom been successful in Sudan. Those reasons include; firstly, the country lacks the necessary scientific, knowledgeable managerial expertise, trained personnel, financial resources, institutional framework, political commitment, and popular support to implement an effective environmental protection programme. Legal announcements cannot serve as substitutes for these indispensable administrative requirements. Secondly, there is an inadequate political commitment and popular support. This is because the overwhelming priority of the government since Independence has been to increase economic growth and development opportunities. Thirdly, there are inadequately designed mandate. In Sudan most environmental laws and national laws have been poorly conceived. That is because those laws are uncritically copied from environmental statues of developed nations or from general framework laws distributed by United Nations agencies and other multi-lateral institutions.

Environmental laws are not self-executing and they cannot function in the absence of effective implementation. This in turn, requires extensive and expensive administrative capacities, detailed regulatory mandates, responsive to particular circumstances. Because these attributes are very seldom present in Sudan, it should not be surprising that international and national conservation laws are failing pervasively relative to the pace and magnitude of global ecological destruction. Moreover, neither

[18] World Bank Report, *Infrastructure for Development* (Washington D.C.: Oxford University Press, 1994).

environmental laws nor environmental education has been able to counter the overwhelming priority placed on economic development in Sudan. And neither the environmental laws nor the environmental education can succeed when people lack viable economic alternatives.

The importance of effective governance

Good governance can simply mean the effectiveness with which a government performs its work and promotes the public good. The institutional and political reforms that enhance governance are necessary for economic management and sustainable growth. Indeed, fostering good governance, including accountability, participation, transparency and openness is now thought to be as important in the promotion of local initiatives, policy innovation and resource mobilization as good macroeconomic policy.

In this sense, the World Bank uses the concept of governance to refer to the capacity of governments to formulate and implement policies and the process by which authority is exercised in the management of a country's economic and social resources. The introduction of governance into the reform agenda brought with it concerns with law and the legal system. However, the World Bank's concern with law is restricted only to those legal aspects which are connected with the efficient use of resources and productive investment. The legal framework should thus be expected to create a stable environment so that economic actors can carry out business transactions without the threat of arbitrary political interference. To achieve such an environment, the legal framework must fulfil these requirements: there is a set of rules known in advance, the rules are actually in force, there are mechanisms ensuring the application of the rules, conflicts are decided through binding decisions of an independent body, and there are procedures for amending the rules when they no longer serve their purpose.[19]

However, the effective enforcement of these rules requires an effective administrative apparatus made up of professional civil servants. Therefore, it can be noticed that the World Bank's approach to law and governance recognizes that successful reform requires adequate implementation. Thus, the Bank is not only concerned with the enactment of specific civic rules, but it is also concerned with the process which leads to the enactment, implementation and enforcement of the rules; and with the institutions which make these processes function. Institutional reform is thus the key component of the World Bank's governance agenda and in this area it is greatly influenced by the work of Douglas North and other neoclassical economists.[20]

Regarding the issue of whether economic or political discipline comes first in the development process and in the setting up of critical institutions, the experience of the Sudanese economy points out that political discipline takes precedence and hence comes before economic discipline. Alternatively expressed, a disciplined, stable, and good government will exercise economic discipline and practise the sound economic policies necessary for the establishment and effective management of institutions for development.

Therefore, good governance and sound public management are considered as basic preconditions for the success of the practices of sustainability. In other words, how people use environmental resources is not simply a technological matter, rather it is a result of the institutions governing economic activities. For example, property right institutions are especially important when considering policies for achieving sustainable development. Obviously, sustainable development policy should be based on institutions and decision making structures that lead to sustainable outcomes.

In defining the role of government decision-making, and in order to reduce uncertainty as to the government's intentions concerning the future shape of the economy and to provide a basis for policies aimed at gradually approaching the situation envisaged, it would be desirable to formulate and to publicize a long-term development strategy for the Sudan. This would serve as a framework for decisions by the public authorities and permit private and foreign business to orient their activities.

In the first place, there is a need to define the role of public decision-making in the national economy. The present system of decision-making has developed in response to the requirements of unstable situations, and it has to be transformed in order to attain Sudan's stated objectives. This would entail reorienting government activities from the regulation of prices, production and foreign exchange allocation towards determining the main directions of the economy and the "rules of the game" applicable to the public, private and foreign firms. In particular, one would need to indicate the areas in which private and foreign firms may operate; the constraints imposed upon them; and the incentives to be provided.

