

**Impact of Global/Macro Economic
Influences on Inter-Governmental
Fiscal Relations:
A Developmental Perspective**

**By Mandla Gantsho
Development Bank of Southern Africa**

OUTLINE

- The Big Picture:
 - Globalisation
 - Millennium Development Goals
 - Other Global Influences
- Key Constraints
- Policy Implications for Intergovernmental Fiscal Relations
- Policy Responses
- Basic Services Backlogs in SA: Current Perspective
- Conclusion

THE BIG PICTURE: GLOBALISATION – POSITIVE IMPACTS

- Economic globalization can help countries develop and reduce poverty through:
 - foreign direct investment (FDI), which creates jobs, stimulates local industry & infrastructure development;
 - trade - enable access to international markets for exports & foreign exchange;
 - further development of human capital;
 - generation of additional government revenue through increased tax revenues from new economic activity, royalties etc

THE BIG PICTURE: GLOBALISATION – POTENTIAL PITFALLS

- Economic globalisation does not automatically enable development & poverty reduction:
 - if tax rate reductions involve net loss of government revenue;
 - if new globally-oriented economic activities have strong, unmitigated negative externalities;
 - if economic liberalization is undertaken with absent or weak regulatory institutions (e.g. Zambia), and with no provision of safety nets for transitional social shocks;
 - if local economies are rapidly flooded & de-industrialized by cheap imports made possible by distorted foreign market factors (e.g. subsidies).

THE BIG PICTURE: MILLENNIUM DEVELOPMENT GOALS

1. Reduce the proportion of people living in extreme poverty by half between 1990 – 2015
2. Enrol all children in primary school by 2015
3. Eliminate gender disparity in primary & secondary education by 2005
4. Reduce infant & child mortality rates by 2/3 between 1990 - 2015
5. Reduce maternal mortality ratios by $\frac{3}{4}$ between 1990-2015
6. Provide access to all who need reproductive health services by 2015
7. Implement national strategies for sustainable development by 2005 so as to reverse the loss of environmental resources by 2015

THE BIG PICTURE: OTHER GLOBAL INFLUENCES

- Contagion –globalisation of financial capital markets & rapid, destabilising flows of capital based on psychological factors/herd mentality;
- Decentralisation – global trend since early 1990s toward devolution & de-concentration (Uganda, Ethiopia, Nigeria, Vietnam, Brazil etc), part of move toward democratising development & localizing control and accountability;
- Regionalisation – EU and the Euro; emerging African Union: removal or restriction of certain macro-economic policy making from national to regional level;
- Migration – cross-border economic refugees & flight of human capital (brain drain)

KEY CONSTRAINTS

- Downward pressure on taxes & deficits can weaken fiscal policy, which is the main instrument for public investments in development & poverty reduction;
- Common monetary policies associated with regionalization can set strict standards on government deficits, fiscal policy

FISCAL IMPLICATIONS

- Magnitude of government revenues determines ability to spend
- Government borrowing capacity
- Spending priorities

POLICY IMPLICATIONS FOR INTERGOVERNMENTAL FISCAL RELATIONS

- Need to:
 - Enhance global competitiveness;
 - Develop human capital base;
 - Address poverty/ social imperatives, e.g. health, primary/secondary education, basic services, Black Economic Empowerment
- Need for social “safety nets” to address transitional social impacts of economic liberalisation policies
- Fiscal implications of Millennium Development Goals

