BRIEF 1

# Debt Management for Parliaments

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# Debt Management for Parliaments

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Written for the National Democratic Institute
and the Westminster Foundation for Democracy

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Developed by the National Democratic Institute (NDI) and the Westminster Foundation for Democracy (WFD) this publication is one in a series of four briefs on public debt management intended for parliamentarians and parliamentary staff.

This paper was written by Geoff Dubrow and externally reviewed by Tomas Bridle, Senior Advisor, Center for Democracy and Governance, USAID. The publication was peer-reviewed by Kristen Sample, Corina Rebegea, Frieda Arenos, Caroline Hubbard, Ketevan Goletiani, Andriy Shymonyak, Magda Labadze, Ivy Kihara, James Kinyua and Benedictus Rono at NDI, and Sophia Fernandes, Petar Trajkov and Franklin De Vrieze at WFD.



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# Table of Abbreviations

| Abbreviation | Meaning |
|---|---|
| AFRODAD | The African Forum and Network on Debt and Development |
| BAC | Budget and Appropriations Committee |
| BPS | Budget Policy Statement |
| CADTM | Committee for the Abolition of Illegitimate Debt |
| CSOs | Civil Society Organizations |
| DMU | Debt Management Unit |
| DSA | Debt Sustainability Analysis |
| EBP | Executive Budget Proposal |
| ECA | European and Central Asia |
| EMDE | Emerging Market Developing Economies |
| EURODAD | European Network on Debt and Development |
| GBV | Gender-Based Violence |
| GDP | Gross Domestic Product |
| GFC | Global Financial Crisis |
| HIPC | Heavily Indebted Poor Countries |
| IFIs | Independent Financial Institutions |
| IMF | International Monetary Fund |
| IPFK | Institute for Public Finance Kenya |
| LAC | Latin America and the Caribbean |
| MDB | Multilateral Development Bank |
| MOF | Ministry of Finance |
| MOFED | Ministry of Finance and Economic Development |
| MTDS | Medium-Term Debt Strategy |
| MTEF | Medium-Term Expenditure Framework |
| OBS | Open Budget Survey |
| OECD | Organization for Economic Cooperation and Development |
| PAC | Public Accounts Committee |
| PBO | Parliamentary Budget Office or Parliamentary Budget Officer |
| PBS | Pre-Budget Statement |
| SAI | Supreme Audit Institution |
| SDGs | Sustainable Development Goals |
| SOE | State-Owned Enterprise |
| UNCTAD | United Nations Conference on Trade and Development |

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**Brief 1: Debt Management for Parliaments**

This is the first brief in a series of four produced through a partnership of the National Democratic Institute and the Westminster Foundation for Democracy. The purpose of this brief is to provide an overview of public debt management for parliamentarians. Many of the issues discussed in this brief are elaborated upon in Briefs 2-4.

# Executive Summary

Public debt has been growing globally for decades, and the fallout from the recent COVID-19 pandemic has exacerbated what were already unprecedented levels of debt. This is as true for low- and middle-income countries as it is for high-income countries, however, the former are generally in a far less sustainable position to service and eventually pay down their debts. These debts are often taken on for good reasons, whether in response to exogenous shocks such as natural disasters, or as we have seen pandemics, as well as to invest in important infrastructure projects and in attaining the Sustainable Development Goals (SDGs). Sometimes, however, due to a lack of effective oversight, unsustainable debt loads are taken on and citizens are left on the hook for paying back funds that may have served no effective purposes.

Public debt disproportionately impacts women, especially women with intersecting identities.[1] Often, high levels of debt lead to cuts to social spending for which women are the most dependent. This can be particularly difficult for women in low-income countries where there are often fewer opportunities for women than men, as well as significant constraints to finding work or to succeed in the workplace.

Effective public debt management is always integral to assuring long-term sustainability, and this starts with effective parliamentary oversight. While budgeting, borrowing and spending are generally under the purview of the executive branch of government, it is incumbent that the legislature serves as an effective counterbalance to ensure sound decisions are taking place that will benefit the country both short and long term.

There are several important actors as well as entry points for these actors to influence the budget and oversee decisions related to public debt management. These institutional actors and entry points together form what can be referred to as the "debt management universe."

1 Dinah Musindarwezo and Tim Jones, *Debt and Gender Equality: How Debt-Servicing Conditions Harm Women in Africa*, (Bretton Woods Project, April 4, 2019), https://www.brettonwoodsproject.org/2019/04/debt-and-gender-equality-how-debt-servicing-conditions-harm-women-in-africa/.

# 1. Why Debt Matters

The COVID-19 pandemic and the subsequent economic fallout has exacerbated what had already been a growing crisis for decades, in the form of increased levels of global debt.

Global levels of debt — both public and privately held — have been on the rise for years but have quickly ballooned into unprecedented levels over 2020-21. Skyrocketing levels of debt have affected countries at all income levels, though low-income countries have been more adversely impacted. According to the Jubilee Debt Campaign, average external debt payments by governments in the "Global South"[2] increased by 60 percent from 2009 to 2019 and are currently at their highest levels since 2004.[3]

Debt Sustainability Analyses conducted by the World Bank and International Monetary Fund (IMF) in low-income countries in 2021 found that 36 out of 69 countries assessed were in debt distress or at high risk of debt distress.[4] As will be discussed in the section on the waves of global debt, the pandemic has exacerbated existing trends. While $130 billion in debt was canceled between 2000 and 2010 under the Heavily Indebted Poor Country (HIPC) Initiative,[5] the systemic issues that lead to cyclical increases in debt have not been addressed and low- and middle-income countries have continued to take on unsustainable levels of debt.

This has, in part, been fueled by fallout from the 2008 Global Financial Crisis (GFC), which, beyond the economic pain felt from the crisis itself, resulted in a drop in interest rates and a tripling of annual external loans to low- and middle-income countries between 2007 and 2017 from $65 to $180 billion.[6] As a result, new research from the European Network on Debt and Development (EURODAD) shows that more than 20 countries now spend over 20 percent of their revenues on servicing debt while another six countries now spend over 40 percent.[7]

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2 While this series refers to "low- and middle-income countries," the Jubilee Debt Campaign makes reference to the "Global South." It is not clear whether this refers to low- and middle-income countries, or just low-income countries.

3 Dinah Musindarwezo and Tim Jones, *Debt and Gender Equality: How Debt-Servicing Conditions Harm Women in Africa*, (Bretton Woods Project, April 4, 2019), https://www.brettonwoodsproject.org/2019/04/debt-and-gender-equality-how-debt-servicing-conditions-harm-women-in-africa/.

4 As of June 30, 2021, and based on the most recently published data, seven countries are in debt distress, 29 countries are at high risk, 24 countries are at moderate risk and nine countries are at low risk of debt distress. See: International Monetary Fund, "List of LIC DSAs for PRGT-Eligible Countries," IMF, last modified June 30, 2021, https://www.imf.org/external/Pubs/ft/dsa/DSAlist.pdf.

5 "Developing Country Payments Increase by 60% in Three Years," Jubilee Debt Campaign (UK), March 18, 2018, https://jubileedebt.org.uk/press-release/developing-country-debt-payments-increase-by-60-in-three-years.

6 Ibid.

7 Iolanda Fresnillo, *Out of Service: How Public Services and Human Rights Are Being Threatened by the Growing Debt Crisis*, (EURODAD, February 2020), https://www.eurodad.org/outofservice.

## 2. The Trade-Off: Growth and Spending Versus Debt

There have been debates about the appropriate levels of debt that countries should take on and these have ratcheted up in intensity throughout the last decade. In high-income countries, these debates often take the frame of "our children will be paying for this for generations." While this in itself is a worrisome potential outcome, for low- and middle-income countries, the cost of debt is often much more severe and immediate. Debt payments require ongoing servicing and often these payments not only consume over one-fifth of a country's entire revenues, but a good portion of this will be allocated to interest payments and not to lower the principal owed on the debt. This drastically reduces countries' abilities to provide important services for their populations, while severely undermining any investments in future growth and sustainable development.

Countries often set the limit or target for debt rules at the recommended "prudential limit," which is 60 percent of GDP in advanced economies and 40 percent of GDP in emerging economies.[8] It should be noted, however, that while these percentages constitute a "useful benchmark," some economists note that "that there is no way of accurately defining appropriate debt ceilings, over which debt becomes unsustainable."[9] One economist argues that:

"There is no magic number of where debt-to-GDP is the right number, what matters is how you are using the money you are borrowing and that it is creating something of value that raises people's quality of life."[10]

A country may be considered to achieve external debt sustainability when it is able to meet its current and future external debt-service obligations in full, without recourse to debt relief, rescheduling, or the accumulation of arrears. Key indicators of external debt sustainability include the present value of the debt-to-exports ratio and the debt-service ratio.[11] When state borrowing becomes excessive, high levels of public debt can undermine development because governments need to use available funds to pay interest and principal. This reduces the funds available for key investments, such as infrastructure and social spending. To illustrate, as one report issued by the United Nations noted, "Countries face pressing demands for additional public investments in the SDGs at a time when constraints on further debt financing are likely to become more binding."[12] According to the United Nations Conference on Trade and Development (UNCTAD), it is estimated that the average annual shortfall to deliver the SDGs for basic infrastructure, food security, climate change mitigation, health and education is USD $2.5 trillion, given current investment levels.[13]

**"There is no magic number of where debt-to-GDP is the right number, what matters is how you are using the money you are borrowing and that it is creating something of value that raises people's quality of life."[14]**

*—Armine Yalnizyan, Atkinson Foundation (Canada)*

8 IMF Policy Development and Review Department, *Assessing Sustainability*, (International Monetary Fund, May 28, 2002), https://www.imf.org/external/np/pdr/sus/2002/eng/052802.pdf.

9 Debt and Finance Analysis Unit (UNCTAD), "Module 1: A Critique of the IMF Classical Framework," UNCTAD Virtual Institute, n.d., https://vi.unctad.org/debt/debt/m1/Critique.html.

10 "Do Deficits Matter Anymore?" TVOntario, November 4, 2021, https://www.tvo.org/video/do-deficits-matter-anymore.

11 Hakura, Dalia S., "Back to Basics: What is Debt Sustainability?" *Finance & Development* 57, no. 3 (2020): pp. 60-61, https://www.imf.org/external/pubs/ft/fandd/2020/09/pdf/what-is-debt-sustainability-basics.pdf.

12 Inter-agency Task Force on Financing for Development, *Financing for Development: Progress and Prospects 2018*, (United Nations, 2018), https://developmentfinance.un.org/sites/developmentfinance.un.org/files/Report_IATF_2018.pdf.

13 James X. Zhan, Richard Bolwijn, Bruno Casella, et al., *World Investment Report 2014: Investing in the SDGs: An Action Plan*, (Switzerland: United Nations Conference on Trade and Development, 2014), https://unctad.org/system/files/official-document/wir2014_en.pdf.

14 "Do Deficits Matter Anymore?" TVOntario, November 4, 2021, https://www.tvo.org/video/do-deficits-matter-anymore.

Regarding the trade-off between debt and achieving the SDGs, the Secretary-General of the United Nations, António Guterres, echoes similar challenges:

"As the global economic environment is set to remain unstable, it is becoming more difficult for developing economies to leverage debt financing for sustainable development. At the same time, the international community has adopted the most ambitious development agenda yet, the 2030 Agenda for Sustainable Development."[15]

Governments often borrow in order to make investments which often take the form of large infrastructure projects. These are referred to as project loans which are generally intended to grow the economy and contribute to the attainment of the SDGs. Investments in key infrastructure for clean water, education, health services, climate change adaptation and mitigation are key to attaining many of the SDGs. However, in most low- and middle-income countries, tax revenues are insufficient to fund basic services, let alone make large-scale investments to grow the economy. Therefore, when making decisions to borrow, there are many factors to be weighed — any choice will have consequences and trade-offs need to be understood and considered. For example:

- In Jamaica, former Finance Minister and Leader of the Opposition Dr. Peter Philips described the difficulties growing levels of debt created in attempting to balance developmental priorities in his country. In an interview in 2021, Dr. Phillips explained that Jamaica's debt-to-GDP-ratio in 2013 was approximately 150 percent. Dr. Phillips explained that "our foreign exchange reserves at the low point were covering just about seven weeks of imports so we were rapidly running out of room for maneuver and running into effectively a hand to mouth situation."[16] He indicated that ordinary Jamaicans paid a "very difficult price" owed to tax increases and a public sector wage freeze; and

- In Kenya, James Muraguri, CEO of the Institute of Public Finance Kenya, reported that Kenya resumed its annual repayments of USD $1 billion to China in 2021 which is almost equivalent to the country's entire expenditure on healthcare. Because debt servicing represents the first point of charge on public revenues, the Kenyan government is limited in its ability to fund healthcare and social services. Even in pre-pandemic times, debt levels presented a significant challenge to government priorities; this was only exacerbated by the COVID-19 pandemic. Kenya requires around USD $350 million to vaccinate 50 percent of its population, but with so much of its revenue going to the servicing of its debt, the country cannot afford to do so and as a result, is waiting on vaccine donations.[17]

15 Ibid.

16 Interview with Dr. Peter Phillips, MP, former Finance Minister and Leader of the Opposition, Jamaica. May 2021.

17 Interview with James Muraguri, CEO of the Institute of Public Finance Kenya, August 2021.

## 3. Debt as a Gender and Equity Issue

Structural inequalities at the societal level are exacerbated by high public debt levels. The relationship between debt and inequality can be circular, with higher levels of debt leading to greater inequalities, and more unequal societies incurring higher levels of debt.