Concerning ownership patterns, it is understood that Sudan has a mixed economy, with government

[19] Faundez, J., *Good Government and Law: Legal and Institutions Reforms in Developing Countries*, (London: MacMillan Press Ltd, 1997), 6.

[20] North, D.C., 120.

ownership largely retained in existing public firms and several industries, particularly those oriented towards defence and the public utilities, reserved exclusively for the public sector. The establishment of private firms in all industries is desirable as it would permit making better use of Sudan's ingenuity and enterprises and encourage private savings. In turn, foreign investment is needed particularly in industries which are technologically sophisticated, capital-intensive, or require special marketing knowledge.

Moreover, there is a role for policies in fostering institutional development, development that will, in turn, promote policy sustainability and economic growth. Several mechanisms have been stressed in the literature as being useful in promoting institutional arrangements. Those mechanisms include: (a) Competition and trade openness; a number of studies have found that strengthening competition, including by means of trade openness, tends to be conducive to institutional improvement.[21] (b) Information and transparency may reduce corruption and increase government effectiveness. Press freedom may, for example, complement and enhance the transparency of public decisions and hence reduce the scope for institutional failure (c) An overriding requirement, however, is the need for domestic ownership of and commitment to reforms, including those directed at strengthening institutions.

SECTION FOUR: INSTITUTIONAL DIMENSION OF SUSTAINABLE DEVELOPMENT

Institutional dimension plays an important role in achieving sustainable development, particularly in developing economies. Several issues are worth mentioning in this section of the research paper.

The role of the state in setting up institutions in Sudan

Managing natural resources became more institutionalized after the re-conquest of Sudan by the British from the Ottoman Empire in 1898. The first environmental law enacted was the Forestry Act 1901, followed by the Land Tenure Law of 1908. The early 1930s witnessed several environmental initiatives, while the 1940s produced the "Stepping Report" on desert encroachment in Sudan and neighbouring African countries. The Forestry Law came into force in1932, the Wildlife Act and the proclamation of several national parks came into force in 1935. The Land Use Committee was also established in 1944.

After Independence in 1956, the National Government took several initiatives to manage and rehabilitate natural resources. Several specialized departments and units were created to conserve soils and programme water. In addition, massive projects were launched like the anti-thirst campaign of the 1960s, expansion in rain-fed and irrigated agriculture, building dams across the Nile and other rivers, overstocking livestock, deforestation etc. This resulted in large-scale population movements, environmental degradation, dam siltation and other environmental related issues.

The drive towards modern institutions for the environment in Sudan started with the Earth Summit in 1992 responsible for implementing the Rio Accords, when the High Council for the Environment and Natural Resources was established to achieve the following main objectives: (a) To handle the environment portfolio, and to fill a large mandate of reviewing the environmental impacts of all planned investments and infrastructure projects. (b) To protect the environment in co-operation with other centralized and decentralized authorities; (c) To carry out long-term planning for the best utilization of natural resources; (d) To review laws governing the use and protection of natural resources; (e) To encourage research in all areas connected with the environment and natural resources, and (f) To Plan a permanent development strategy, compatible with Agenda 21 (g) At the international level, the Council is the national link point between the international organizations and other bodies working in the field of the environment, including the United Development Programme (UNDP), the Council of the Arab Ministers for the Environment, and the Council of the African Ministers for the Environment.

To achieve these tasks, the Council plays a co-ordinated role among different ministries and departments to provide the necessary scientific consultation advice in matters related to environmental degradation.

The Council is actually a technical arm of the Ministry of the Environment and Tourism which was formed in 1995 as the highest environmental authority as part of the process designed to give environmental management the integral nature it needs in order to be efficient. However, often the President of the Republic is involved in its affairs. This proximity is a double edged sword that brings benefits of access and interests, but also poses risks to the independence of the Council.

Therefore, the Ministry of the Environment and Tourism with its executive arm the Higher Council of the Environment and Natural Resources, is responsible for carrying out the environmental policies of the Sudanese government. Their main

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[21] Alberto, A., et al., "Rents, Competition, and Corruption", *Journal of American Economic Review*, Vol. 89, (Sept. 1999): 982-93.

focus is to prevent all sources of pollution and protect Sudan’s natural resources. The environmental policy of Sudan seeks to achieve environmental protection through the establishment of a proper institutional, economic and legislative framework at the national, regional and local levels. After the establishment of the Ministry of the Environment and Tourism in 1995, it became necessary to reach a balance between development and the environment through sustainable development.