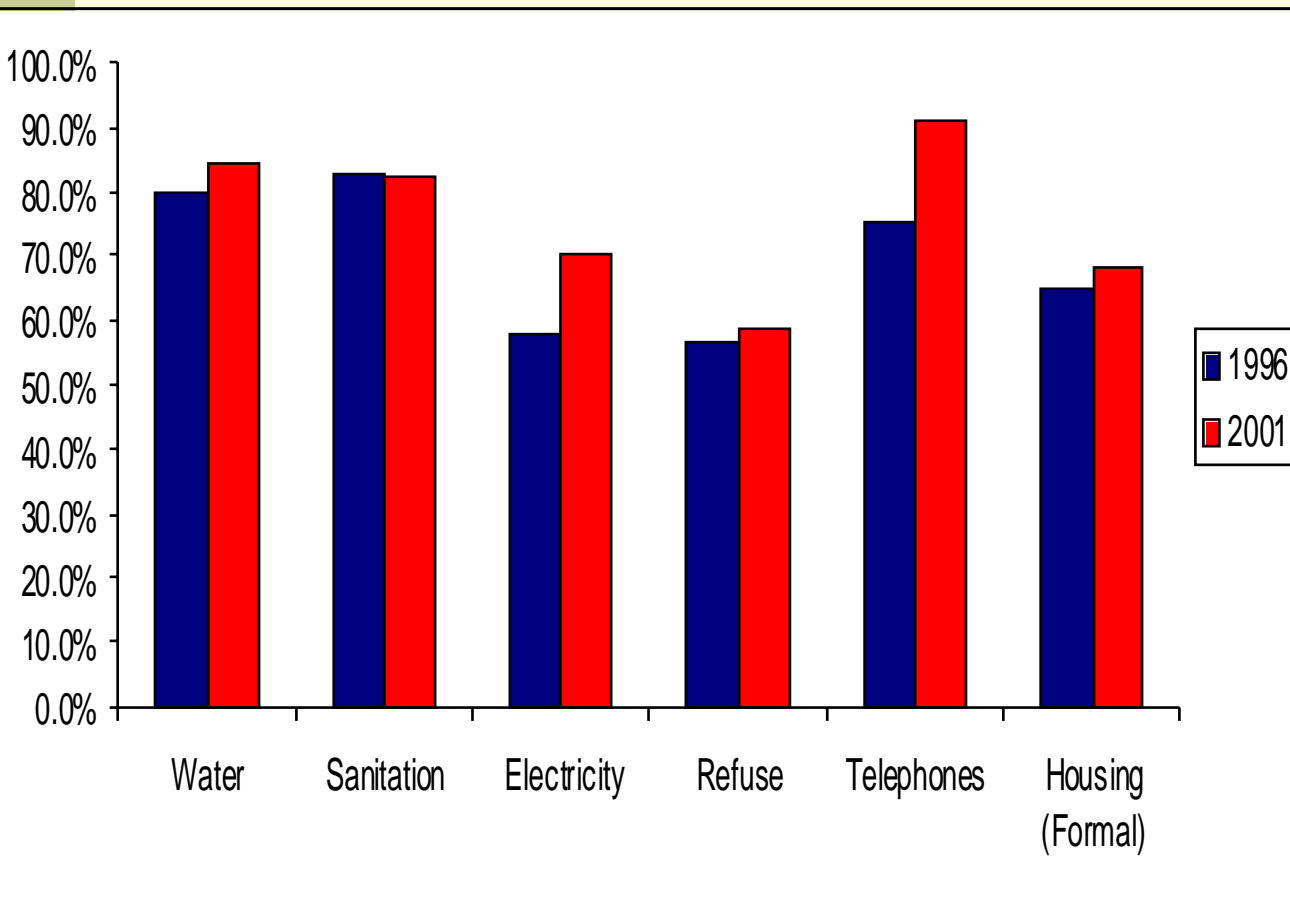
POLICY RESPONSES (1/2)

- Sectoral responsibility for social services primarily at provincial and local government level, therefore:
 - Need for mechanisms to maintain sound intergovernmental relations/fiscal transfers;
 - Capacity building at planning and implementation levels to ensure efficient/sustainable delivery
- Public works a critical intervention to expand social infrastructure:
 - Helps reduce income poverty; and
 - Fosters the development of human capital

POLICY RESPONSES (2/2)

- Enhancing borrowing capacity of provincial and local government on a sustainable basis:
 - Accelerating service delivery;
 - Limited to creation of revenue generating assets
- Facilitating development of workable PPP approach – challenge to overcome constraints, e.g.:
 - Equitable risk sharing;
 - Affordability/profitability trade-offs;
 - Efficiencies in service delivery
 - Promotion of Black Economic Empowerment
 - Promotion of intrapreneurship

BASIC SERVICES BACKLOGS: CURRENT PERSPECTIVE



Change:

- Water: 79,8% to 84,5%
- Sanitation: 82,5% to 82,3%
- Electricity: 57,7% to 70,0%
- Refuse: 56,6% to 58,7%
- Telephones: 75,2% to 90,6%
- Housing (Formal): 64,5% to 68,5%