> **"Structural Inequalities are a condition where one category of people is attributed an unequal status in relation to other categories of people. This relation is perpetuated and reinforced by a confluence of unequal relations in roles, functions, decisions, rights, and opportunities."[18]**
>
> *—United Nations Economic and Social Commission for Western Asia*

One important form of structural inequality to consider when engaging with issues of public debt is gender inequality. According to Juan Pablo Bohoslavsky (United Nations Independent Expert on Foreign Debt and Human Rights), programs related to austerity and fiscal consolidation tend to threaten access to human rights, with a disproportionate impact on women (see Box 1). In terms of direct economic impact, the UK-based charity Fawcett Society argued that women face "triple jeopardy" in austerity conditions because cuts to social benefits tend to impact women more than men, women are more likely to work in the public sector where austerity cuts are enforced, and due to deeply rooted and systemically-reinforced gendered norms, women are expected to shoulder a disproportionate burden of unpaid care and domestic work to make up for social service cuts.[19] This is further shored up by stark findings from a 2020 EURODAD report that shows that "Rapidly rising and more expensive public debt is pitting the rights of creditors against those of the world's poorest — and in particular women and girls — as some countries devote up to 40 percent of revenue to external debt service."[20] A recent report outlines specific spheres of impact:

- ***Right to work:*** industries dominated by women saw greater cuts and slower recoveries after the Global Financial Crisis, leaving women overrepresented in informal employment arrangements and in low-paid work;
- ***Right to social security:*** reductions in social benefits were even more devastating for women living in poverty, with dependent children or experiencing multiple and intersecting forms of discrimination;
- ***Right to housing, water, and food:*** disproportionately negative effects regarding employment and social security leave women especially vulnerable to privatization and underfunding of affordable housing, clean drinking water, and food accessibility;
- ***Right to health:*** funding cuts in the healthcare sector, especially related to gender-specific health needs, can cause irreparable harm to women's personal and reproductive health.[21] (See Box 2);

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18 "Structural Inequalities," United Nations Economic and Social Commission for Western Asia, n.d., https://archive.unescwa.org/structural-inequalities.

19 Diane Perrons, "Gender and Inequality: Austerity and Alternatives," Intereconomics: Review of European Economic Policy 52 (2017): 32, https://dx.doi.org/10.1007/s10272-017-0639-x.

20 Julia Ravenscroft, "Impoverished Countries Spending up to 40 Percent of Government Revenues on Repaying Debt, According to New Research," EURODAD, February 20, 2020, https://www.eurodad.org/outofservice_press.

21 Juan Pablo Bohoslavsky, *Effects of Foreign Debt and Other Related Financial Obligations of States on the Full Enjoyment of All Human Rights, Particularly Economic, Social, and Cultural Rights* (United Nations Human Rights Council, July 2018), https://digitallibrary.un.org/record/3823559/files/A_74_178-EN.pdf. 8-13.

- *Violence against women:* social service reductions often result in a weakened response to Gender-Based Violence (including spending freezes related to new construction of women's shelters), and unemployment can lead women into prostitution, where they are increasingly vulnerable to human trafficking. (See Box 2); and

- *Tax (in)justice and discrimination:* because women are often responsible for household purchases, increasing value-added taxes as an austerity measure produces a regressive taxation effect disproportionately impacting women.[22]

In each sphere, impacts experienced primarily by women have a negative effect on society at large. Public debt and structural inequalities have a circular and mutually reinforcing relationship, whereby heightened inequality produces a net negative impact on the entire society, rippling out far beyond the specific group bearing the brunt of the specific negative impact. Structural gender inequality means that women will experience disproportionate effects of austerity, and because those effects exacerbate gender inequality, the debt crisis is further fueled.

**"Austerity and fiscal consolidation policies hit the most vulnerable groups within a given population, among whom women are overrepresented and the most exposed, giving rise to intersecting forms of discrimination. Among the women who are most exposed are single mothers, young women, women with disabilities, older women, refugee and migrant women, lesbian, bisexual, transgender and intersex women, those women who belong to ethnic, religious and linguistic minorities, women in rural areas, and women who live in poverty or extreme poverty. A series and/or combination of austerity and fiscal consolidation measures often provokes cumulative adverse impacts for women."**[23]

*—Juan Pablo Bohoslavsky, UN Independent Expert on Foreign Debt and Human Rights*

While many in the international community condemned the detrimental impacts of Structural Adjustment lending of the 1980s and 1990s, austerity often continues to be a condition for Structural Adjustment loans. EURODAD research from 2018 found that:

"IMF programs in 2016 and 2017 have predominantly pushed for austerity in 23 out of 26 borrowing countries. Government expenditure is subsequently cut in areas such as care, health services such as sexual and reproductive health and rights and care responsibilities, such as taking care of the sick, the elderly and homeschooling of children, which predominantly falls on women."[24]

While International Financial Institutions (IFIs) have sought to move away from some of these conditionalities, creditors and lenders often want various assurances linked to social spending reductions. This can include cuts to social protection, health care, gender-based violence (GBV) prevention and response services. (See Box 2 for more detail concerning the linkages between public debt and GBV.) These reductions have a disproportionate effect on women who tend to both use and provide these services. Research has demonstrated that when governments try to tighten their belts the result is most often "corroding women's opportunities to expand and build social networks, gain skills and confidence."[25]

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22 Ibid.
23 Ibid.
24 Dinah Musindarwezo and Tim Jones, *Debt and Gender Equality: How Debt-Servicing Conditions Harm Women in Africa* (Bretton Woods Project, April 4, 2019), https://www.brettonwoodsproject.org/2019/04/debt-and-gender-equality-how-debt-servicing-conditions-harm-women-in-africa/, p. 3.
25 Ibid.

### Box 1: Linkage Between Public Debt and Human Rights

UN Independent Expert Bohoslavsky's report on human rights and austerity offers a number of case study examples that demonstrate the breadth of impact that austerity has on women's human rights access. While reviewing these two selected examples, recall that because gendered inequalities have a negative impact on society as a whole, specific human rights violations against women are felt through broader society.

- In the Democratic Republic of Congo, austerity programs led to the de facto privatization of healthcare services, which in turn meant that, "Women must provide evidence that they can pay for prenatal and maternity care in order to receive it and, if they cannot afford to pay, may be held hostage after giving birth until payment is made." This threat creates a substantial disincentive for women to seek out healthcare services, especially maternal and neonatal care. The debt-driven privatization of healthcare services thereby increases the risk of maternal and infant mortality, and negatively impacts women's health, and reproductive rights; and
- In Brazil, in 2015, the government announced a major fiscal adjustment program of $24 billion, with budget cuts falling principally in the areas of education, social protection, racial equality and human rights. In 2016, Brazil passed a constitutional amendment freezing non-interest public spending for the following 20 years. According to one report, this "has meant that no new women's shelters have been built since 2017." Since then, Brazil has experienced "a significant increase in violence against women" despite already having "one of the highest rates of femicide in the world."

*(Source: Juan Pablo Bohoslavsky, Effects of Foreign Debt and Other Related Financial Obligations of States on the Full Enjoyment of All Human Rights, Particularly Economic, Social, and Cultural Rights (United Nations Human Rights Council, July 2018), https://digitallibrary.un.org/record/3823559?ln=en, pp. 11-12.)*

### Box 2: Linkage Between Public Debt and GBV

As the pandemic has continued to impact the world and exacerbate the fourth wave of global debt, "The COVID-19 crisis has laid bare the structural inequalities and inadequate investment not only in healthcare and education but also—and most importantly—women's engagement in the world of work and reducing their burden as unpaid caregivers. The violence-against-women shadow pandemic has also highlighted the deep-rooted discrimination that affects all societies in developed and developing countries."[26] Here, too, we find a circular relationship where debt and inequality exacerbate the existing social inequities. Economic insecurity is recognized as a driver of intensified GBV,[27] and austerity programs that include cuts to social services supporting women experiencing GBV often coincide with the very economic turmoil that causes intensified GBV (and greater need for support programs, including but not limited to shelters). The COVID-19 pandemic was especially acute, because, in addition to economic factors, further drivers of intensified GBV were present in many countries, including security, health and money worries; cramped living conditions; isolation with abusers; movement restrictions; and deserted public spaces.[28] Because of this, many organizations working on preventing GBV reported substantial increases, while observer agencies warned that the total increase may be underreported due to lower rates of contacting authorities.[29]

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26 Elizabeth Villagomez, "COVID Debt Relief for Gender Equality: Getting Real about Gender Equality in Recovery Efforts," The OECD Forum Network, May 24, 2021, https://www.oecd-forum.org/posts/covid-debt-relief-for-gender-equality-getting-real-about-gender-equality-in-recovery-efforts.

27 "The Shadow Pandemic: Violence against Women during COVID-19," UN Women, n.d., https://www.unwomen.org/en/news/in-focus/in-focus-gender-equality-in-covid-19-response/violence-against-women-during-covid-19.

28 Ibid.

29 Simret Tesfaye, "From Where I Stand: 'Due to COVID-19 People Were Not Going to the Police,'" UN Women, June 1, 2020, https://www.unwomen.org/en/news/stories/2020/6/from-where-i-stand-simret-tesfaye.

There is growing evidence that gains made in women's empowerment over the past several decades could be lost due to the growing public debt caused by COVID-19 and the recognized mutually reinforcing relationship between debt and inequality (including gender inequality). As countries continue to develop recovery plans, equality must take center stage to mitigate the risk of disproportionate burdens being placed on women, particularly those whose experience might be further impacted by intersecting identity and demographic factors such as age, ethnicity, income and sexual orientation.

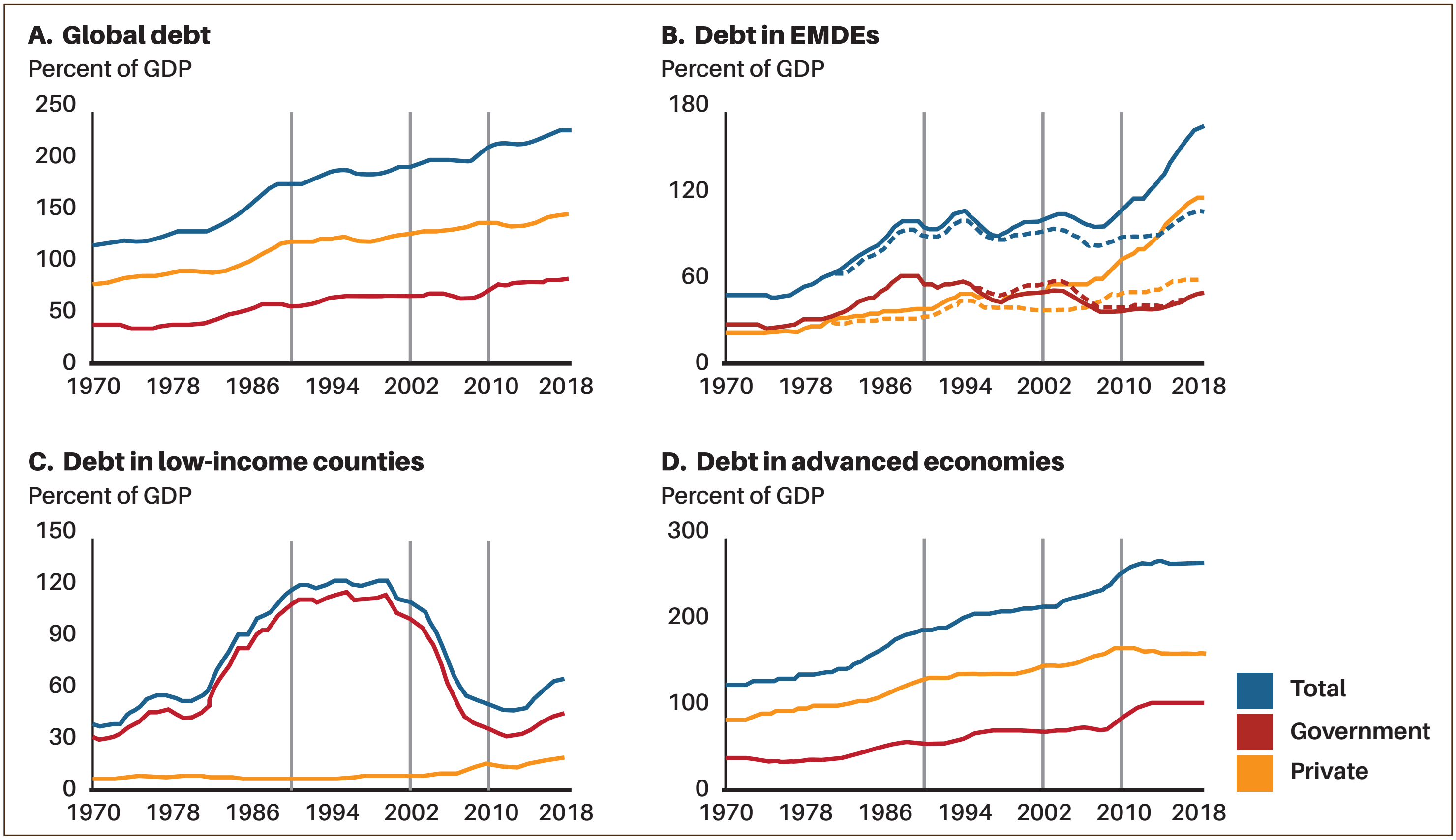
# 4. A Brief History of Global Debt Waves

Generally, four global waves of debt have occurred over the past half-century. While each has separate causes and stemmed from various issues, they have built on one another to lead to the current unprecedented debt levels. The causes of the four waves are summarized in Table 1 and Figure 1, below and further elaborated following that.