The Government of Sudan seriously considered and adopted environmental policies after the World Summit of 1992. Extensive efforts have been made by the government to integrate environmental, economic, and social objectives into decision making by elaborating new policies and strategies for sustainable development and adopting existing policies and plans. The most important of these policies is the requirement that Environmental Impact Assessment be conducted before development projects receive final approval. Sudan, as well, signed the three world conventions and created the Ministry of Environment and Physical Development in response to the sustainable development requirement. Environmental protection was further emphasized when environmental strategy was approved as part of the National Comprehensive Strategy 1992-2002. Therefore, Sudan looks at sustainable development as an integrated approach to development based on policy formulation, implementation and monitoring.

The government has been carrying out economic reforms with the objective of laying the foundation for sustained growth and development. The reform programmes involved deregulation and trade liberalization and financial sector reforms. Through these reforms, Sudan has moved away from traditional interventionist policies and moving gradually towards a free market economy, transforming the economy from a public sector-led economy to private sector-led economic growth and development.

Moreover, Sudan made considerable efforts to reform its economy since the early 1990s. Following the economic deterioration, in 1992, the government of Sudan launched the Ten-Year Comprehensive National Strategy (CNS). The Objectives of the CNS covering the period 1992-2002 have been expressed in the context of the national economic reforms, with economic policies of liberalization, privatization, development and market orientation. The economic development strategy stipulates the following national objectives: (a) Attainment of food security through the expansion of cultivated area and intensification of agricultural production; (b) Increase of agricultural productivity of staple food grains; (c) Expansion of agro-based industries, via promotion of private investment; (d) Promotion of agricultural exports; and (e) Maintaining environmentally sound practices.

Taking these government efforts, in spite of the fact that Sudan is vastly rich in natural resources and highly qualified professionals, the country is at this point in time one of the poorest countries in the world. It is a typical situation of ' scarcity among the plenty'. A firm political commitment and understanding of the environmental dimensions of resource management do not exist. Many examples can be cited. The new adoption of the federal laws divided the country into 26 states. The division of the old administration areas into northern and southern states neglected the ecological need to draw management plans on regional bases. Therefore, taking into consideration Sudan's federal structure of administration, the 26 state governments need to play an important role in the implementation of the national strategy. In this context, mechanisms have been created for public involvement and the participation of society, the private sector, research and academic institutions in the sustainable development process.

It must be understood that the prevailing and normal mode of thinking during earlier times was that natural resources were infinite and renewable and the value assigned to the soils, water resources and natural vegetation was neglected in the calculations of costs and benefits of new projects. Therefore, the basic environmental problems of Sudan are related to the absence of acceptable strategic master land use plans, the growing conflict in land use policies, the depletion of natural resources and the unchecked population growth, due to the lack of coherent population policies.

These problems are made worse by the limited perception of the environmental issues as well as the total neglect of the impacts of agricultural policies. The adoption of modernization in agriculture has become an instrument of reference for the traditional sector and takes away from its resources the lands, forests, ranges, pastures, and wildlife. Therefore, it would be true to argue that there has been a complete absence of the environmental dimension in policies, strategies, plans and programmes of management of natural resources. Moreover, development is random and the environmental evaluation did not exist before nor does it exist after the implementation of the projects. Added to that, environmental education has only been recently incorporated into school curricula and the laws and legislation concerning the environment are not effective and law enforcement measures are not integrated.

The Importance of financial institutions in Sudan

There are two key roles played by the financial institutions in Sudan, and everywhere: the first is the mobilizing of savings, and the second is the performance in allocative efficiency i.e. in the allocation of loanable funds. Therefore, the major function of financial markets is to address the financial problems such as the allocation of scarce capital by selecting good projects and then monitoring them to ensure that funds are used appropriately. Sudan's financial system by itself cannot claim to have maintained a high allocative efficiency. Most of the full-service domestic banks in Sudan have been managed by the government and hence have been bound by all kinds of laws and regulations and vulnerable to interventions by the government authorities and interest groups. Therefore, Sudan often lacks an appropriate financial sector, which provides incentives for individuals to save and acts as an efficient intermediary to convert these savings into credit for borrowers.