% of households with access, 1996 & 2001

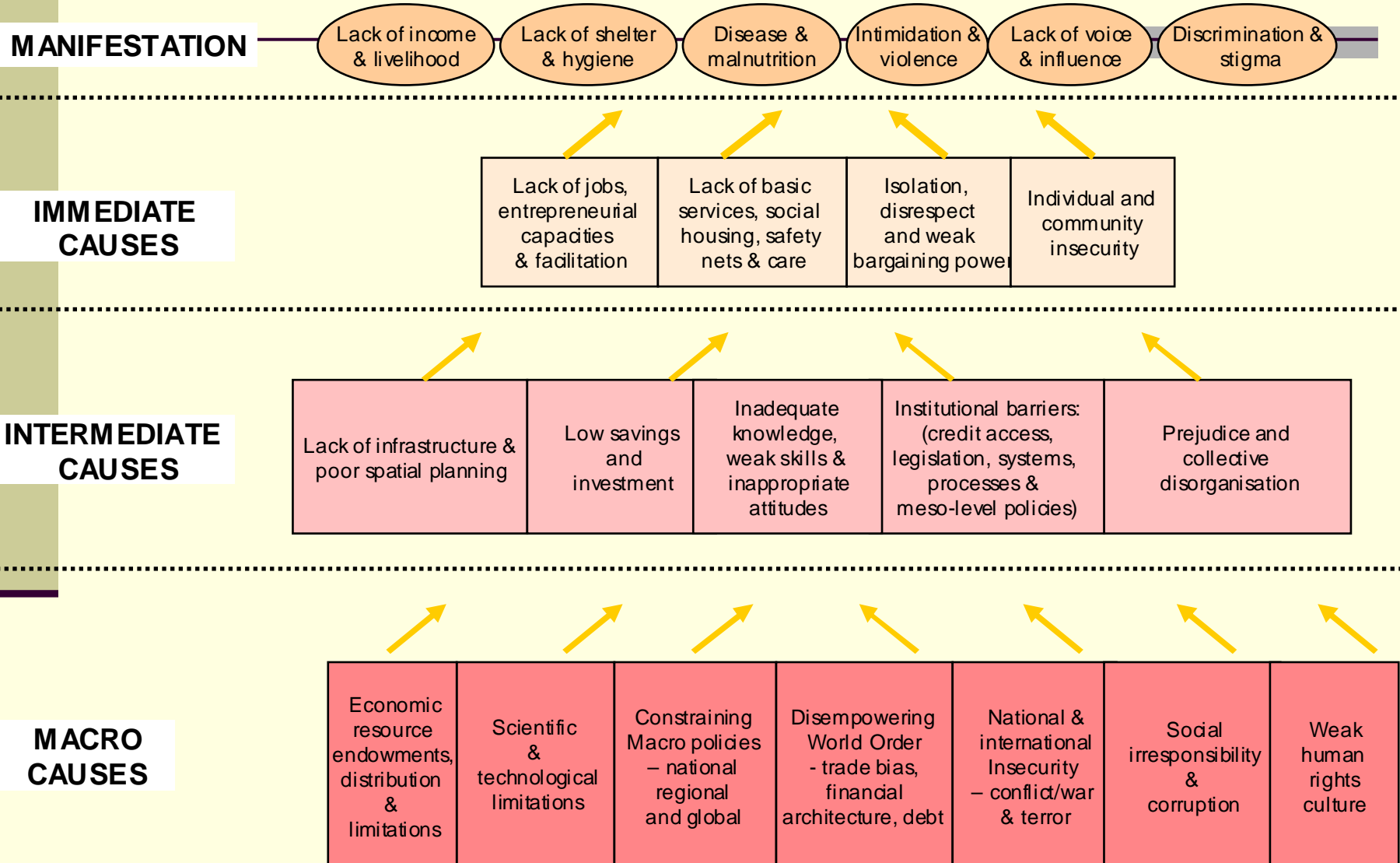
CONCLUSION

- Key role of provincial and local government in delivery of infrastructure/services that are central to sustainable development and global competitiveness
- Need for mechanisms to ensure equitable and efficient fiscal flows to support sustainable delivery



THANK YOU

Poverty & Inequality: A More Structured Causal Perspective



Key Interventions to Combat Poverty & Inequality

IMMEDIATE CAUSES

- 1/ transfer payments; 2/ service delivery;
- 3/ **job creation (labour intensification/public works)**
- 4/ entrepreneurship development & facilitation;
- 5) community policing and lighting

INTER-MEDIATE CAUSES

- 1/ **education, training & capacity building**;
- 2/ **socio-economic infrastructure development**;
- 3/ enhanced savings & **investment** (public/private);
- 4/ diversity training/desegregation;
- 5/ policy development sectoral/industrial;

BASIC CAUSES

- 1/ nat'l & global macro policy development;
- 2/ **int'l cooperation**; 3/ financial system reform; 4/ confl resolution; 5/ **good governance promotion**; 6/ scientific & technical R&D; 7/ human rights promotion