**Table 1:**
**Four Waves and Descriptions**

| Wave | Description |
|---|---|
| Wave 1 (1970-89) | Global economic downturn, falling commodity prices and sovereign debt crises |
| Wave 2 (1990-2001) | Mexican currency contagion-East Asian Financial Crisis |
| Wave 3 (2002-09) | Cheap borrowing leading to the GFC and external debt relative to GDP doubling from 10-20 percent from 2000 to 2007 |
| Wave 4 (2010-Present) | Post-GFC to COVID-19 |

**Figure 1: Global Debt Levels Over Time**[30]




*Sources*: International Monetary Fund; World Bank. *Note*: Aggregates calculated using current U.S. dollar GDP weight and shown as a 3-year moving average. Gray vertical lines represent start of debt waves in 1970, 1990, 2002, and 2010. EMDEs = emerging market and developing economies. B. Dashed Lines refer to EMDEs excluding China.

30 M. Ayhan Kose, Peter Nagle, Franziska Ohnsorge, et al., *Global Waves of Debt: Causes and Consequences* (The World Bank, 2021), https://www.worldbank.org/en/research/publication/waves-of-debt, pp.12-14.

### 4.1 Wave 1: 1970-89

- The first wave spanned the 1970s and 1980s and predominantly affected low-income countries in Latin America and the Caribbean (LAC) and sub-Saharan Africa;
- Governments from these countries borrowed heavily from syndicated loan markets,[31] which especially in LAC coincided with the 1982 global recession resulting in widespread debt distress among borrowers in the region;
- As a result of this first wave of global debt, debt-to-GDP ratios peaked in the mid-1990s at over 100 percent.

### 4.2 Wave 2: 1990-2001

- The second differed notably from the first in that private sector debt accumulation played a greater role;
- The East Asia and Pacific region saw private interests accumulate substantial amounts of short-term external debt, while sovereigns in Europe and Central Asia did the same;
- There were policy changes enacted that affected financial markets in the 1990s which, mixed with a decline in global interest rates after the slowdown in advanced economy growth in 1990-91, led to a surge in capital flows toward countries classified as emerging market developing economies (EMDEs).[32]

### 4.3 Wave 3: 2002-09

- Wave 3 was largely fueled by sharp increases in borrowing by low- and middle-income countries on international debt markets, predominantly from US and EU banks;
- Similar to the start of waves 1 and 2, interest rates were low at the beginning of wave 3;
- The buildup of debt during wave 3 was greatest in Europe and Central Asia (ECA) region and was primarily privately accumulated interest — predominantly through households;
- The growth of external debt relative to GDP doubled from 10-20 percent between 2000 and 2007. Private sector debt also rose to 65 percent of total debt in 2007 from 25 percent in 2000;
- Following the 2008 global financial crisis and the subsequent sharp reduction in cross-border lending to low- and middle-income countries, there was a severe credit crunch leading to economic downturns in the most exposed ECA countries, which relied heavily on cross-border loans from EU banks;
- The ECA crisis was short-lived due in part to a coordinated response from the G20 including unprecedented monetary and fiscal stimulus in 2009 and 2010;
- The European Bank Coordination Initiative — also known as the Vienna Initiative — also led the major foreign banking groups to maintain support for the subsidiary ECA countries which helped to contain the crisis and limit the damage from the fallout.[33]

### 4.4 Wave 4: 2010-Present

- The fourth wave has already seen the largest, fastest and most broad-based increase in debt in low- and middle-income countries in the past half-century;

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31 A syndicated loan market describes a situation where two or more lending institutions (often a dozen or more) jointly agree to provide a credit facility to a borrower. See: Jim Armstrong, "The Syndicated Loan Market: Developments in the North American Context," *Financial System Review* 2003, (June 2003): pp, 69-73, https://www.bankofcanada.ca/wp-content/uploads/2012/02/fsr-0603-armstrong.pdf.

32 Emerging market developing economies are wedged between low-income countries and advanced economies.

33 M. Ayhan Kose, Peter Nagle, Franziska Ohnsorge, et al., *Global Waves of Debt: Causes and Consequences* (The World Bank, 2021), https://www.worldbank.org/en/research/publication/waves-of-debt.

- Similar to previous waves, the current wave has been fueled by low interest rates and major changes in financial markets paralleled by increasing vulnerabilities for low- and middle-income countries;
- Total debt in low- and middle-income countries rose to almost 170 percent of GDP by the end of 2018 and from 114 percent by the end of 2010;
- Increase in debt-to-GDP ratios has been fueled by a wider range of options for loans including the private sector, China, and an increase in lower rate non-concessional loans.
- In low- and middle-income countries, both government and private debt has also shifted toward riskier funding sources making them more vulnerable to shifting investor sentiments or tightening monetary conditions;
- A significant increase in debt has been fueled by lending from China. However, even excluding China, total global debt has risen by 19 percent since 2010;[34]
- The fourth wave already posed a significant challenge to countries around the globe before the COVID-19 pandemic struck.
- The Institute of International Finance highlights the substantial increase in debt incurred over the course of the fourth wave: "Global debt across all sectors rose by over $10 trillion in 2019, topping $255 trillion;
- At over 322 percent of GDP, global debt is now 40 percent ($87 trillion) higher than at the onset of the 2008 financial crisis — a sobering realization as governments worldwide gear up to fight the pandemic";[35]
- In April 2021, the IMF reported that "average public debt worldwide reached an unprecedented 97 percent of GDP and is projected to stabilize around 99 percent of GDP in 2021";[36]
- Bloomberg called this phenomenon "The Great Debt Spike," highlighting the debt-to-GDP ratios never before seen in emerging economies and unseen in advanced economies since the end of World War II.[37]

As has been outlined above, debt poses significant challenges to the vast majority of countries across all regions globally. As governments continue to take on unprecedented levels of public debt, it is more important than ever to ensure effective oversight. This includes making sure loans are taken on for the right reasons, the funds are invested effectively, and that debt remains sustainable in both the short and long term. Parliament plays a key role in ensuring rigorous oversight is maintained and an important part of this is having the right type of information available to them, as will be discussed in the next section.

34 Ibid.

35 Institute of International Finance, *April 2020 Global Debt Monitor: Covid-19 Lights a Fuse* (IIF, April 7, 2020), https://www.iif.com/publications/id/3839/april-2020-global-debt-monitor-covid-19-lights-a-fuse.

36 International Monetary Fund, *Fiscal Monitor: A Fair Shot* (Washington: IMF, April 1, 2021), https://www.imf.org/en/Publications/FM/Issues/2021/03/29/fiscal-monitor-april-2021.

37 Liz Capo McCormick, Craig Torres, Mathieu Benhamou, et al., "The COVID-19 Pandemic Has Added $19.5 Trillion to Global Debt," Bloomberg, January 27, 2021, https://www.bloomberg.com/graphics/2021-coronavirus-global-debt/.

# 5. Indicators of Public Debt

There are a number of important indicators that parliamentarians will want to examine in order to obtain a more fulsome picture of the public debt situation. While "debt-to-GDP ratio," defined below, is often referred to as a headline indicator, this section also examines the other key indicators, both on- and off-balance sheet.

## 5.1 Beyond Debt-to-GDP Ratio

**Gross domestic product (GDP)** by definition is an aggregate measure that includes the value of goods and services produced in an economy over a certain period of time.[38] The **debt-to-GDP ratio** measures a country's national debt in relation to its GDP. As mentioned above, countries often set the limit or target for debt rules at the recommended 'prudential limit', which is 60 percent of GDP in advanced economies and 40 percent of GDP in emerging economies.[39] It should be noted, however, that while these percentages constitute a "useful benchmark," some economists note that "that there is no way of accurately defining appropriate debt ceilings, over which debt becomes unsustainable."[40]

While debt-to-GDP ratio can be an important benchmark for understanding the level of state borrowing, there are a number of other important factors that parliamentarians will want to examine in order to obtain a more fulsome picture of the public debt situation:

## 5.2 Coverage of Public Debt

Public debt figures reported will vary depending in part on the coverage provided by the reporting organization. International best practices call for debt reporting that covers "general government" and State-owned enterprises (SOEs). This is also referred to as public sector debt. Completeness of sectoral coverage provides a full picture of the public debt situation and is an important indicator of debt transparency. Table 2 demonstrates the different levels of sectoral coverage, along with their definitions.[41]

Debt figures can vary significantly based on whether they cover central government, general government or public sector debt. For example, if only central government debt is reported, the debt figures might be lower than reporting for general government debt or public sector debt.

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38 WFD, E-course on "The Role of Parliament in Public Debt Management," 2022. https://www.wfd.org/what-we-do/resources/e-course-public-debt-management.

39 IMF Policy Development and Review Department, *Assessing Sustainability* (International Monetary Fund, May 28, 2002), https://www.imf.org/external/np/pdr/sus/2002/eng/052802.pdf.

40 Debt and Finance Analysis Unit (UNCTAD), "Module 1: A Critique of the IMF Classical Framework," UNCTAD Virtual Institute, n.d., https://vi.unctad.org/debt/debt/m1/Critique.html.

41 The World Bank, *Public Debt Reports Heatmap: Background and Methodology* (World Bank, n.d.), https://thedocs.worldbank.org/en/doc/8e628be0cec5118cdc0a165b69bf96a6-0240062021/original/Debt-report-heatmap-methodology.pdf.

**Table 2:**
**Levels of Sectoral Coverage and Definitions**

| Sectorial Coverage | Comments | Definitions[42] |
|---|---|---|
| **N/A** | Incomplete central government (CG) debt coverage. | CG = all institutional units (ministries, departments and agencies), plus non-market, non-profit institutions (NPIs) controlled by the central government. |
| **Limited** | Complete central government debt coverage. Least robust coverage | CG = all institutional units (ministries, departments and agencies), plus non-market, non-profit institutions (NPIs) controlled by the central government. |
| **Partial** | Coverage of general government (GG) debt, more robust than central government only. | GG = all units of central, state or local government, NPIs controlled by all government units, and social security funds.[43] |
| **Full** | Most robust coverage, includes the entire public sector. | The public sector includes the general government and public corporations.[44] |

## 5.3 Gross Government Debt Versus Net Debt

**Gross debt "shows the magnitude of debt owed, but it does not show whether a government can repay that debt."[45]**

- Gross debt is the amount of money owed by a government (or its financial liabilities). Gross debt "shows the magnitude of debt owed, but it does not show whether a government can repay that debt."[46] As a result, "gross debt provides limited detail about the overall financial health of a government";[47] and
- Net debt is the sum of all financial liabilities (gross debt) less its respective financial assets. It shows how much cash would remain if all debts were paid off and if a government has enough liquidity (i.e., "cash on hand") to meet its debt obligations.[48]

42 IMF, *System of National Accounts 2008* (International Monetary Fund, 2009).
43 Public enterprises not treated as corporations are excluded. To identify which NPIs are included in general government, conditions for control by government must be identified.
44 To determine which enterprises are treated as public corporations and which as part of general government, it is necessary to specify conditions for control by government and the concept of economically significant prices.
45 Rob Dossor, "Commonwealth Debt," in *Budget Review 2021-22* (Parliament of Australia, n.d.), https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/BudgetReview202122/CommonwealthDebt.
46 Ibid.
47 Ibid.
48 WFD, E-course on "The Role of Parliament in Public Debt Management," 2022. https://www.wfd.org/what-we-do/resources/e-course-public-debt-management.

# 6. Sovereign Debt Portfolio Risks

The following factors relate to the **composition of the public debt** and are also known as **sovereign debt portfolio risks**. Because the risks associated with public debt can ultimately lead to higher levels of overall debt — impacting citizens' lives in a plethora of ways — it is important that parliamentarians understand not only the sustainability of the total level of public debt but also the risks associated with its composition.

