

DEBT LAWS AND DEBT LIMITS: A PANACEA TO AFRICA'S FISCAL MANAGEMENT CHALLENGES?

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Outline of Presentation

- Introduction
- Fiscal Responsibility Laws on Debts and Debt Limits in Africa
- Practical Experiences in Applying the Laws in Africa
- Comparing Africa's Fiscal Laws with Best Practices
- Conclusions
- The way forward

INTRODUCTION

- Fiscal rules typically aim at correcting distorted incentives and containing pressures to overspend, particularly in good times, so as to ensure fiscal responsibility and debt sustainability. (IMF Fiscal Affairs Department)
- Most African countries in an attempt to ensure fiscal discipline have enacted laws on Debts and debt Limits. Ghana's Fiscal Responsibility Laws can be found in the Public Financial Management Act (PFMA) of 2016.
- Ghana: Fiscal deficit target of 5% from existing 9.3%
- Botswana: Effective fiscal policies put in place enhances resilience to political pressures from special interest groups
- Cameroon, Chad and Mongolia: Fiscal rules have seldom been followed and hence failed to achieve their intended goals

TYPES OF FISCAL RULES

- **Budget Balance Rule.** Targets the overall fiscal balance, that is, the difference between revenues and expenditure. It is generally set as a percentage of GDP or as a percentage of fiscal revenues.
- **Debt Rule.** Sets explicit limits or targets for the level of public debt. It is generally set as a percentage of GDP.
- **Expenditure Rule.** Sets limits on total spending, primary spending (excluding interest on debt), or current spending (excluding capital spending). It can be set in absolute terms, by growth rates, or as a percentage of GDP.
- **Revenue Rule.** Sets ceilings on certain revenue streams such as natural resource revenues to be spent in any given year. They can be set in absolute terms by growth rates or as a percentage of GDP.

FISCAL RULES COUNTRY INFORMATION

COUNTRY	TYPE OF RULE	STATUTORY BASIS	FORMAL ENFORCEMENT PROCEDURE	INDEPT BODY MONITORING IMPLEMENTATION	WELL SPECIFIED ESCAPE CLAUSES
BOTSWANA	EXPENDITURE RULE (2003)	POLITICAL COMMITMENT	NO	NO	NO
	DEBT RULE (2005)	STATUTORY	NO	NO	NO
KENYA	DEBT RULE (1997)	POLITICAL COMMITMENT	NO	NO	NO
LIBERIA	DEBT RULE (2009)	STATUTORY	NO	NO	NO
GHANA	DEBT RULE (2017)	POLITICAL COMMITMENT	NO	NO	NO
CAPE VERDE	DEBT RULE (1998)	POLITICAL COMMITMENT	NO	NO	NO

SUPRANATIONAL FISCAL RULES

CENTRAL AFRICAN ECONOMIC AND MONETARY COMMUNITY

COUNTRY	TYPE OF RULE	MONITORING OF COMPLIANCE OUTSIDE GOVT	FORMAL ENFORCEMENT PROCEDURE	WELL SPECIFIED ESCAPE CLAUSES
CAMEROON	DEBT RULE (2002)	YES	NO	NO
CENTRAL AFRICAN REP	DEBT RULE (2002)	YES	NO	NO
CHAD	DEBT RULE (2002)	YES	NO	NO
REPUBLIC OF CONGO	DEBT RULE (2002)	YES	NO	NO
EQUITORAL GUINEA	DEBT RULE (2002)	YES	NO	NO
GABON	DEBT RULE	YES	NO	NO

EAST AFRICAN MONETARY UNION

COUNTRY	TYPE OF RULE	MONITORING OF COMPLIANCE OUTSIDE GOVT	FORMAL ENFORCEMENT PROCEDURE	WELL SPECIFIED ESCAPE CLAUSES
BURUNDI	DEBT RULE (2013)	YES	NA	NA
KENYA	DEBT RULE (2013)	YES	NA	NA
RWANDA	DEBT RULE (2013)	YES	NA	NA
SOUTH SUDAN	DEBT RULE (2013)	YES	NA	NA
TANZANIA	DEBT RULE (2013)	YES	NA	NA
SUDAN	DEBT RULE (2013)	YES	NA	NA

WEST AFRICAN ECONOMIC AND MONETARY UNION

COUNTRY	TYPE OF RULE	MONITORING OF COMPLIANCE OUTSIDE GOVT	FORMAL ENFORCEMENT PROCEDURE	WELL SPECIFIED ESCAPE CLAUSES
BENIN	DEBT RULE (2000, 2015)	YES	YES	YES
BURKINA FASO	DEBT RULE (2000, 2015)	YES	YES	YES
COTE D'IVOIRE	DEBT RULE (2000, 2015)	YES	YES	YES
GUINEA-BISSAU	DEBT RULE (2000, 2015)	YES	YES	YES
MALI	DEBT RULE (2000, 2015)	YES	YES	YES
NIGER	DEBT RULE (2000, 2015)	YES	YES	YES
TOGO	DEBT RULE (2000, 2015)	YES	YES	YES

Experiences and Results

INSPIRE OF THE LAWS IN PLACE:

- African governments over the years have run into budget deficits as a result of over expenditure and its inability to manage public funds.
- Revenue targets have persistently been missed resulting in debts
- To a large extent, the adoption of fiscal responsibility laws in Africa have had an insignificant impact in correcting financial problems such as government's over expenditure and embezzlement of State funds by public officials.
- In Ghana, a rapidly escalating debt over GDP, necessitated an International Monetary Fund (IMF) program for financial assistance in 2015, due to end this year, 2018.

Good fiscal laws based on International Experience

- (1) A good fiscal law should be tailored to a country's economic challenges and opportunities.
- (2) A good fiscal law should be simple and easy to understand.
- (3) A good fiscal law needs well-defined escape clauses.
- (4) A good fiscal law requires transparency and strong oversight.
- (5) A good fiscal law should build on existing institutions and national consensus.

Conclusions

- Fiscal Laws do not operate in isolation and require supporting Institutions and reforms to deliver the anticipated outcome
- Key reforms to enhance effective fiscal laws in Africa include strengthening budget preparation, establishing an independent fiscal policy council, monitoring and enforcement procedures, and legislative changes to make the fiscal rule legally binding.
- Economic growth remains strong in most African economies, but fiscal indiscipline continues to undermine the country's strong medium term prospects.

THE WAY FORWARD

- International experience shows that fiscal rules are best kept simple. When fiscal rules are simple, oversight actors (including parliamentarians, policy experts, investors and concerned citizens) can more easily monitor them.
- Simple rules also help prevent confusion or manipulation by government officials when they report on their adherence to the rule. If the general public understands the fiscal rules in place and their long-term benefits, it helps governments contain expenditure.

The Way Forward

- The need for an escape clause for major shocks. A temporary suspension of the fiscal rule should be conditional upon a limited range of well-defined events. The escape clause should also include specifications for publishing deviations from the rule and a public plan on measures for putting the economy back on the path to recovery.
- Strengthen budget transparency based on recommendations from the 2015 Open Budget Survey. These include publishing all relevant budget information (for example a pre-budget statement and the enacted budget) in a comprehensive format that citizens can easily understand, providing more information on expenditure classifications over the past and current medium-term expenditure

The Way Forward

- Institute punitive measures for non-compliance and arbitrary departures from the fiscal rule in any given financial year.
- Effective implementation and monitoring of fiscal rules in tandem with a number of supporting arrangements and good institutional capacity

END OF PRESENTATION

THANK YOU FOR YOUR ATTENTION

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