Economic development is not only facilitated but its pace is quickened by the appropriate development of the financial system-structure of financial institutions and instruments. In any strategy of development, therefore, it is essential to emphasize the evolution of a sound and well-integrated financial system from the point of view of both resource mobilization and efficient allocation.

To stimulate indirect financial savings, several institutional policies and policy measures seem to be essential: (a) Since deposits, saving and fixed deposits seem to be preferred assets; the institutional development that should have first priority should be the widening and deepening of the geographical and functional scope of the commercial banking system. This system has already been evolved in Sudan but its scope is largely restricted to urban areas and to the financing of modern enterprises in industry and trade. Instead of creating new institutions, it seems to be more rational and economical to expand the scope of this system through the creation of a nation-wide network of bank branches, and enlarging their functional scope. (b) Savers are likely to prefer a financial instrument that is simple, convenient and easily intelligible, that does not involve transaction costs and that can be easily and without loss converted into money. (c) Apart from this, the monetary yield on various types of deposits should be comparable to the yield of private lending. (d) The other assets which savers seem to prefer are insurance policies. Different types of insurance facilities should be expanded.

The financial sector in the Sudan is relatively small compared to the size of the economy, and consists of a narrow range of institutions, predominantly deposit-taking ones, including commercial banks, savings banks, and other finance companies. There are only a few established insurance companies. Since most markets are inefficient, dominated by controls, the policy prescription emanating from the structuralist approach is that the government should focus on alleviating the financial bottlenecks via the control of the financial markets.

In Sudan, attention has been given to the rapid growth of Islamic financial institutions and the use of unique instruments, often running counter to established financial precepts. However, recent shifts in the global economy have increased the urgency of financial sector reform in all developing countries.

The role of financial institutions and markets, especially with respect to the mobilization of resources for development, warrants serious scrutiny. Sudan remains among those countries of the most aid-dependent of the world, and aid flows have continued to be the primary source for development until the end of 1980s. However, those financial flows have become unpredictable.

In addition, Sudan also faces more competition with respect to funds for international development because of its position of being poor at attracting foreign savings. Therefore, aid routes can thus no longer be relied upon to provide sufficient funding for development. In table 11, it can be clearly noticed that in the 1970s and the early 1980s foreign direct investment, especially by multinationals, was substantial. However, such foreign direct investment declined or nearly dried up with the crisis while the financing that came with structural adjustment programmes was attached to tough conditionalities. Adding to that is the political and economic sanctions imposed upon the country by the New World system since the late 1980s.

Therefore, multi-national funding, while alleviating the tight resource constraints, may not be the solution to the dwindling external flows. They have not been sufficient to cover the needs of Sudan's development ambitions. Hence, policy-makers should try to identify domestic sources of development finance in the country. If carefully exploited, domestic sources are capable of yielding stable financial flows.

The role of the central bank

The role of the Central Bank has to be conceived in the context of evolving a sound financial infrastructure conducive to rapid development. It is the Central Bank that has to take the lead in evolving the credit institutions, instruments and yield-structure that are essential for: (a) the efficient mobilization of savings, and (b) the allocation of resources consistent with development objectives.

These development functions need to be performed in such a way that the Central Bank is able to maintain close, continuous and active contact with the credit system so essential for the success of its regulatory function. If such contact were maintained, the ability of the Central Bank to regulate credit would be much greater. It should be the Central Bank's responsibility to ensure that the evolving banking system is viable, and its practices sound. Regular periodical inspection of banks from this point of view is essential for the sound development of banking. This would inspire confidence in the system.

In Sudan, as well as in other developing countries, money, capital and stock markets have not been developed. The Central Bank is an appendage of government with top management of the bank, including the board of directors, often changing with the government. Therefore, the Central Bank is motivated by political expediency and their role in economic development is fairly limited.

There is, however, considerable scope for innovation in the field of development banking and finance. Therefore, on top of the conventional role of the monetary authorities, the Central Bank could also encourage the growth, efficiency, and geographical spread of financial institutions. This might be achieved by providing some equity capital or through the creation of a conducive environment for existing financial institutions to diversify their activities.