## 6.1 Ratio of External to Internal Debt

- External debt is the portion of a country's debt that was borrowed from foreign lenders, including commercial banks, governments or IFIs. These loans, including interest, must usually be paid in the currency in which the loan was made;[49]

- External debt is serviced from foreign exchange earnings, drawn down against foreign currency reserves and/or additional borrowings. Over time, external debt has shifted towards the private sector from official bilateral and multilateral creditors. This is largely due to increased access to international financial markets. Within external debt, private creditor lending is the fastest growing component, with a five-fold increase since 2010.[50]

A high ratio of external debt to domestic debt "could have an influence on a country's room for maneuver, forcing debtor nations to impose fiscal austerity to appease foreign creditors."[51] For example, with over three-quarters of Greece's debt held externally, there was "strong pressure coming from creditors for drastic fiscal tightening."[52] There can also be consequences on national sovereignty. For example, Sri Lanka's handing over of the Hambantota Port to China on a 99-year lease illustrates the economic and political risks of external debt as is discussed in Box 3 below.[53]

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49 A more technical definition of external debt is "the outstanding amount of those actual current liabilities that require payment(s) of interest and/or principal by the debtor at some point(s) in the future and that are owed to non-residents by residents of an economy." See: https://datahelpdesk.worldbank.org/knowledgebase/articles/474124-what-is-external-debt. Externally held general government debt as a percentage of GDP can be used as a measure. See: Debra Bloch and Falilou Fall, "Government Debt Indicators: Understanding the Data," *OECD Economics Department Working Papers*, no. 1228 (2015), https://doi.org/10.1787/5jrxv0ftbff2-en, p. 16.
50 Helena Afonso, Grigor Agabekian, Ian Cox, et al., *World Economic Situation and Prospects: 2021* (United Nations, January 2021), https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/WESP2021_FullReport.pdf, p. 32.
51 Debra Bloch and Falilou Fall, "Government Debt Indicators: Understanding the Data," *OECD Economics Department Working Papers*, no. 1228 (2015), https://doi.org/10.1787/5jrxv0ftbff2-en, p. 15.
52 Ibid.
53 Geoff Dubrow, *The Role of Parliament in Public Debt Management: Weathering the COVID-19 Crisis and Beyond* (London: Westminster Foundation for Democracy, June 2020), https://www.wfd.org/what-we-do/resources/role-parliament-public-debt-management.

### Box 3: Sri Lanka's Hambantota Port

The case of Sri Lanka's Hambantota Port, located in a busy shipping route, illustrates the economic and political risks of external debt. Sri Lanka's vision for Hambantota was that it would bring more ships to Sri Lanka, and ease pressure on its Colombo port, which is one of Asia's most important container terminals.[54] Phase I of the port project, which opened in November 2010, was financed by a loan from China's state-owned Export-Import Bank (Exim). As predicted by economic feasibility studies, Hambantota Port did not thrive financially, causing Sri Lanka's government to seek out additional loans. In December 2018, under mounting financial pressures and continued losses from the port, Sri Lanka agreed to hand over 85 percent equity of the port to China Merchants Port, a preferred company of the Chinese government. In addition, China Merchants Port negotiated the ownership of 15,000 acres of land around the port.

While the economic risks of Sri Lanka's debt to China have clearly manifested themselves in a loss of ownership over sea and land-based assets, the Hambantota Port episode also demonstrates political risks to external debt that are somewhat subtler but no less harmful.

### 6.2 Debt Maturity: Short-Term Versus Long-Term Debt

**According to the United Nations, "short-term debt as a share of total external debt in developing countries overall has been increasing progressively, from 14 percent in 2000 to 31 percent in 2014 but decreased to 27 percent in 2015. This trend, most pronounced in East Asia and the Pacific, is worrying, as short-term debt carries higher rollover risk and increases countries' exposure to global interest rate changes."[55]**

- Debt maturity structure[56] can be measured as the ratio of long-term debt to total debt;[57]
- As opposed to external debt, governments can essentially borrow domestically with a low risk of debt default, subject to the availability of domestic borrowing sources such as domestic commercial banks;
- However, short-term debt — generally debt that is held for under one year or is due during the current fiscal year — is associated with **increased rollover risk**. This is the case because, in many low- and middle-income countries, domestic commercial banks prefer to issue short-term loans. This is the case in much of sub-Saharan Africa;

54 Yogita Limaye, "Sri Lanka: A Country Trapped in Debt," BBC News, May 26, 2017, https://www.bbc.com/news/business-40044113.
55 United Nations Report of the Secretary-General, *External Debt Sustainability and Development*, (United Nations, August 2, 2016), https://unctad.org/meetings/en/SessionalDocuments/a71d276_en.pdf.
56 A more formal definition of debt maturity structure is the time profile of the maturities of claims or liabilities. This is also known as "maturity profile" or "maturity distribution."
57 Michael J. Barclay and Clifford W. Smith, "The Maturity Structure of Corporate Debt," *The Journal of Finance* 50, no. 2 (1995), https://doi.org/10.1111/j.1540-6261.1995.tb04797.x, p. 6.

- Short-term debt is the main risk associated with maturity structure. According to the IMF, "**short-term debt exposes borrowers to rollover risk where the terms of financing are renegotiated to the detriment of the borrower**";[58]

- Typically, governments assume that borrowers will take over a new loan to pay existing lenders. However, if interest rates rise or it is not possible to refinance a loan, it is necessary to have sufficient funds available to pay off the loan, or the result will be debt default.

### 6.3 Amount of Foreign-Currency Denominated Debt

- Currency composition is the amount of debt held in foreign currency. Foreign currency borrowing is particularly common in emerging markets, as it is a way of attracting investors who do not want the risk of a potentially volatile local currency. However, foreign-denominated debt can become painfully expensive to service if the value of the local currency depreciates significantly;[59]

- Debt in foreign currency can expose governments to exchange rate risks, which could affect the cost of debt. This is known as **exchange rate volatility**. For example, Mozambique's economy was badly impacted when the price of its commodity exports fell. Mozambique's local currency, the metical, fell by 50 percent against the US dollar in 2015 and 2016. The relative size of the dollar-denominated debts ballooned, as a consequence.

### 6.4 Concessional Versus Non-Concessional Loans[60]

> **According to the OECD, "While non-concessional loans are provided at, or near to, market terms, concessional loans are provided at softer terms."[60]**
>
> ——*OECD Development Cooperation Report, 2015*

- According to the Jubilee Debt Campaign UK, "a concessional loan is a loan with 'lower' interest rates". While this can mean that the interest rate is lower than the lender would normally lend at, it can also mean that the interest rate is lower than the borrower would normally borrow at (which could still mean the interest rate is high enough for the lender to make a large profit). Additionally, concessional loans typically have long grace periods.[61] Box 4 highlights the negative impact that growth in non-concessional loans can have.

### Box: 4 Kenya's Increasing Non-Concessional Lending

Kenya's precarious debt situation is forcing it to turn to more expensive loan options. As of August 2019, Kenya's stock of expensive loans rose to 36 percent of total debt, from 24 percent in June 2016. However, the fraction of cheap loans from multilateral institutions such as the World Bank declined from 45 percent to 30 percent during this same time frame.

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58 Sophia Chen, Paola Ganum, Lucy Qian Liu, et al., "Debt Maturity and Use of Short-Term Debt: Evidence from Sovereigns and Firms," *International Monetary Fund Research Department* 2019, no. 001 (February 2019): p. 77, https://www.elibrary.imf.org/view/journals/087/2019/001/article-A001-en.xml.

59 Marc Jones, "New High-water Mark for Global Foreign Currency Debt," Reuters, October 30, 2019, https://www.reuters.com/article/us-global-markets-debt/new-high-water-mark-for-global-foreign-currency-debt-idUSKBN1X921E.

60 OECD, "Glossary," in *Development Cooperation Report: Making Partnerships Effective Coalitions for Action* (Paris: OECD Publishing, September 7, 2015), https://www.oecd-ilibrary.org/development-co-operation-report-2015_5js4lt7s3bq5.pdf?itemId=%2Fcontent%2Fpublication%2Fdcr-2015-en&mimeType=pdf.

61 Geoff Dubrow, *The Role of Parliament in Public Debt Management: Weathering the COVID-19 Crisis and Beyond* (London: Westminster Foundation for Democracy, June 2020), https://www.wfd.org/what-we-do/resources/role-parliament-public-debt-management.

## 6.5 Contingent Liabilities

- Contingent liabilities refer to "obligations whose timing and magnitude depend on the occurrence of some uncertain future event outside the control of the government";[62]
- Contingent liabilities include lines of credit, letters of credit and loan commitments.[63] In that respect, they are "off-balance sheet" because they are not recognized as part of the debt until they are called. Contingent liabilities are only paid when an unexpected event occurs;
- Most governments include a line item for contingencies in their budgets. This is where contingent liabilities should be paid;
- There are also important differences between explicit and implicit liabilities.[64] Box 5 below outlines the differences between explicit and implicit liabilities.

### Box 5: Explicit and Implicit Contingent Liabilities[65]

Some contingent liabilities are **explicitly** recognized by a law or contract, such as:

- State guarantees for non-sovereign borrowing by, and other obligations of, sub-national governments and public and private sector entities;
- Umbrella state guarantees for various types of loans (mortgage loans, student loans, agriculture loans and small business loans); and
- State insurance schemes (deposit insurance, crop insurance and flood insurance).

Some contingent liabilities will not be recognized in a contract or law, but the government may have an **implicit** or moral obligation, reflecting public and interest group pressures. Implicit contingent liabilities may include:

- The default of a sub-national (i.e., municipal) level of government or a public/private entity on debt obligations that were not guaranteed by the state;
- Banking failure (support beyond government insurance, if any); and
- Clean-up of liabilities of entities being privatized.

Having accurate and timely information is crucial for effectively managing public debt. The indicators discussed in this section are all important for painting a comprehensive picture of a country's debt portfolio. While debt-to-GDP ratio is an important indicator of debt levels, the composition of public debt is also important in assessing the sustainability of debt.

62 Ibid.
63 IMF Statistics Dept., "Contingent Liabilities," in *External Debt Statistics: Guide for Compilers and Users* (International Monetary Fund, June 18, 2014), https://www.elibrary.imf.org/view/IMF069/20662-9781484366622/20662-9781484366622/app03.xml?rskey=0qsU0G&result=3&redirect=true.
64 Implicit and explicit liabilities are further discussed in Brief 2, including specific country examples.
65 Geoff Dubrow, *The Role of Parliament in Public Debt Management: Weathering the COVID-19 Crisis and Beyond* (London: Westminster Foundation for Democracy, June 2020), https://www.wfd.org/what-we-do/resources/role-parliament-public-debt-management.

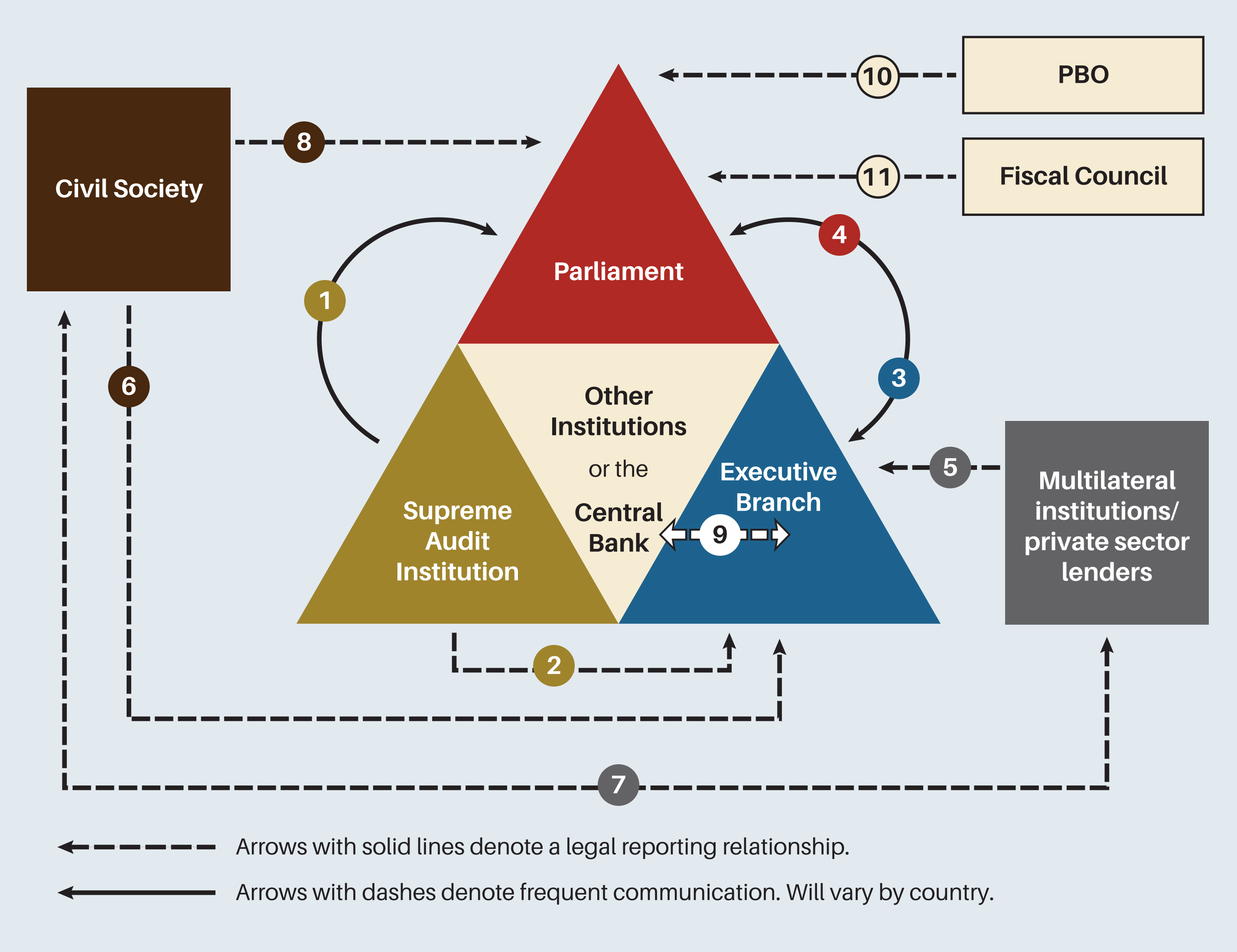
# 7. Introduction to the "Debt Management Universe"

Managing public debt poses a significant challenge to virtually all countries, and as a result, the debt management universe is composed of a number of key institutional actors which must all work together to effectively manage debt. Debt management should involve a broad range of stakeholders including:

- Parliament;
- The executive branch, usually led by the ministry of finance (MoF);
- The Central Bank;
- The Supreme Audit Institution (SAI);
- Civil society organizations (CSOs), and
- The private sector.

