# Poor Planning, Natural Disasters and Public Finance

Coping with flooding & soil Erosion in City & Regional Planning Conference 2016, TTUC, Voi-Kenya

by


Ogada M Juma

School of Business, Economics & Social Sciences


Home of Ideas

# Presentation Outline

- Motivation
- Fiscal impacts of natural disasters
- Response to natural disasters
- Conditions for effective reallocation of resources
- Lessons for Taita Taveta County

# Motivation

- Disasters require appropriate response to:
  - minimize economic losses & disruptions
  - Enhance economic recovery
  - Reduce vulnerability of the poor
  - Maintain a country’s development trajectory
- This is what motivates this paper… to use experiences of other countries to identify appropriate disaster responses

# Fiscal Impacts of disasters

- Natural disasters have definite public expenditure implications:
  - Additional public expenditure
  - Reallocation of already committed funds
  - Postponement of planned investments
  - Reduced government revenue (as econ activities fall)

# Impacts…

- Consequences
  - Sub-optimal provision of public services
  - Deferment of wage & salary increases, & staff appointments
  - Time & cost overrun
  - Government may run down foreign exchange reserves
  - Increased external & internal borrowing
  - Increase money supply to meet budgetary obligations

# Impacts…

- Knock-on
  - Increased money supply is inflationary
  - Increased domestic borrowing can crowd out private sector
  - Foreign borrowing may lead to appreciation of domestic currency, making imports cheaper & exports more expensive
  - Debt burden on future generations
  - Frequent disasters makes a country a sub-prime borrower….higher interest rates
  - Capital flight & bop crisis

# Impacts…

**Positive impacts**

- Post-disaster investments trigger economic activities
- Rehabilitation & reconstruction provide opportunity for repair & upgrade of hitherto neglected facilities

# Measuring Fiscal impacts of natural disasters

- More often, effects are not easily be discernible from aggregated figures such as:
  - Recurrent & capital expenditures
  - Revenue & budgetary deficits

# Measuring impacts of natural disasters...

- Example 1: Even extreme floods of 1987, 1988 & 1998 in Bangladesh appear to have had only minor effects on public finance…aggregation problem

- Example 2: In Dominica, Fiji and the Philippines, impacts of natural disasters on public finance were less obvious….again an aggregation problem

# Measuring Fiscal impacts of natural disasters…

- Example 3: In SSA, impacts of drought have been discernible…associated with heavy government borrowing & low debt repayment, economic downturns
  - In the 1990s droughts, Malawi experienced fiscal turbulence: GDP fluctuated steeply; public expenditure rose by 30% in real terms between 1992/93 and 1994/95; public revenue declined by 9% in 1992/93 and 11% in 1993/94; and deficit increased by 23% over three years.

# Responses to natural disasters

- Philippines allocated 0.4%-0.7% of annual government expenditure, and 0.9%-1.6% of the discretionary spending over the period 1991 to 1994 to a Calamity Fund
- Fiji earmarked funds for emergency relief
- Bangladesh finances disasters through unallocated resources (Block Allocations)

**NB: Earmarked funds are good for localized disasters**

# Responses to natural disasters…

- External assistance
- Reallocation of resources… perhaps the most common approach. Capital budget, which is more discretionary, is the usual victim
  – Has been widely used in Bangladesh, Fiji, Zimbabwe (in the 1991/92 drought)
- Reallocation may also be in kind: government staff, vehicles and equipment, supplies of drugs and other items….this affects recurrent budget indirectly

## Conditions for effective reallocation of resources

- Clearly defined & applied policy framework
  - To avoid disruption of key policies & goals
  - Clear prioritization mechanism even post disaster… Pro-poor programmes must not be disrupted
- Reliable information on availability of resources in post disaster period & likely impacts of disaster on future flows of resources
- Reliable information on demand for resources.. Only possible with accurate assessment of damages
- Good information on the broader macroeconomic impacts of disasters…relative CBA of options

# Lessons for Taita Taveta County

- Analysis and reporting budgetary impacts of disasters
  - Expenditure on disasters need to be measured more explicitly. Spending on mitigation and preparedness need to be accurately estimated and reported
  - Improved and reliable information on fiscal impact of disasters is required. This is important for appropriate mitigation measures
  - Sensitivity of revenue-generation to disasters and the effects that different forms of revenue raising have on different groups are important to analyse.

## Lessons for Taita Taveta County…

- Financing disaster-related costs
  - When disasters are frequent, earmark funds for rehabilitation & reconstruction
  - Plan reconstruction in a manner that incorporates mitigation measures. Protect critical areas of capital & recurrent expenditure
  - Facilitate development of financial risk transfer instruments

# Lessons for Taita Taveta County…

- Governance
  - Good governance, characterized by transparent and accountable fiscal regime is critical for success
  - A more disciplined monetary management with a more vibrant finance sector reduces sensitivity to disasters

# End

Thank You for listening

TAITA-TAVETA UNIVERSITY COLLEGE
(A Constituent College of Jomo Kenyatta University of Agriculture and Technology)
P.O.BOX 635-80300 – Voi; Website: www.ttuc.ac.ke