The Central Bank could support institutions that introduce new initiatives in the field of finance. Furthermore, the Central Bank could spread the development of securities and money markets by enhancing their own capacities to undertake regulatory and supervisory operations in the financial sector. The most important point to be taken into consideration is that if economic agents believe in the efficiency of the banking system they will tend to hold less currency outside it. Hence, it is an essential part of the Central Bank's task in Sudan to ensure that such trust is broadened and sustained in order to tap all potential financial resources throughout the country.

In addition, commercial banks in Sudan should be properly placed to play an active role in financial mobilization, especially since alternative savings vehicles are relatively underdeveloped.

Capital market in the Sudan

The Sudanese government has devoted some efforts to develop its capital market in the country as a direct means of mobilizing risks capital for the corporate sector. It is expected that capital markets will improve domestic resource mobilization and promote the efficient use of capital. They should also play the important role of attracting foreign portfolio investment, thereby integrating domestic economies into international financial markets.

Development in capital markets in Sudan should be seen as an integral component of overall financial restructuring. Since there is complimentarity between capital market and the banking sector and other financial institutions, there should be simultaneous reforms of all the segments. Moreover, mechanisms must be instituted for linking the emerging capital market in Sudan with international ones, notably by reducing controls and strengthening institutions.

Remarks about development plans and barriers of effective institutions

Like many other countries, the Sudan has pursued economic planning since 1960/61 Economic planning in Sudan can be traced back to the end of the Second World War when the first Development Plan was started. It was a Five-Year Plan during the period (1946-1951). to bring about socio-economic structural changes. These efforts, however, have been frustrated by a number of shortcomings in the implementation of the necessary policy reforms, which rendered the country vulnerable to a host of internal and external shocks. As a result, the Sudanese economy entered into prolonged stagnation during the 1980s which manifested itself in low growth rates of GDP, poor maintenance of capital stock and depletion of the infrastructural base, and a decline in national savings/ investment rates. The situation was further compounded by bad weather conditions resulting in severe and pervasive drought and desertification.

An important remark that has to be made is that despite the implementation and the adoption of clear strategies of development in Sudan through the aforementioned Development Plans, the fundamental infrastructure of the production base is still weak. That is due to the insufficient capital available to the finance various production processes and finally, the presence of structural deficiencies and disturbances in the national economy, particularly, the manifestation of importing commodities and the export of primary products since the 1980s.

A missing link between what was planned and what actually took place was rather a common feature regarding the development plans, which had been carried out in Sudan since Independence. The goals of the Ten-Year Plan were overly ambitious, and the government had few experienced and qualified planners. The Plan, as prepared, was not adhered to, and implementation was actually carried out through investment programmes that were drawn up annually and funded through the development budget. Projects not in the original plan were frequently included. Investment was at a high rate in the first years, well beyond projections. As the 1960s progressed, a lack of funds threatened the continuation of development activities. Government current expenditure had increased much faster than receipts, in part because of the intensification of the civil war in the south, and government surpluses to development vanished. At the same time, there was a shortfall in foreign investment. The country's foreign reserves held at the beginning of the plan period were depleted, and the government resorted to deficit financing and foreign borrowing. The situation had so deteriorated by 1967 that the implementation of the Ten-Year Plan was abandoned.

Although the Five-Year Plan 1970/71-1974/75 emphasized the changes in the structural components of the national economy, the structure of the Sudanese economy remained as it was, similar to that prevailing before implementing the above mentioned Plan. Several factors were responsible for the weak achievement of the Five- Year Plan including a shortage of imported agricultural inputs, inadequate means of transportation, and ineffective, poor institutions.

What can be drawn from the Ten-Year Plan, the emphasis of which was put on the modernization of the agricultural and manufacturing sector, is that no environmental aspects were included in the Plan. Even the subsequent Five Year Plan did not mention explicit environmental issues with the exception of the enhancement of rural people's life through the provision of water.

Other development plans suffered from various obstacles that hampered them in achieving the required aims and objectives as stated in those plans. For example, the fundamental structural deficiencies of the national economy stood to be the main obstacle. The country had experienced severe shortages of foreign currency during the decades in which those plans were formulated. That shortage was due mainly to two primary factors: the first is the lack of foreign investments in the country because of political instability and improper financial policies, while the second was the reduction of foreign assistance caused by the political sanctions against Sudan.

In addition, the issue of effective and efficient institutions will remain one of the primary factors behind the failure of the development plans since independence. Since the late 1970s and the early 1980s, the Sudan experienced shortages in managerial expertise and professionals who preferred to migrate to the oil rich countries with higher salaries.