Figure 2 outlines the key players in the debt management universe.

**Figure 2: Select Interrelationships in the Debt Management Universe**



1. Report audit findings to parliament, including financial statement audits and debt management performance audits;

2. Audits the executive branch, including financial statement audits and debt management performance audits;

3. Parliament delegates debt management responsibilities to the executive branch, in accordance with debt management legal framework; policy input into the budget process at the formulation and approval stages (as well as approval of budget); ongoing oversight of public debt management throughout the budget process;

4. Executive branch is accountable to parliament for the execution of delegated authority on debt management; formulation of budget and communication with parliament via key reports (PBS, MTDS at the formulation stage and EBP at the approval stage); ongoing provision of public debt management reports (including MTDS) throughout the budget cycle;

5. Ongoing negotiations/contracts between the executive branch and multilateral/private sector lenders;

6. Ongoing input into the budget at formulation and approval stages; advocacy for increased debt (and fiscal) transparency;

7. Advocacy for debt forgiveness, improved debt transparency and favored policy options for debt repayment versus fiscal space for investment and social spending;

8. Input into all stages of the budget cycle, most commonly as part of public consultations at the formulation or approval stage of the budget process;

9. Coordination of debt management practices between the executive branch and central bank;

10. Parliamentary Budget Offices (PBOs) are focused primarily on assisting parliamentary oversight of the budget and supporting the work of the main budget committee;

11. Fiscal councils are generally under the statutory authority of the executive branch and tend to focus on monitoring fiscal rules and providing analysis of long-term fiscal sustainability. Some fiscal councils are functionally independent while some are part of the SAI.[66]

## 7.1 Ministry of Finance (MoF)

The MoF is generally vested with the borrowing authority on behalf of the government and is usually responsible for setting the debt structure and debt management strategy, as well as monitoring the debt situation to ensure that it remains sustainable.[67] Debt management strategies should:

- Cover a period of at least three to five years;

66 In Figure 2, the fiscal council straddles the executive branch, other institutions and the SAI, given the variation in institutional affiliation.

67 WFD, E-course on "The Role of Parliament in Public Debt Management," 2022. https://www.wfd.org/what-we-do/resources/e-course-public-debt-management.

- Describe the existing debt portfolio's composition (i.e., external versus domestic debt. concessional versus non-concessional lending etc.);
- Outline how debt has evolved over time;[68]
- Include target ranges for indicators such as interest rates, refinancing and foreign currency risks.

*Debt Management Unit*

A debt management unit (DMU) or debt management office is generally part of the MoF. By definition, the staff are public servants and not part of the political function. The primary responsibility of the DMU is to implement the debt management strategy by borrowing and other debt-related transactions. The DMU is also responsible for analyzing and providing advice to decision-makers on potential debt management strategies "and the cost-risk trade-offs associated with alternative approaches."[69]

According to international best practices, functions within the DMU are structured according to the segregation of duties, which is "meant to ensure no one person has sole control over the lifespan of a transaction. In the lifecycle of a transaction, you don't have the same person initiating a transaction, approving a transaction, recording a transaction, verifying a transaction, so that you separate those responsibilities so that you ensure you have protective controls."[70]

## 7.2 Central Bank

In most emerging market economies, both the government and central bank are active in sovereign debt markets, which are also known as bond markets. Government participation in bond markets is usually for the purpose of issuing debt in order to finance fiscal deficits, while central banks sell debt securities to finance the purchase of assets, particularly foreign exchange reserves. Often, the governor of the central bank is appointed by the government as an auction agent to issue new debt.

While the primary role of the central bank is viewed within the purview of monetary policy, not debt management, central banks typically intervene if inflation increases in the economy. Inflation can be the result of an increase in domestic debt.[71]

DMUs should also work closely with central banks in order to react to changes in budget plans that arise as a result of unanticipated cash flows or new authorization to increase debt/borrowing limits. Effective interaction between the Central Bank and DMUs is always important, especially in times of economic crisis such as with the current COVID-19 pandemic.[72]

68 PEFA, "PI-13. Debt Management," in *PEFA Handbook Volume 1: The PEFA Assessment Process — Planning, Managing, and Using PEFA* (PEFA, n.d.), https://www.pefa.org/node/4802.

69 INTOSAI WGPD, *Audit of Public Debt Management: A Handbook for Supreme Audit Institutions* (INTOSAI Development Initiative, April 2018), https://www.idi.no/news/initiatives/auditing-lending-and-borrowing-frameworks/exposure-draft-handbook-on-audit-of-public-debt-management-version-0-request-for-comments.

70 Interview with Michele Robinson, independent debt management consultant. May 2021.

71 WFD, E-course on "The Role of Parliament in Public Debt Management," 2022. https://www.wfd.org/what-we-do/resources/e-course-public-debt-management.

72 OECD, "Governance of Public Debt in the Times of a Global Crisis," in *OECD Sovereign Borrowing Outlook 2020* (Paris: OECD Publishing, July 29, 2020), https://www.oecd-ilibrary.org/sites/a78cd080-en/index.html?itemId=/content/component/a78cd080-en#section-d1e5043.

## 7.3 Supreme Audit Institutions

The SAI plays a central role in exercising independent external oversight on public debt management and in publicly reporting on audit results (and to parliament in the Westminster system). The SAI performs the following functions:

- Audits the government's consolidated financial statements;
- Examines the government's compliance with rules and regulations; and
- Conducts value-for-money or performance audits.[73]

Typically, as part of the ex post oversight phase, parliament should review audit reports and hold the government to account for how it has spent and managed public funds.[74] The role of the SAI is covered more extensively in Brief 3: "The Role of Parliaments in Oversight of Public Debt Management".

## 7.4 Independent Fiscal Institutions[75]

**While the primary goal of fiscal councils is "to monitor compliance with fiscal targets and ensure that forecasts are robust and credible," PBOs are focused primarily on "assisting parliamentary oversight of the budget and supporting the work of the main budget committee."[76]**

*—WFD Policy Brief on the Role of Parliament in Public Debt Management*

- While there are a number of important differences between Parliamentary Budget Offices (PBOs) and fiscal councils, they also share a lot of the same key functions when it comes to reporting on public debt.
- While the primary goal of fiscal councils is "to monitor compliance with fiscal targets and ensure that forecasts are robust and credible," PBOs are focused primarily on "assisting parliamentary oversight of the budget and supporting the work of the main budget committee."[77]
- These two institutions share a number of functions including analysis of long-term fiscal sustainability and conducting or assessing macroeconomic forecasts. Additionally, PBOs also perform costing of policy proposals.

Table 3 summarizes the key functions of both types of Independent Fiscal Institutions.

73 Ibid.
74 Parliament's role in ex post oversight is discussed in the section on the Role of Parliament in Oversight of Public Debt Throughout the Budget Cycle.
75 Collectively, these are generally referred to as Independent Fiscal Institutions (IFIs); however, for the purposes of this brief, to avoid possible confusion with International Financial Institutions, we will use the term PBOs/Fiscal Councils.
76 Geoff Dubrow, *Strengthening the Role of Parliament in the Budget Process: The Role of Parliamentary Budget Offices* (London: Westminster Foundation for Democracy, October 2020), https://www.agora-parl.org/sites/default/files/agora-documents/Strengthening%20the%20role%20of%20Parliament%20in%20the%20Budget%20Process%20-%20the%20role%20of%20Parliamentary%20Budget%20Offices.pdf.
77 Ibid.

**Table 3: Independent Fiscal Institution Functions**

| FUNCTION | FISCAL COUNCIL | PBO |
|---|---|---|
| Monitoring fiscal rules | PRIMARY FOCUS | |
| Conducting or assessing macroeconomic forecasts | ✓ | ✓ |
| Analysis of long-term fiscal sustainability | ✓ | ✓ |
| Directly support legislature in budget analysis | | PRIMARY FOCUS |
| Costing of policy proposals | | ✓ |

### *7.4.1 Fiscal Councils*

Fiscal councils are a type of independent fiscal institution. Fiscal councils are generally under the statutory authority of the executive branch and tend to focus on monitoring fiscal rules and providing analysis of long-term fiscal sustainability. Fiscal councils tend to be particularly useful for countries at high risk of debt distress as they are primarily focused on compliance with fiscal rules (including debt rules).[78]

Fiscal councils can play a role throughout the budget cycle, and many will monitor ex post compliance of fiscal rules, so in theory, there would be information available to ex post committees such as the Public Accounts Committee (PAC).

> "It is helpful to distinguish fiscal targets from fiscal rules — though the two concepts are often used interchangeably. A fiscal target is when a government adopts a numerical objective for a budgetary outcome (e.g., to balance the budget). A fiscal rule is stronger and uses legislation to restrict policy choices or outcomes. In other words, a fiscal rule is a legislated fiscal target (e.g., passing a law that limits spending growth)."[79]

### *7.4.2 Parliamentary Budget Offices*

PBOs are "independent public institutions with a mandate to critically assess, and in some cases provide nonpartisan advice on, fiscal policy and performance."[80] PBOs can play the following functions:

- Providing independent analysis, review and monitoring of government's fiscal policies, plans and performance;
- Developing or reviewing macroeconomic and/or budgetary projections; and
- Costing of budget and policy proposals.[81]

78 See section on Fiscal Rules Setting Fiscal/debt rules and targets.
79 Stephen Tapp, *Canadian Experiences with Fiscal Consolidations and Fiscal Rules* (Ottawa: Parliamentary Budget Office, October 21, 2010), http://www.pbo-dpb.gc.ca/web/default/files/files/files/Publications/Fiscal_Rules_Oct_2010.pdf.
80 For example, if the government was to announce significant changes to a major program outside of the regular budget cycle.
81 While there is no universal definition available, cost is defined as "the monetary value of the resources (human, physical and financial) consumed to achieve a certain end." ("Guide to Cost Estimating," Government of Canada, June 10, 2019, https://www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=32600&section=html.)

### Box 6: The Ugandan PBO

Parliamentarians come from all walks of life and are not expected to have expertise in finance or economics. The primary role of the Ugandan PBO is, therefore "to provide professional support for parliament to effectively deal with the massive information and data involved in the budget process."

According to the Revised Budget Handbook prepared by the Ugandan PBO for parliamentarians in 2016, "Prior to the enactment of the Budget Act, parliament did not play an active role in the budget formulation process. It had become apparent that information on budget-related matters provided to parliament was inadequate and MPs were kept ignorant on issues such as local resource revenue, foreign inflows, national expenditure and macroeconomic statistics, hence parliament was a mere 'rubber stamp.'"[82]

## 7.5 Civil Society Organizations

Civil Society Organizations (CSOs) play an important role in public debt management, including:

- Leading and supporting international debt relief initiatives;
- Advocating for debt transparency and parliamentary oversight; and
- Strengthening debt management capabilities in low- and middle-income countries.

**CSOs play a crucial role in reducing poverty, upholding democratic development and the fulfillment of human rights. "They stand out amongst development co-operation partners for their capacity to reach out to, empower, represent and defend people living in vulnerable situations and to trigger social innovation. They are therefore essential partners of public and private actors in their pursuit of the 2030 Agenda."[83]**

CSOs play a wide range of roles across and beyond the budget cycle, and they can be effective allies and advocates for issues related to public debt. CSOs can effectively advocate for civil society by providing informed and coherent contributions to debates around public debt. CSOs can use their platform to hold parliament and the executive to account, to participate in parliamentary committees by appearing as witnesses and submit reports holding the government to account in support of parliamentary oversight. In their interactions with the general public, CSOs can support capacity in the general public by supporting or undertaking public education campaigns around debt and leading citizen public debt audits. Across their breadth of activities, CSOs can contribute substantially to the promotion of debt transparency, parliamentary oversight and public participation.

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82 Parliamentary Budget Office (Uganda), *Revised Budget Handbook* (Parliament of Uganda, July 2016), https://www.e-pbo.org/web/default/files/Events/Annual%20Assemblies/2018%20Annual%20Assembly/Documents/Final_PBO%20Budget_Handbook___July_2016.pdf.

83 "Civil Society Engagement in Development Co-operation," OECD, n.d., https://www.oecd.org/dac/civil-society-engagement-in-development-co-operation.htm.

