



Implications of EAMU for National PFM Legislation

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EAC Workshop on Fiscal Implications of Monetary Union
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Outline of Presentation

I. Implications of EAMU for National PFM Laws

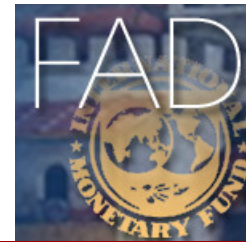
II. State of PFM Laws in EAC Countries

III. Priority Areas for Harmonization of EAC PFM Laws



I. Implications of Monetary Union for PFM Laws

- a. Fiscal responsibility provisions**
- b. Budget calendar and documentation**
- c. Expenditure control powers**
- d. Public debt management provisions**
- e. Financial accounting and reporting standards**
- f. National-local fiscal coordination provisions**



I. Implications of Monetary Union for PFM Laws:

a. Fiscal Responsibility Provisions

- **Enforcement of EAC fiscal rules requires inclusion of fiscal responsibility provisions in PFM laws**
- **Fiscal responsibility provisions include obligations on government to:**
 - **State medium-term fiscal objectives**
 - **Prepare multi-year economic and fiscal forecasts**
 - **Provide for independent scrutiny of forecast credibility**
 - **Evaluate risks to meeting fiscal objectives**
 - **Deviate from fiscal targets only in exceptional circumstances (escape clause)**
 - **Principles of public financial management**



I. Implications of Monetary Union for PFM Laws:

b. Budget Calendar and Documentation

- **Fiscal coordination requires harmonization of budget preparation timetables across EAC**
- **EAC countries have taken first step of aligning fiscal years to July-June**
- **Also need to harmonize legal deadlines for:**
 - **Publication of fiscal strategy/budget orientation debates**
 - **Presentation of draft budget to Parliament**
 - **Parliamentary approval of budget**
 - **Voting of revised budgets on the basis of a mid-year review**



I. Implications of Monetary Union for PFM Laws:

c. Expenditure Control

- **Meeting regional fiscal rules also requires legal frameworks to ensure that budgets are executed as approved, meaning:**
 - **Commitments are in line with appropriated limits**
 - **All revenues and payments channeled through CRF & TSA**
- **Meeting commitments under service contracts with multi-year implications**
- **Legal frameworks also need to include provisions for managing fiscal risks including:**
 - **A reasonable contingency reserve (3-5% of expenditure)**
 - **Carryover of under spending is prohibited or controlled**
 - **Sanctions for expenditures exceeding approved budget**

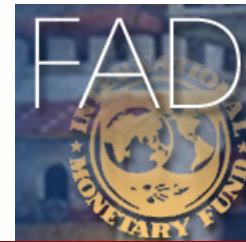


I. Implication for the Monetary Union for PFM law

d. Public Debt Management

- **Legal framework also need to ensure MoF can control borrowing by extra budgetary entities, meaning:**
 - **No recourse to overdraft at Central Bank**
 - **MoF authorizes all public borrowing**
 - **Linking borrowing for entities to identifiable revenue streams**

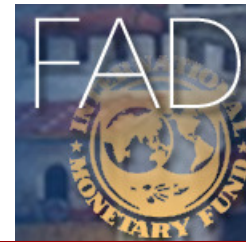
- **Legal framework also need to address:**
 - **Role of parliament**
 - **Reasons for borrowing**
 - **Debt reporting and strategy**
 - **Audit requirements**



I. Implications of Monetary Union for PFM Laws:

e. Financial Accounting and Reporting

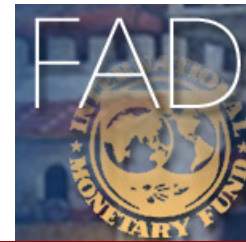
- **Surveillance of regional fiscal rules requires enhanced fiscal transparency and accountability**
- **Means PFM legal frameworks need to set credible reporting standards to limit scope for creating accounting, including:**
 - **Formal, coverage and consolidation of accounts**
 - **Frequency of reporting to legislature and public**
 - **Disclosure of significant risks**
- **PFM Laws also need to provide assurances of data integrity, including through:**
 - **Independence of Auditor General**
 - **Deadlines for Audit Reports and PAC hearings**
 - **Mandatory follow-up on PAC recommendations**



I. Implications of Monetary Union for PFM Laws:

f. National-Local Fiscal Coordination

- **EAC rules likely to be defined in general government terms ($GG=CG+LG$) and “control” instead of ownership**
- **Enforcement of GG fiscal rules will require enhanced oversight of local governments and public entities**
- **Devolution creates a challenge for both fiscal coordination and fiscal discipline**
- **Incentives for LGs to overspend, under tax, or over borrow due to**
 - **The common pool problem (“tragedy of the commons”)**
 - **Bailout history by national government**
 - **Failure to consider local heterogeneity in design of transfers**
 - **Failure to limit *de facto* autonomy**