Due to insufficiency of database for planning, designing, and monitoring, the availability and nature of data, and the mechanism used in collecting the data are considered a pivotal factor for designing efficient development plans.

Moreover, there was a lack of communication between the planning agencies responsible for carrying out those development plans. In reality, decision makers and development planners always ignore other relevant parties and agents whose participation is vital for achieving successful development plans.

Furthermore, lacking the modern tools and expertise and missing links created a degree of ignorance to forecast the impact of unexpected events and extraordinary events that might have dire consequences during the implementation of those development plans.

It would be worthwhile to focus on the barriers and obstacles that may hinder or delay the emergence of the institutional environment. The primary barrier is the dispersed interests of those involved in the decision making process. Concentrated interests are often given too much weight, as in the assignment of property rights for land and water and in the operation of the government. Another important obstacle is the difficulty of forging credible commitments to protect and nurture persons and natural and other resources. The third obstacle to the emerging institutional environment is that some institutions are not inclusive. Hence when societies and processes are unequal and undemocratic, and some irrelevant external measures are included, it would be more difficult for the prevailing institutions to combine and coordinate the dispersed interests of people at different levels and also face the difficult task of forging credible commitments. Another barrier is the prevalence of distortions in product markets resulting from the application of protective measures, and also the distortions in capital markets that were induced or aggravated by governmental actions.

Sudan is a country, which has been suffering from chronic civil war for the last forty-seven years. Such war has led to a wide range of negative effects on economic development. That result is not the whole story, however. Even without war, the political systems, which have governed the country since Independence in 1956, and the economic policies adopted by those political regimes, would have led to a very problematic economic situation. The civil war has contributed to the magnitude of the economic crisis, rather than creating the economic crisis per se. In addition, bureaucratic procedures, rigid tax systems, excessive regulations, and the lack of motivation on the part of public servants increase the opportunities for corruption.

Table 1: Environmental Governance and Capacity Indicators

Country	Scientific & Technical Capacity	Capacity for Public Debate	Environmental Governance	Private Sector Innovation
Sudan	-1.58	-1.04	-0.88	-0.41
World Average	-0.9	0.05	-0.02	-0.03

Source: Environmental Sustainability, 2002
Own Compilation

Global engagement and environmental governance

Achieving lasting improvement in the most fundamental aspects of environmental sustainability will almost assuredly require greater engagement in the global processes of environmental management. We live in the era of profound global connections that require interconnected processes of governance. Yet it is precisely on measures of global engagement that Sudan has an especially low rank.

Managing the challenges of environmental sustainability over the long run requires an ability to monitor and assess complicated dynamics, balance competing social priorities, set realistic and useful goals, and implement measures effectively and flexibly. All of this makes an institutional commitment to environmental governance extremely important. Creating regulatory systems and the other institutional structures that support sound environmental decision-making requires greater efforts. Table 1 shows that Sudan lags behind world averages on measures of environmental governance and capacity, and the records are consistently more problematic.

CONCLUSION

In conclusion, the experience of the Sudanese economy in building institutions provides a key reason for differences in development performance. It is not the quantity but the quality of government institutions and government intervention in the provision of quality institutions. This outcome invariably lies in politics and quality of the government. Those with stable politics and strong disciplined, honest and capable people in government will do much better than those without. Thus, in order to grow, Sudan needs to have not only a good set of institutions but the capacity to change those institutions overtime. The government can play an important role in developing institutions to address quality verification and enforcement problems. It can establish and enforce standards such as uniform weights and measures, disclosure rules and credential systems. It can use law to facilitate credible commitments, for example, by creating penalties for fraud. It can reform slow and corrupt courts. It can regulate banks to ensure their soundness.

In Sudan, State institutions are often characterized of being too remote from the daily realities of poor people lives, and decentralization is often recommended as a solution. Decentralization can be powerful for achieving development goals in ways that respond to the need of local communities, by assigning control to people who have the information and incentives to make decisions best suited to those needs and who have the responsibility for the political and economic consequences of their decisions. It is not in itself a goal of development, but a means of improving public sector efficiency. To benefit the poor people, it must have adequate support and safeguards from the centre and effective mechanisms of participation. However, decentralization can make state institutions more responsive to poor people, only under the conditions stated above.

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