### *7.5.1 Leading and Supporting International Debt Relief Initiatives*

Substantial and significant efforts to promote debt forgiveness have been taken on by CSOs. For example:

- The Committee for the Abolition of Illegitimate Debt (CADTM) is an international network of activists that promotes both public education and international action around the cancelation of multilateral and bilateral debts.[84] An example of their public educational programming includes an annual summer university program to raise awareness of various debt-related issues;[85]
- The Jubilee Debt Campaign conducts research related to global debt, causes and solutions, and works to end global debt through cancellation.[86] During the COVID-19 pandemic, the Jubilee Debt Campaign argued that debt cancellation would allow highly indebted nations to put health before debt; [87] and
- The African Forum and Network on Debt and Development (AFRODAD) lobbies and advocates on debt-related issues,[88] and has developed an African Borrowing Charter that guides borrowing under principles of sustainability, transparency and accountability.[89]

### *7.5.2 Other Advocacy Work*

> **"CSOs are aware that we have to have a voice around the world and that more awareness is growing due to the fact that unless we speak up, we will continue to perpetuate the issues that have led us down the paths of growing debt, environmental degradation and other major global issues. CSOs are both raising the awareness and raising the bar on the substance of what is needed for reactions."**[90]
>
> *- Dr. Penelope Hawkins, Senior Economic Affairs Officer, UNCTAD*

- CSOs can be effective allies and advocates for issues related to public debt by providing informed and coherent contributions to debates around public debt. CSOs can use their platform to hold parliament and the executive to account, to participate in parliamentary committees by appearing as witnesses and submit reports holding the government to account in support of parliamentary oversight.
- In their interactions with the general public, CSOs can support capacity in the general public by supporting or undertaking public education campaigns around debt and lead citizen public debt audits. Across their breadth of activities, CSOs can contribute substantially to the promotion of debt transparency, parliamentary oversight and public participation.

### *7.5.3 Strengthening Debt Management Capabilities in Low- and Middle-Income Countries*

CSOs can also support key institutional actors in the debt management universe to strengthen overall debt management capabilities. For example:

- By sharing best practices for **public debt audits**, CSOs can empower society as a whole as well as individual actors to undertake their efforts to hold the government accountable for its borrowing and debt.

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84 CADTM International, "About CADTM," CADTM, November 8, 2007, https://www.cadtm.org/About-CADTM.

85 "CADTM Summer University 2021: Global Crisis, Debt Cancellation for Social Justice!" CADTM, July 16, 2021, https://www.cadtm.org/CADTM-Summer-University-2021-Global-Crisis-Debt-Cancellation-for-Social-Justice.

86 "What We Do," Jubilee Debt Campaign, n.d., https://jubileedebt.org.uk/about-us.

87 Jubilee Debt Campaign, *Drop It! Summer 2020* (Jubilee Debt Campaign, n.d.), https://jubileedebt.org.uk/wp-content/uploads/2021/01/Drop-it-Summer-2020_WEBz.pdf.

88 "Media Training and Launch of The African Borrowing Charter in Rwanda," AFRODAD, May 16, 2021, https://afrodad.org/index.php/en/media-training-and-launch-of-the-african-borrowing-charter-in-rwanda.

89 "The African Borrowing Charter," AFRODAD, 2018, https://afrodad.org/initiatives/the-african-borrowing-charter/.

90 Interview with Dr. Penelope Hawkins, Senior Economic Affairs Officer, UNCTAD. April 2021.

- The Citizens' Public Debt Audit encouraged by CADTM, is based on publicly-available documents, studies, research and legal frameworks. The Citizens' Public Debt Audit serves to "empower society with knowledge of the financial reality, identifying the role of debt in the domestic and international economy, the mechanisms that generate it and its benefits." This speaks directly to the democratic ethos of the program, that "The people, who are called upon to pay the public debts have the right to know if it is their responsibility to do so."[91]

- Participation in the budget process CSOs can also contribute to the budget process by participating in public deliberations around the formulation of the annual budget. Two examples can be found in Box 7.

### Box 7: CSO Involvement in Georgia and New Zealand

In its responses to the Open Budget Survey (OBS), Georgia reported that public hearings are held during the formulation phase, where CSOs and members of the public may attend and testify to issues including deficit and debt levels. Similarly, Georgia holds public hearings on the audit report, where CSOs and members of the public may attend and testify.

New Zealand also reported that hearings on the Budget Policy Statement 2018 were open for CSOs and members of the public to attend and testify. The report of the finance and expenditures committee notes that 25 submissions and eight oral evidence presentations were included in the committee deliberations, including a report from the Child Poverty Action Group.

*Sources: "Open Budget Survey 2019: Georgia Questionnaire," International Budget Partnership, April 2020, https://www.internationalbudget.org/sites/default/files/2020-05/georgia-202002150030.pdf; "Open Budget Survey 2019: New Zealand Questionnaire," International Budget Partnership, April 2020, https://www.internationalbudget.org/sites/default/files/2020-05/new-zealand-202002150030.pdf; Finance and Expenditure Committee, "Budget Policy Statement 2018 and Half Year Economic and Fiscal Update December 2017 Report of the Finance and Expenditure Committee," Parliament of New Zealand, February 2018, https://www.parliament.nz/resource/en-NZ/SCR_76423/ed7faf1a630da1138be7acc1a568a82f5287a03e; Child Poverty Action Group, "Submission on the Budget Policy Statement 2018," https://www.parliament.nz/resource/en-NZ/52SCFE_EVI_75765_496/8f7a7d5f2b8e529be397c0b3b569ddf64a6fd850.*

## 7.6 International and Domestic Private Sector Lenders

- As global debt has grown, so too have the number, types and complexity of lenders. Resulting from increased access of sovereign borrowers to international financial markets, private sector lenders (e.g., banks) have taken on a growing role in public debt arrangements previously restricted mostly to bilateral and multilateral creditors. As a result, "The share of external public and publicly guaranteed debt owed to private creditors has increased to 62 percent by 2015 from 41 percent of the total in 2000";[92]

- These increases can present new challenges because loans from private sector creditors are often non-concessionary. The OECD states that, "While non-concessional loans are provided at, or near to, market terms, concessional loans are provided at softer terms."[93]

- With this proliferation of lenders, comes the need for careful adherence to rigorous international rules and lending practices, such as outlined in the UNCTAD principles in order to protect countries from predatory lending schemes.

- A case in point is that of Mozambique, where questionable lending practices by Credit Suisse and VTB (a Russian bank) resulted in many of the loans being sold by the banks to other speculators. The loans in this case, though made when the Mozambique economy was perceived to be thriving, were made in secret

91 Maria Lucia Fattorelli, *Citizen Public Debt Audit: Experiences and Methods* (CADTM, 2013), https://www.cadtm.org/IMG/pdf/Audit_ENGLISH_text.pdf.
92 Geoff Dubrow, *The Role of Parliament in Public Debt Management: Weathering the COVID-19 Crisis and Beyond* (London: Westminster Foundation for Democracy, June 2020), https://www.wfd.org/what-we-do/resources/role-parliament-public-debt-management, p. 17.
93 "Financing for Sustainable Development," OECD, n.d., https://www.oecd.org/dac/financing-sustainable-development/.

and therefore illegal in that the Mozambique parliament was bypassed. The minister of finance, instead, guaranteed the loans. The companies set up under the loans defaulted on the debt once global commodity prices fell.[94]

### *7.6.1 Multilateral Development Banks*

> **The United States' Congressional Research Service defines the primary aims of Multilateral Development Banks (MDBs) as: "The MDBs primarily fund large infrastructure and other development projects and provide loans tied to policy reforms by the government. The MDBs provide non-concessional financial assistance to middle-income countries and some creditworthy low-income countries on market-based terms. They also provide concessional assistance, including grants and loans at below-market rate interest rates, to low-income countries."[95]**
>
> *—Congressional Research Service*

- Multilateral Development Banks (MDBs), which include the World Bank, IMF and regional development banks, continue to play an important role in issuing loans (often at concessional rates) and grants to fund infrastructure and other projects that support social and economic development. Some MDBs also support improved debt management practices;

- While low-income countries previously drew largely on concessional aid assistance, these nations are increasingly turning to "less concessional types of financing."[96] The continued change in the role of MDBs is in part informed by the private sector developments discussed above.

94 "The UK's Role in Mozambique's Debt Crisis," Jubilee Debt Campaign, n.d., https://jubileedebt.org.uk/the-uks-role-in-mozambiques-debt-crisis.

95 Rebecca M. Nelson, *Multilateral Development Banks: Overview and Issues for Congress* (Congressional Research Service, February 11, 2020), https://fas.org/sgp/crs/row/R41170.pdf, p ii.

96 Ruth Farrant and Malek Sahli, *Non-Concessional Borrowing Policy* (International Foundation for Agricultural Development, December 13, 2018), https://webapps.ifad.org/members/eb/125/docs/EB-2018-125-R-46-Rev-1.pdf, p. 1.

# 8. Role of Parliament in Public Debt Management

A key actor in the debt management universe, parliament has two distinct roles to play in public debt management: a legislative role and an oversight role.

The legislative role includes approving and/or modernizing a legal framework for debt management, adoption of fiscal rules and ratification of loan agreements. The oversight role speaks to parliament's role in scrutinizing government spending through a debt management lens throughout the four stages of the budget cycle (which will be explained in detail in the following section). The effective fulfillment of these two roles requires that parliament effectively intervene into debt management at a number of different points. The following two sections will discuss the entry points related to the legislative and oversight roles.

## 8.1 Legislative Role Related to Public Debt

### *8.1.1 Setting a Legal Framework*

- Parliament plays an important role in adopting and modernizing the development of a legislative framework for debt management;
- Parliament can enhance transparency and accountability by adopting a single integrated debt management law. Such a law "provides strategic direction to borrowing decisions and clearly specifies the roles and responsibilities for the institutions involved in debt management;"[97]
- This is crucial as the "absence of modern public debt management legislation undermines the transparency and accountability of fiscal and debt management operations;"[98]
- Developing and modernizing debt management legislation is key to putting the processes in place required for governments to provide parliament and the public with the necessary information for public debt to be effectively scrutinized. Examples of changes to debt management legal frameworks include:
    - A 2015 amendment to the Public Finance Management Act passed by the Parliament of Samoa introduced a series of changes to the Samoan legal frameworks related to debt, including: the addition of a clause stipulating purposes for state borrowing, the insertion of a debt management section outlining key objectives to guide a mandated debt management strategy and reporting procedures, in addition to other amendments of the existing statute.[99]
    - Similarly, changes to the Jamaican Public Debt Management Act were introduced in 2017, with the explicit intent to address operational aspects of debt management through a more precise definition of key roles, functions and responsibilities of different actors and committees related to Jamaica's debt management universe.[100] This included the creation of a Fiscal Council to monitor Jamaica's debt levels.
    - In 2020, the Zimbabwean government implemented a debt management legal framework which will be used to "evaluate its loan guarantees and on-lending in a transparent and objective process meant

97 Staffs of the IMF and World Bank, "Guidelines for Public Debt Management," International Monetary Fund, March 21, 2001, https://www.imf.org/external/np/mae/pdebt/2000/eng/index.htm.

98 Damien King, Christine Clarke, Brian Francis, et al., *Public Sector Debt in the Caribbean: An Agenda for Reduction and Sustainability* (Caribbean Development Bank, April 2013), https://www.caribank.org/publications-and-resources/resource-library/thematic-papers/study-public-sector-debt-caribbean-agenda-reduction-and-sustainability.

99 Legislative Assembly of Samoa, *Public Finance Management Amendment Act 2015, No. 9* (Parliament of Samoa, March 27, 2015), https://www.palemene.ws/wp-content/uploads/01.Acts/Acts%202015/Public-Finance-Management-Amendment-Act-2015-Eng.pdf.

100 Balford Henry, "Shaw Opens Debate on Debt Management Bill," The Jamaica Observer, May 4, 2017, https://www.jamaicaobserver.com/news/shaw-opens-debate-on-debt-management-bill_97673.

to guard against the adverse impact of contingent liabilities on public finances."[101] The new framework for evaluating, monitoring and managing guaranteed loans, is meant to curb excesses in borrowing and increase transparency with loan agreements.

- In 2021, the parliament of the Bahamas introduced sweeping changes to the Bahamian legal framework related to debt management through the adoption of a *Public Debt Management Act (the Act), 2021*, which:
  - Sets new expectations for enhanced accounting and reporting
  - Establishes time frames for the publication of debt-related information
  - Will involve an extensive education campaign to ensure internal and external stakeholders are impacted by the legislative change[102]

There are two additional key functions worth considering within parliament's legislative role in relation to public debt management. The first is the ratification of loan agreements and the second is the adoption of fiscal rules.

> **"The overriding objective of (the Act) is to consolidate and modernize existing debt management provisions. The legislation will create necessary linkages with the Fiscal Responsibility Act, which provides parameters for debt ceilings that correspond to the trajectory of the country's economic growth. This legislation will set the framework for the country's debt management strategy going forward."[103]**
>
> *—Hubert A. Minnis, Prime Minister of the Bahamas*

### *8.1.2 Ratification of Loan Agreements*

Parliaments should retain the authority to ratify and issue loan agreements. This deters the occurrence of imprudent borrowing which can be limited through effective parliamentary oversight.

