Public Debt Integrity Series

Pivoting from debt accountability to parliamentary performance oversight

07

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2025

WFD

AFRODAD
AFRICAN FORUM AND NETWORK ON DEBT AND DEVELOPMENT

Foreign, Commonwealth & Development Office

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This paper is published as part of the “Public Debt Integrity Series”, a joint knowledge building initiative of AFRODAD, the African Forum and Network on Debt and Development, and WFD. The papers in this series aim to research different aspects of the role of parliaments in public debt oversight in Africa. The papers have been researched, written and peer-reviewed in 2024. They are co-published by AFRODAD and WFD in 2025.

The research has been made possible through WFD’s Grant-in-Aid funding received from the UK’s Foreign, Commonwealth and Development Office (FCDO).

This paper was written by Mitchell O’Brien, fiscal governance lawyer and parliamentary development specialist.

Special thanks to Lars Jessen (Lead debt specialist, macroeconomics, trade and investment, World Bank Group) and Arend Kulenkampff (Sovereign financing lead and director, Sustainability-linked Sovereign Debt Hub, NatureFinance). Their invaluable feedback and input benefited this paper, especially on earlier drafts.

Thanks also to Abraham Nwankwo, Bernard Njiri, Danny Sun, Elena Mondo, Franklin De Vrieze, Lesli Tsai, Paulo de Renzio, Rafael Jimenez Aybar, Sally Torbert and Shem Joshua Otieno for peer-reviewing the paper. Their constructive comments and insights helped frame and refine the paper further. Many thanks to Zoe Clack for the organizational support and Daniel Etherington for proofreading.

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Executive summary

Parliament's existing debt accountability role in climate and sustainability-focused 'use-of-proceeds' and 'target-linked' borrowing is limited. This paper seeks to identify options for African parliaments to conduct performance oversight of green, social and sustainability (GSS) bonds, sustainability-linked bonds (SLBs), and sustainability-linked loans (SLLs) in parallel with debt accountability for conventional borrowing and debt management practices.

Parliament's democratic endorsement of climate and sustainability goals attached to these instruments will signal broad support to the market, helping reduce creditors' political risk calculus. Stronger oversight from parliament offers the market greater assurance that the government can fulfil its borrowing commitments, including reaching specific goals and targets. Increased investor confidence increases the viability of new borrowing formats for African jurisdictions, particularly those looking for diverse financing options for climate and sustainability investments.

Jurisdictions can also improve investor confidence by enhancing parliamentary performance oversight. Routine performance oversight across the bond and loan duration increases the likelihood that implementation challenges are identified and addressed before a bond or loan matures, enhancing an investment's impact and contributing to efforts to achieve predetermined sustainability targets.

Parliaments can leverage their experience monitoring national poverty reduction and sustainability strategies to develop effective approaches for conducting and coordinating debt accountability and performance oversight. Debt accountability ensures that debt managers are responsible for meeting their debt management objectives. On the other hand, performance oversight holds spending agencies and public officials accountable for the development outcomes expected to result from investments.

KEYWORDS: DEBT ACCOUNTABILITY; PARLIAMENTARY PERFORMANCE OVERSIGHT; 'USE-OF-PROCEEDS' BORROWING; 'TARGET-LINKED' BORROWING; CLIMATE FINANCE; GREEN, SOCIAL AND SUSTAINABILITY (GSS) BONDS; SUSTAINABILITY-LINKED BONDS (SLBS); SUSTAINABILITY-LINKED LOANS (SLLS).

Introduction

Parliamentarians across Africa are calling for significant action on climate change and an enhanced role for parliaments in overseeing climate financing. Parliaments' existing debt accountability role in climate and sustainability financing is limited. New debt instruments have emerged over the last decade that allow sovereigns to raise funds on international debt markets to finance green and sustainability-focused investments and strategies. This paper seeks to identify options for African parliaments to look beyond debt accountability to engage with debt managers in the issuance and performance oversight of 'use-of-proceeds' and 'target-linked' borrowing instruments, such as green, social and sustainability (GSS) bonds, sustainability-linked bonds (SLBs), and sustainability-linked loans (SLLs).

It is hoped that greater integration of parliamentary oversight of government performance will enhance the credibility of future 'use-of-proceeds' and 'target-linked' issuances and loans in Africa. In the proper context, parliamentary involvement can provide assurance that a government's efforts to achieve its climate and sustainability targets will undergo routine external scrutiny, thereby enhancing creditor confidence in the investment. Democratic endorsement of ambitious goals and enhanced parliamentary performance oversight signals to the market that the objectives of the issuance have broad and enduring political support, thereby reducing political risk. The use-of-proceeds conditions attached to GSS bonds and target-linked conditions incorporated into SLBs and SLLs mean parliaments should consider pivoting from focusing on debt accountability, as they do for conventional debt instruments, to developing parallel performance oversight processes for these instruments.

This paper proceeds in seven parts. First, the intersection between parliaments, climate action and climate finance is discussed; second, the emergence of use-of-proceeds and target-linked debt formats is explored; third, the limitations of existing notions of debt accountability in overseeing the implementation of activities linked to these new debt formats are highlighted; fourth, the need to pivot from debt accountability to conducting parallel performance oversight of use-of-proceeds and target-linked formatted debt instruments is discussed; fifth, it is proposed that by mapping the reporting relationship between implementing agencies and parliamentary committees, parliaments can identify the optimal oversight committee to conduct parallel performance oversight in coordination with focused debt accountability oversight activities; sixth, recognising that African parliaments have limited exposure to these formats, the limits of use-of-proceeds and target-linked debt are discussed and the need to strengthen debt management capacity before adopting the new format is outlined; and seventh, approaches to conducting performance oversight of GSS and sustainability-linked borrowing is explored in greater detail.