I. Implications of Monetary Union for PFM Laws:

f. National-Local Fiscal Coordination

- **National-local fiscal coordination requires law to include**
 - Fiscal rules for local governments
 - Harmonized reporting standards between CG & LG
 - Cooperative arrangements for budget planning & monitoring
- **Ensuring sustainable fiscal management at local level requires laws to ensure:**
 - Balance between local revenue & expenditure assignments
 - MoF has power to limit local borrowing
- **Enforcement of fiscal rules means MoF needs the legal power to sanction local government violations through:**
 - Reductions in fiscal transfers/imposition of fines
 - Mandatory local spending cuts/tax rises
 - Taking locality into central administration



II. State of PFM Laws in EAC Countries:

a. Fiscal Responsibility Provisions PFM laws

Legal Provisions	Burundi	Kenya	Rwanda	Tanzania	Uganda
MT Fiscal Objectives	No	Yes	No	No	Yes
MT Forecasts	No	Yes	No	No	Yes
Independent Scrutiny of forecasts	No	Yes	No	No	No
Fiscal Risks	No	No	No	No	No
Escape Clause	Yes	Yes	Yes	Yes	Yes
Fiscal principles	No	Yes	Yes	No	No



II. State of PFM Laws in EAC Countries:

b. Budget Calendar

Legal Deadlines	Burundi	Kenya	Rwanda	Tanzania	Uganda
Fiscal Strategy/ Budget Policy(BPS)	No Dead line set	Yes, 28 Feb	No Deadline set	No deadline set	No deadline set
Draft Budget	No, deadline	Yes, 30 April	Yes, 30 April	No deadline	Yes, 30 April
Approved Budget	30June	30June	30June	30June	30June
Supp. Budget	No date set	31Jan	31 Jan	No date set	No date set



II. State of PFM Laws in EAC Countries:

c. Expenditure Control

Legal Provisions	Burundi	Kenya	Rwanda	Tanzania	Uganda
Commitment Controls	No	In regulations	Yes, in OBL	In regulations	In regulations
TSA	Yes, for CF	Yes, for CF	Yes, for CF	Yes, for CF	Yes, for CF
Sanctions for exceeding appropriation	Loose provision	Loose provision	Loose provisions	Loose provisions	Loose provisions
Contingency Fund (% of budget)	Yes	Yes KES10b	Yes, (2%)	Yes	Yes (3.5%)
Carryovers (limit)	No	No	No	No	No
Contracts with multi-year implications	No	No	No	No	No



II. State of PFM laws in EAC Countries:

d. Public debt management

Legal provisions	Burundi	Kenya	Rwanda	Tanzania	Uganda
No CB lending to PEs and CG	Not part of PFM, but advances made to CG	Not part of PFM, but advances made to CG	Not part of PFM, but advances made to CG	Not part of PFM, but advances made to CG	Not part of PFM, but advances made
MoF authorizes borrowing	Yes	Yes	Yes	Yes, Committee of Advisors	Yes
Key aspects of debt magnt	Limited	Yes, in PFM	Yes, in OBL	Yes, separate laws	Separate laws



II. State of PFM Laws in EAC Countries: e. Financial Accounting and Reporting

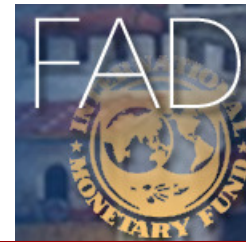
Legal provisions	Burundi	Kenya	Rwanda	Tanzania	Uganda
Int'l Accounting Standards	No	PFM refers to IPSAS	Regulations refer to GAAP	Regulations Ref to GAAP	Reference is made to GAAP
Frequency of Reporting	Annually	Quarterly & Annually	Quarterly & Annually	Annually.	Annually
Deadline for Audited Accts	Not specific, 'after year-end'	Yes, 6 months	Yes, 9 months	Yes, 9 months	Yes, 9 months
Status of Audit Office	Independent	Independent	Independent	Controllership combines with audit	AG shoulders controllership



II. State of PFM Laws in EAC Countries:

f. National-Local Fiscal Coordination

Legal Provisions	Burundi	Kenya	Rwanda	Tanzania	Uganda
Local Fiscal Rules	No	Yes	No	No	Yes
Harmonized Reporting	No	Yes	Yes	No	No
Local Borrowing Controls	Yes	Yes	Yes	Yes	Yes, 2.5%
Sanctions for Local Violations	No	Yes	Yes	No	Yes



III. Priorities for Harmonization of EAC PFM Laws

- 1. Harmonize calendar for budget preparation & approval**
- 2. Give legal force to EAC-wide fiscal rules and limits on public debt in national PFM legislation**
- 3. Integration national fiscal rules with fiscal rules and oversight frameworks for sub national governments**
- 4. Harmonize financial reporting calendar, standards, and institutional arrangements**
- 5. Tighten control over budget execution: commitment control, centralized cash management, limit carryovers and earmarked funding, and limit recourse to supplementary budgets**
- 6. Delineation of budget institutions that promote aggregate spending restraint while achieving agreed program outcomes**