According to a 2013 study conducted by the Inter-Parliamentary Union and the World Bank:[104]

- Just under 60 percent of respondents have laws requiring parliament to ratify loan agreements before they become effective;
- While 64 percent of respondents are not involved in the loan approval process (as distinct from the ratification process), 24 percent are involved in the final stage;[105] and

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101 "Zimbabwe: Government Moves Towards Stricter Debt Management," AllAfrica, November 2, 2020, https://allafrica.com/stories/202011020365.html.
102 Central Communications Unit (Bahamas), "Appointment Dates Set for New Financial Legislation," The Bahamas Ministry of Finance, April 9, 2021, https://www.bahamasbudget.gov.bs/2021/news-centre/latest-news/2021/04/09/appointment-dates-set-new-financial-legislation/#!.
103 OPM Communications, "Remarks: The Most Hon. Hubert A. Minnis, Prime Minister and Minister of Finance Contribution to the House of Assembly," Office of the Prime Minister (Bahamas), February 10, 2021, https://opm.gov.bs/remarks-the-most-hon-hubert-a-minnis-prime-minister-and-minister-of-finance-contributi/.
104 With reference to the three bullets, the number of respondents varied from question to question. Bullet 1 had 99 respondents; Bullet 2 had 95; and Bullet 3 had 45 respondents. See: Alessandro Motter, Karin Riedl, Naye Bathily, et al., *Parliamentary Oversight of International Loan Agreements & Related Processes: A Global Survey* (Inter-Parliamentary Union, 2013), http://archive.ipu.org/PDF/publications/PARLOVER2013EN.pdf.
105 The survey states that "Among the countries where the law gives parliament ratification authority, a large number, 58 percent, are also involved in the loan approval process at some stage (i.e., either before, during or in the final stages)."

- In addition, 65 percent of parliaments responding stated that the loan approval process is designed to go through the committee system. Further, 20 percent of parliaments rely only on a single committee, primarily the finance, budget or economic committee, while 45 percent have two or more committees involved, with the additional committees focusing on specific areas, such as infrastructure, agriculture, health or transport.

Parliamentary involvement in the loan approval or the ratification process enables parliament to verify that the government has undertaken rigorous economic appraisal, selection and costing and has a monitoring strategy in place. Brief 2: "Debt Management Legal Frameworks-A Primer for Parliamentarians" addresses this issue in more detail, including outlining a variety of roles played by different parliaments in the loan ratification process.

### *8.1.3 Setting Fiscal/Debt Rules and Targets*

According to the OECD, "a fiscal rule is a permanent, long-term restriction on fiscal policy aggregates." The majority of fiscal rules are based on international treaties, constitutional decrees or primary legislation. For example, the 19 Euro Zone countries in 1990 adopted the Stability and Growth Pact in order to prevent debt distress and debt crises.

Fiscal rules are meant to be applied on a permanent basis by subsequent administrations. This is distinct from a "fiscal objective," which is a target that is not legally binding but mandated through a political decision or established custom and practice."[106]

### *8.1.4 The Goal of Fiscal Rules*

Fiscal rules seek to strengthen fiscal sustainability through:

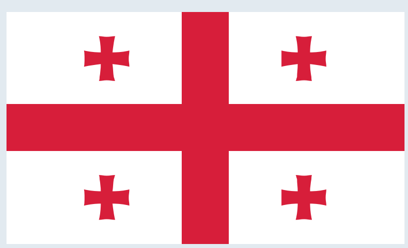
- Ceilings on government deficits — often set at three percent of GDP per year; and
- Ceilings on going beyond a certain debt-to-GDP ratio — often set at 60 percent.

A debt rule is a specific type of fiscal rule.

Setting a debt rule not to exceed a certain debt-to-GDP target is highly pertinent to parliamentarians because debt rules are often enshrined in the constitution or primary or secondary legislation so that governments cannot frequently change limits on spending levels or tax revenues.[107] Three types of debt rules are outlined in Figure 3.

**Figure 3: Debt Rules** [108]

Indonesia's debt rule, which has been in place since 2004, is that total central and local government debt should not exceed 60% of GDP. This rule is set out in the State Finance law.



Georgia's debt rule is that the ratio of State Debt to GDP shall not exceed 60%.

Botswana's debt limit caps total domestic and foreign debt each at 20% GDP.

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106 OECD, "Fiscal Rules," in *Government at a Glance: Latin America and the Caribbean 2020* (Paris: OECD Publishing, March 20, 2020), https://www.oecd-ilibrary.org/sites/30319437-en/index.html?itemId=/content/component/30319437-en.

107 "General Government Debt," OECD, n.d., https://data.oecd.org/gga/general-government-debt.htm.

108 Botswana's debt limit is set in its National Development Plan. Indonesia's debt rule is set out in its State Finance Law and Government Regulation 23/2003. See IMF "Fiscal Rules at a Glance". March 2017. Georgia's debt rule is set in its Organic Law on Economic Freedom dated 01/07/2011.

While the London-based Centre for Economic Policy Research recommends that governments "guard against succumbing to the allure of the seeming accuracy of numerical limits on debt-to-GDP ratios,"[109] debt rules, where adopted in legislation, do represent a common reference point between parliament and the executive branch and can therefore be used as an entry point to oversee debt levels.

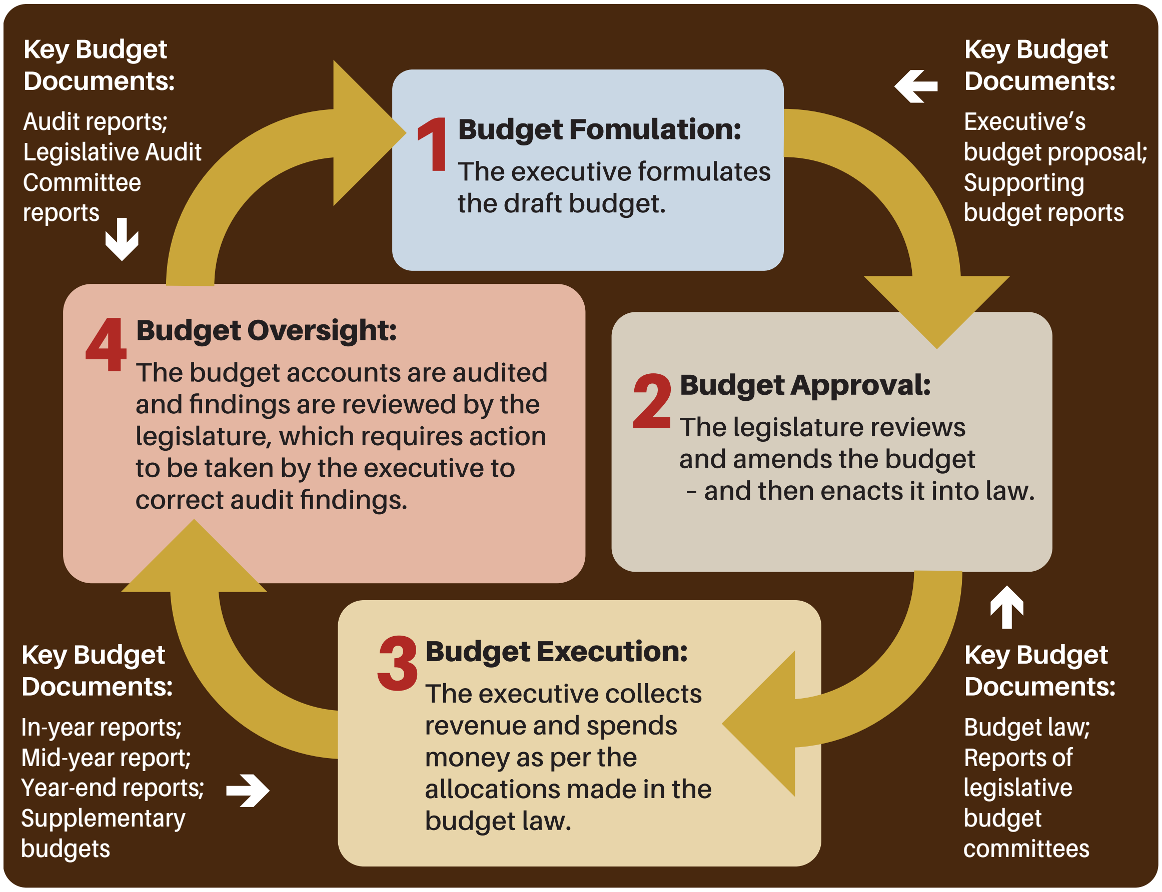
## 8.2 Role of Parliament in Oversight of Public Debt Throughout the Budget Cycle

There are four stages associated with the budget cycle: formulation, approval, execution and audit/oversight. Figure 4 provides an overview of the four stages of the budget process.

The formulation and approval phases are referred to as "ex ante." The executive branch is generally responsible for formulation of the budget in the ex ante phase, while the legislative branch is responsible for approval of the budget. However, there are significant opportunities for ex ante parliamentary intervention, particularly in the formulation phase. The government is then responsible for execution of the budget, and parliament is responsible for ex post oversight during the audit/oversight phase.

There are consequently a number of key entry points for parliament to scrutinize public debt as part of parliament's budgetary oversight role. The entry points are outlined below, by phase of the budget cycle.

**Figure 4: Four Phases of the Budget Cycle and Key Reports**




109 Geoff Dubrow, *The Role of Parliament in Public Debt Management: Weathering the COVID-19 Crisis and Beyond* (London: Westminster Foundation for Democracy, June 2020), https://www.wfd.org/what-we-do/resources/role-parliament-public-debt-management.

### *8.2.1 Budget Formulation*

While the formulation phase has traditionally been understood as a responsibility primarily attributed to the government rather than to parliament, there is an important opportunity for parliamentary scrutiny and input through pre-budgetary deliberations. Debates are typically more open at the formulation phase, and parliamentarians may therefore have a greater opportunity to exert **ex ante** influence on the actual spending priorities of the government.[110] This includes the trade-off between paying down the debt versus spending priorities.

- **Entry point 1**: Parliamentary Review of the Pre-Budget Statement (PBS): The PBS is tabled during the formulation phase, and contains the "broad parameters for the executive budget proposal regarding expenditure and planned revenue, and debt."[111] While not all governments provide a PBS,[112] the statement "reflects the culmination of the strategic planning phase of the budget process, in which the executive broadly aligns its policy goals with the resources available under the budget's fiscal framework — the total amount of expenditure, revenue and debt for the upcoming budget year."[113]
    - In New Zealand, for example, the minister of finance must present a PBS called the "Budget Policy Statement" which is reviewed by the Finance and Expenditure Committee for detailed review.[114] In Kenya the Budget Policy Statement (BPS) is referred to sectoral committees "to deliberate on in line with their respective mandates and make recommendations to the Budget and Appropriations Committee (BAC), the MTDS was referred to the BAC for examination and discussion."[115]
- **Entry point 2**: Parliamentary Review of Medium-Term Economic Framework: The MTEF is defined as "the government's rolling expenditure plan that sets out medium-term expenditure priorities and hard budget constraints."[116] In some cases, such as North Macedonia,[117] the MTEF may be sent to parliament for informational purposes only; nevertheless, the MTEF makes an important contribution to ensuring that parliamentarians can see the full fiscal situation ahead of budget deliberations.
    - In Kosovo the government has to submit to the Assembly a medium-term expenditure framework by April 30 of each calendar year covering the next fiscal year and estimates for the two following fiscal years.[118]
- **Entry point 3**: Parliamentary review of the Medium-Term Debt Strategy (MTDS).[119] The MTDS articulates how the government intends to implement its debt management approach over the medium term to achieve a desired composition of its debt portfolio, outlines its preferences regarding the cost-risk trade-offs. An updated version of the MTDS is supposed to appear in the annual budget document.

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110 Geoff Dubrow, *Influencing the Budget During the Formulation Stage* (London: Westminster Foundation for Democracy, October 2020), https://www.agora-parl.org/sites/default/files/agora-documents/Influencing%20the%20budget%20during%20the%20formulation%20stage.pdf.

111 Alessandro Motter, Karin Riedl, Naye Bathily, et al., *Parliamentary Oversight of International Loan Agreements & Related Processes: A Global Survey* (Inter-Parliamentary Union, 2013), http://archive.ipu.org/PDF/publications/PARLOVER2013EN.pdf.

112 Geoff Dubrow, *The Role of Parliament in Public Debt Management: Weathering the COVID-19 Crisis and Beyond* (London: Westminster Foundation for Democracy, June 2020), https://www.wfd.org/what-we-do/resources/role-parliament-public-debt-management.

113 International Budget Partnership, *Guide to the Open Budget Questionnaire: An Explanation of the Questions and the Response Options* (Washington: International Budget Partnership, August 2016), https://www.internationalbudget.org/sites/default/files/2020-04/2019_Guide_and_Questionnaire_EN.pdf, p. 13.

114 Geoff Dubrow, *The Role of Parliament in Public Debt Management: Weathering the COVID-19 Crisis and Beyond* (London: Westminster Foundation for Democracy, June 2020), https://www.wfd.org/what-we-do/resources/role-parliament-public-debt-management.

115 Kenya National Assembly, *Report of the Budget and Appropriations Committee on the Budget Policy Statement and the Medium-Term Debt Management Strategy for Financial Year 2020/2021* (Parliament of Kenya, March 2021), http://www.parliament.go.ke/sites/default/files/2021-03/Budget%20Committee%20report%20on%202021%20BPS.pdf.

116 Geoff Dubrow, *The Role of Parliament in Public Debt Management: Weathering the COVID-19 Crisis and Beyond* (London: Westminster Foundation for Democracy, June 2020), https://www.wfd.org/what-we-do/resources/role-parliament-public-debt-management.

117 Ibid.

118 Assembly of the Republic of Kosovo, *Amending and Supplementing Law No. 03L-048 On Public Financial Management and Accountability* (Republic of Kosovo, July 12, 2010), http://old.kuvendikosoves.org/common/docs/ligjet/2010-221-eng.pdf.

