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Medium-Term Budgetary Frameworks, Fiscal Rules, and Fiscal Councils in East Africa



Posted by Victor Lledó[1]

A workshop on [Medium-term Budgetary Frameworks, Fiscal Rules and Fiscal councils](#) took place in Addis Ababa, Ethiopia from January 11-14, 2016. The workshop was organized by the [East Africa Regional Technical Assistance Center \(AFE\)](#) and

was attended by 23 delegates from Burundi, Ethiopia, Kenya, Malawi, Tanzania, Uganda, and the East Africa Community (EAC) Secretariat. Participants, all senior officials, hailed from Ministries of Finance, Supreme Audit Institutions, Parliamentary Budget Offices, and Think Tanks. Overviews on fiscal institutions, medium-term budget frameworks, fiscal rules, and fiscal councils were presented by Fazeer Rahim (Macro-Fiscal Advisor, AFE), Phyllis Makau (Director of Kenya's Parliamentary Budget Office), Victor Lledó (Senior Economist, FAD), and Andy King (Chief of Staff, U.K. Office of Budget Responsibility). These presentations were followed by discussion of specific country cases presented by some of the delegates. A wrap-up session in the last day distilled key lessons.

Some of the key take-away messages— potentially relevant for further analytical and operational work on fiscal rules and fiscal councils— were as follows.[2]

Fiscal Rules

There is currently a lot of action on fiscal rules in the EAC. Following the implementation of a new PFM Act in 2012, Kenya introduced new debt, expenditure, and revenue rules applicable to subnational governments (counties) on top of the 50 percent debt limit in net present value (NPV) terms imposed on central governments of all EAC countries (a supranational rule). Tanzania introduced last year, as part of the Budget Act, revenue and expenditure rules complemented by reserve funds to help the country manage their yet untapped natural gas wealth. Uganda is expected to introduce this year a Charter of Fiscal Responsibility that will enact in national legislation the EAC-imposed 3 percent ceiling on the central government's overall fiscal balance, which is guided by the EAC debt rule.

Countries are putting different emphasis on fiscal sustainability and flexibility in their choice of a rules-based framework. The contrast between Kenya and Uganda is particularly striking. Kenya's 2012 PFM Act is mostly concerned with regulating intergovernmental fiscal relations in the recently decentralized environment. It is mainly focused on setting strict fiscal limits for subnational governments to contain their fiscal imbalances while ensuring revenue sufficiency. Following mixed compliance results, Kenyan officials are looking to further strengthen the enforcement of fiscal rules through the imposition of financial sanctions and further empowering the Parliamentary Budget Office (its fiscal council—see below) to monitor existing rules. Notwithstanding the government's concern for strict rules, Kenya's framework stop shorts of setting a national fiscal anchor (debt rule) and an operational target (budget balance or expenditure rule) at the general government level to preserve fiscal sustainability.

Uganda, on the other hand, is aiming to introduce a more flexible framework (similar to the U.K. model) under which a fiscal path would be determined to ensure that the 3 percent ceiling on the central government overall budget balance is met only by fiscal year 2020/21, when the new rule comes into force. This fiscal path should ensure that the EAC debt limit is not breached annually before the deficit rule is activated. Uganda's officials are also considering the introduction of escape clauses to allow for deviations from the deficit rule under special circumstances.

Useful lessons can be drawn from these experiences about countries' specific preferences for fiscal rules and the need to balance fiscal sustainability, flexibility, and other policy objectives.

Fiscal Councils

There is a growing interest in fiscal councils in the region and countries are looking at alternative models that address region-specific issues. Kenya's fiscal council housed at the National Parliament Budget Office (PBO) became active in 2009 and had its mandate re-established by the 2012 PFM Act. Uganda, Tanzania, and Malawi are also considering setting up fiscal councils. In the case of Tanzania, its PBO is strongly favored to play this role. In Uganda, delegates favored the attachment of the fiscal council to the country's Supreme Audit Court. There has been less of a preference in the region for stand-alone institutions.

Even though there are risks of attaching fiscal councils to other independent institutions in terms of the clarity of mandates

and operational independence, delegates generally defended such models. They argued that such an approach makes it easier for fiscal councils to benefit from existing well-remunerated and qualified staff (mainly in the PBO case) and entities with an already established reputation for taking an independent view (mainly in the case of the Audit Court). Capacity constraints and lack of political legitimacy to stand up against the Executive branch, however, were singled out by workshop delegates as serious constraints on establishing independent watchdogs in the region.

The PBO model was also favored to build awareness among legislators about the need for fiscal responsibility, especially as National Parliaments in the region have increased their budget-making powers as part of the on-going regional trend for greater checks on the Executive.

Some delegates were concerned that giving fiscal councils the mandate to prepare or validate the government's fiscal projections would divert donors' funds away from building capacity at ministries of finance and related agencies. It might also increase the difficulties of recruiting and retaining staff at such ministries, they also argued.

These are important considerations worth a closer look in operational and analytical work on fiscal councils, particularly in the context of developing countries.

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[2] FAD has prepared databases (regularly updated), policy notes, and research papers on [fiscal rules](#) and [fiscal councils](#). In collaboration with other IMF Departments, it has also provided technical assistance and capacity building on these issues to many IMF member countries.

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- [Medium-Term Budgetary Frameworks, Fiscal Rules, and Fiscal Councils in East Africa](http://blog-pfm.imf.org/2016/02/medium-term-budgetary-frameworks-fiscal-rules-and-fiscal-councils-in-east-africa.html)
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