119 Not all countries publish an MTDS in the formulation phase. Some, like South Africa, publish a Medium-Term Budget Policy Statement in the formulation phase which addresses key debt information as well. See: National Treasury (South Africa), *Medium Term Budget Policy Statement 2020* (Republic of South Africa, October 28, 2020), http://www.treasury.gov.za/documents/mtbps/2020/mtbps/FullMTBPS.pdf.

- In Kenya, the 2021 MTDS was tabled in February, ahead of the budget proposal for the following year, which is tabled in parliament on April 30. The MTDS is important for parliaments as the Kenyan government's 2020 MTDS proposed a shift towards increased domestic borrowing.[120] While this would reduce the share of external debt, the BAC expressed concern that "the domestic debt portfolio … has a higher refinancing risk due [to a] higher proportion of short-term instruments relative to long-term instruments and higher interest rate risk compared to that of the external debt portfolio."[121]

- **Entry point 4**: Pre-Budget Debate in parliament. Pre-budget debates in parliament open opportunities for the minister of finance to receive feedback on the government's Pre-Budget Statement, MTEF or other key budget document introduced during the formulation phase. Opposition parties may take the opportunity to highlight previously underfunded priority areas and address how to best balance public debt repayment with spending on priorities such as social programs and the government's COVID-19 response.[122]
  - Alternately, in the absence of a key budget document introduced during the formulation phase by the executive branch, political parties can outline their budgetary spending priorities so that they are "on the record."
    - In some parliaments, as an alternative to a pre-budget debate in plenary, the budget committee will hold its own review of the PBS. Just over 10 percent of OECD member parliaments (four out of 36) reported that their budget committee holds a pre-budget debate. In Ireland for example, the Committee on Budgetary Oversight holds pre-budget hearings on budgetary priorities and issues a report to the plenary.[123] Outside of the OECD countries there is, unfortunately, no data available on the number of parliaments that hold a pre-budget debate.[124]

- **Entry point 5**: Pre-Budget Consultations in parliament.
  - While still not prevalent in practice, pre-budget consultations can be held in parliament.

> **Opportunities for parliamentary oversight offer a number of advantages, including: "providing a public forum for interested parties (citizens, as well as public, private and not-for-profit organizations) to present and explain their recommendations on priorities for inclusion in the next budget; providing a written record of public views for consideration by the MoF and others; and strengthening the representative function of parliamentarians by providing a forum to solicit and hear the viewpoints of the aforementioned interested parties."[125]**
>
> ——*Westminster Foundation for Democracy, "Influencing the Budget During the Formulation Stage"*

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120 It was proposed that the domestic to external debt ratio change from 62:38 to 72:28 by increasing domestic borrowing from commercial lenders while decreasing international semi-concessional loans.

121 Kenya National Assembly, *Report of the Budget and Appropriations Committee on the Budget Policy Statement and the Medium-Term Debt Management Strategy for Financial Year 2020/2021* (Parliament of Kenya, March 2020), http://www.parliament.go.ke/sites/default/files/2021-03/Budget%20Committee%20report%20on%202021%20BPS.pdf.

122 Geoff Dubrow, *Influencing the Budget During the Formulation Stage* (London: Westminster Foundation for Democracy, October 2020), https://www.agora-parl.org/sites/default/files/agora-documents/Influencing%20the%20budget%20during%20the%20formulation%20stage.pdf.

123 OECD, *Budgeting and Public Expenditures in OECD Countries 2019* (Paris: OECD Publishing, April 11, 2019), https://www.oecd.org/governance/budgeting-and-public-expenditures-in-oecd-countries-2018-9789264307957-en.htm; Geoff Dubrow, *Influencing the Budget During the Formulation Stage* (London: Westminster Foundation for Democracy, October 2020), https://www.agora-parl.org/sites/default/files/agora-documents/Influencing%20the%20budget%20during%20the%20formulation%20stage.pdf.

124 Geoff Dubrow, *Influencing the Budget during the Formulation Stage* (London: Westminster Foundation for Democracy, October 2020), https://www.agora-parl.org/sites/default/files/agora-documents/Influencing%20the%20budget%20during%20the%20formulation%20stage.pdf.

125 Ibid; Geneviève Tellier, *Canadian Public Finance: Explaining Budgetary Institutions and the Budget Process in Canada* (Toronto: University of Toronto Press, April 8, 2019), p. 127.

- According to the OBS, South Africa's National Treasury conducts pre-budget submissions during the budget formulation stage. Although South Africa ranked second overall of 117 countries surveyed, the OBS recommended that to further strengthen public participation in the budget process, the treasury should actively engage with vulnerable and underrepresented communities, directly or through CSOs representing them; and provide feedback on how public inputs collected during pre-budget consultations and budget implementation are used by the government."[126]

### *8.2.2 Budget Approval*

Parliaments often have very limited amounts of time to consider the Executive's Budget Proposal (EBP) during the approval phase, lack the power to do so altogether or, by defeating the budget, can signal non-confidence in the government and bring about an election.

Additionally, the window for parliaments to scrutinize the EBP is often quite limited. The executive branch often provides a truncated period of time for parliament to review and approve the EBP, which is frequently influenced by the requirement for parliament to approve the budget prior to the start of the new fiscal year. Nonetheless, the entry points for scrutiny of the budget at the approval phase include:

- **Entry point 6**: Review of key debt information in the Executive Budget Proposal.

**Despite the fact that over half of the OECD countries report having broad abilities to amend the budget, "most OECD parliaments only make minor adjustments to the EBP."[127]**

*- OECD, Budgeting and Public Expenditures in OECD Countries 2019*

The Open Budget Survey recommends that four types of information about public debt be included in the EBP and supporting documentation:

- Estimates related to government borrowing and debt;
- Information on the composition of the total debt outstanding at the end of the budget year;
- Prior year debt information; and
- The actual outcome for debt.

### *8.2.3 Execution Phase*

Accountability of the executive to parliament continues after the budget has been approved.

- **Entry point 7**: Monitoring debt levels during the budget year. According to best practices, a mid-year review should report on budget execution over the first six months of the budget year.

**As of the 2019 Open Budget Survey, only 13 of 117 countries responding to the survey provide all four types of information about public debt in the EBP or accompanying documentation, while another eight countries provide information on three of the four types.**

126 "Open Budget Survey 2019: South Africa," Open Budget Survey, n.d., https://www.internationalbudget.org/open-budget-survey/country-results/2019/south-africa.

127 OECD, *Budgeting and Public Expenditures in OECD Countries 2019* (Paris: OECD Publishing, April 11, 2019), https://www.oecd.org/governance/budgeting-and-public-expenditures-in-oecd-countries-2018-9789264307957-en.htm.

**The mid-year review is:**

**"A highly significant document for tracking the progress of the budget during the fiscal year. This report should provide a comprehensive update on the budget's implementation, and should disclose the impact of any changes to macroeconomic assumptions and of any government decisions or other circumstances that will significantly impact the budget for the remainder of the year."[128]**

*— Pamela Gomez, Joel Friedman, and Isaac Shapiro, "Opening Budgets to Public Understanding and Debate: Results from 36 Countries"*

- In Georgia, which ranks at the highest level across all the OBS indicators relating to monitoring debt levels during the budget year, the Public Debt and External Financing Department (PDEFD) "prepares the section on public debt to report to parliament as required by law. The section provides information on the stock of public debt, increase in liabilities, disbursements and debt service payments on an aggregated basis and by types of creditors and instruments for both domestic and external debt. The report also gives information on planned versus realized debt. The Budget Execution Report is submitted to parliament on a quarterly and annual basis. The annual report is submitted to parliament by March of the following year."[129]
- According to the Open Budget Survey, the mid-year review should "include updated estimates of government borrowing and debt, including its composition, for the budget year underway." Parliamentary review of the mid-year review can be helpful in identifying whether the government is meeting its debt targets for the budget year.

### *8.2.4 Ex Post Audit/Oversight*

The relationship between parliament and the SAI is well established. SAIs are an essential source of information for parliament through the production of audit reports. This is particularly true in countries that follow the Westminster parliamentary tradition as the connection between SAIs and PACs is closely knit. This is because SAIs generally lack enforcement powers in these systems, and as such, rely on parliament to act on their reports and call departments before committees to take action on SAI recommendations. This process involves:

- Holding committee hearings;
- Hearing from the accounting officer as a witness;
- Issuing recommendations; and
- Following up to ensure that the executive branch has acted on those recommendations.[130]

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128 Pamela Gomez, Joel Friedman, and Isaac Shapiro, "Opening Budgets to Public Understanding and Debate: Results from 36 Countries," OECD Journal on Budgeting 5, no. 1 (2005): 7-36, https://read.oecd-ilibrary.org/governance/opening-budgets-to-public-understanding-and-debate_budget-5-5l9n6d3tkh5l#page1.

129 Lilia Razlog, Elizabeth Currie, Per-Olof Jonsson, et al., *Debt Management Performance Assessment (DeMPA): Georgia* (World Bank, August 2013), https://openknowledge.worldbank.org/bitstream/handle/10986/33188/Georgia-Debt-management-performance-assessment.pdf?sequence=1&isAllowed=y, p. 40.

130 Many parliaments that did not originate from the Westminster tradition have adopted a PAC, including Afghanistan, Bhutan, Ethiopia, Morocco, Nepal, Thailand, Tunisia, Rwanda and others. See Geoff Dubrow, *A Critical Review of Public Accounts Committees* (London: Westminster Foundation for Democracy, October 2020), https://www.agora-parl.org/sites/default/files/agora-documents/A%20critical%20review%20of%20public%20accounts%20committees.pdf.

### Box 8: Three types of SAIs[131]

There are three main types of SAIs:

**Napoleonic** system SAIs are also called *cour des comptes* (courts of account), which have both judicial and administrative authority. This model is mostly used in Latin countries in Europe, Turkey, and most Latin American and Francophone African countries.

The **Westminster** system uses the auditor general as the main independent body that reports to parliament. The office serves no judicial function, but its findings are passed to legal authority for further action. This system is used in many commonwealth countries.

The **Board** system is prevalent in Asia and is similar to the Westminster system in that it assists parliament in performing oversight and is independent from the executive. Indonesia, Japan and Korea all have audit boards composed of audit commissions and a general executive bureau.

There are three main types of SAIs:

- **Entry point 8**: Review of reports of the SAI, which include the audited version of the financial (or preferably) consolidated financial statements. SAI reports should identify the government's debt position at the end of the budget year and report on the government's debt management activities.[132]

This scrutiny function is generally carried out by the Public Accounts Committee or equivalent.[133]

- **Entry point 9**: Government's Annual Debt Report. Governments often produce an annual debt report or include a debt report within the annual financial reports, to outline the current debt management operations. The annual debt report should be tabled in parliament and scrutinized to permit proper scrutiny of the country's public debt environment.[134]

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131 Rick Stapenhurst and Jack Titsworth, *Features and Functions of Supreme Audit Institutions* (Washington: World Bank, June 2002), https://openknowledge.worldbank.org/handle/10986/9766#:~:text=(2001%2D10)-,Supreme%20audit%20institutions%20are%20national%20agencies%20responsible%20for%20auditing%20government,governance%20systems%20and%20government%20policies.

132 Geoff Dubrow, *The Role of Parliament in Public Debt Management: Weathering the COVID-19 Crisis and Beyond* (London: Westminster Foundation for Democracy, June 2020), https://www.wfd.org/what-we-do/resources/role-parliament-public-debt-management.

133 See Brief 3 for details concerning a July 2019 report from the Zimbabwean PAC entitled "Report on Compliance Issues for the Ministry of Finance and Economic Development" (MOFED), which was based on reports of the Auditor General and testimony from key officials in MOFED. The report outlined a number of key areas of non-compliance by MOFED related to public debt.

134 Geoff Dubrow, *The Role of Parliament in Public Debt Management: Weathering the COVID-19 Crisis and Beyond* (London: Westminster Foundation for Democracy, June 2020), https://www.wfd.org/what-we-do/resources/role-parliament-public-debt-management.

# Conclusion

This policy brief has outlined the development of global debt over the past several decades. Public debt has continued to balloon during the four waves which has impacted both high-income as well as low- and middle-income countries. However, middle- and especially low-income countries are in far more precarious situations when it comes to their levels of debt and there has been a rise in countries that are either in, or at high risk, of debt distress. High and/or unsustainable levels of public debt has adverse impacts on already marginalized populations, and this has led to disproportional negative impacts on women which is more broadly impacting societies.

Public debt is a complex issue, and this policy brief introduces some of the main concepts and institutional actors at play in the debt management universe. Debt can fuel growth and help emerging market economies to diversify. However, when debt exceeds sustainable levels, particularly when the debt is odious, then the public will suffer consequences in both the short- and long-term. Austerity measures brought in as a result of high debt servicing costs can lead to particularly severe consequences for women and associated intersectional groups and exacerbate existing inequalities in society. Heightened inequality can then threaten the human rights, economic development and quality of life for all.

Parliament plays a crucial role in bolstering the public interest by adopting or strengthening the legislative framework for public debt management, by debating the trade-off between debt repayment and social spending during the budget process and scrutinizing the government's debt management practices throughout the budget cycle.

While this policy brief offers an overview of the core issues related to debt management for parliamentarians, further detail is included in the subsequent three briefs in the series.