The paper concludes that democratic endorsement of climate and sustainability goals linked to the issuance of financial instruments could enhance investors' assessments of political risk. By strengthening regular performance oversight over a bond or loan's duration, implementation challenges are more likely to be identified and addressed before maturity. This will improve the effectiveness of these instruments and contribute to the achievement of specified climate and sustainability objectives. Such measures will boost investor confidence and help demonstrate the feasibility of these innovative formats.

1. Parliaments, climate action and climate finance

The climate threat is real and presents multiple urgent challenges to African countries. The increase in greenhouse gas emissions has led to an increase in extreme weather events, including droughts and heavier precipitation, sea level rise, and higher temperatures. Climate-induced changes in weather patterns have impacted food security, water availability and crop productivity. The impacts of climate change are felt most intensely by the poorest and most vulnerable communities, especially those living in fragile and conflict-affected settings (Van Bronkhort and Bousquet, 2021).

Parties to the Paris Agreement commit to aligning their national strategies with their nationally determined contributions (NDCs) and other international commitments to achieve their resilience and sustainability goals. Investment planning and national budgets must be integrated to support national strategies that guide the government's investment decisions and reform agendas if climate, sustainability and growth targets are to be achieved (United Nations Inter-agency Task Force on Financing for Development, 2019;14-15).[1] Developing countries will need more resources (including access to financing, technology, and capacity) to prepare for and respond to climate change's immediate and longer-term impacts than presently available. Concerningly, the financing gap is large and continues to grow (United Nations Inter-agency Task Force on Financing for Development, 2024; 2).

Parliamentarians are advocating for significant global action on climate change and an enhanced role for parliaments. Recently, the Pan-African Parliament "underscored the urgency of translating [climate] commitments into tangible actions to avert potential disasters" and highlighted "the pivotal role of legislative bodies in overseeing and ensuring the realization of climate-related commitments" (Pan-African Parliament, 2023). Parliaments can leverage their representative, law-making and oversight roles to mobilise financing to implement their NDCs and ensure government action achieves their country's adaptation, mitigation and sustainability goals.

Countries are turning to several climate finance mechanisms and instruments to help fund climate and sustainability investments and national strategies. Climate finance is "local, national or transnational financing – drawn from public, private and alternative sources of financing – that seeks to support mitigation and adaptation actions that will address climate change" (United

[1] See Addis Ababa Action Agenda of the Third International Conference on Financing for Development (Addis Ababa Action Agenda), paragraph 9 – "Cohesive nationally owned sustainable development strategies, supported by integrated national financing frameworks, will be at the heart of our efforts." - https://sustainabledevelopment.un.org/content/documents/2051AAAA_Outcome.pdf

Nations Framework Convention on Climate Change, ND). Public sources of climate finance include grants, concessional loans, and guarantees issued through multilateral development banks (MDBs), global funds, governments, and state-owned development banks.

Private capital will be a critical component in financing a just climate transition. There is not enough multilateral and bilateral development financing to cover the cost of climate and sustainability investments that emerging and developing economies need for resiliency and green growth (Ananthakrishnan and others, 2023; United Nations Environment Programme, 2023). Innovative financing instruments have emerged to better link private capital with countries' climate and sustainability investments and strategies. The format of these new debt instruments provides opportunities for parliaments to use their performance oversight function to ensure debt-financed investments are directed to the intended outcomes and achieve specific targets.

2. 'Use of proceeds' and 'target-linked borrowing'

Public debt management is how debt managers establish and execute a strategy for managing the government's debt and raising required funding while pursuing the government's cost/risk objectives (IMF, 2015; 5). The country's principal debt management entity, often called the debt management office (DMO), leads this process. Public debt management can include other goals, such as developing an efficient and liquid market for government securities (IMF, 2015; 5). These goals are articulated in a medium-term debt management strategy (DMS), which "is a plan that the government intends to implement over the medium term in order to achieve a desired composition of the government debt portfolio, which reflects the government's preferences about the prevalent cost and risk" (IMF and World Bank Group, 2019; 4).[2]

Effective public debt management helps ensure that the rate and level of public debt are sustainable over the medium-to-long term. Debt sustainability influences a country's international credit rating,[3] which investors use to determine the level of risk compared to the return on investment. Increased risk impacts a sovereign's cost of borrowing. Debt managers can use various borrowing instruments to meet the government's funding needs. In practice, the macroeconomic conditions and institutional factors, such as the regulatory environment, quality of debt data, and the capacity of the DMO, also influence the instruments available to a country.

Two of the most common debt instruments are loans and bonds. A sovereign loan is a legal agreement between a country and a creditor or syndicate of creditors, whereby creditors agree to lend money to the government to be repaid at a future date (usually with interest and on conditions

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[2] A medium-term debt strategy (MTDS) framework is the process through which the DMS is developed, the annual borrowing plan (ABP) is prepared, ABP implementation is monitored, and the implications for the DMS objectives are evaluated (IMF and World Bank Group, 2019: 10).

[3] The leading international credit rating agencies are Standard & Poor's, Moody's or Fitch.

specific to the transaction). Creditors include international financial institutions (IFIs) and MDBs (which lend on concessional terms), bilateral governments and state-owned development banks (which lend on either concessional or commercial terms), and banks or syndicates of lenders (which lend on commercial terms). Access to financing for low-income developing countries (LIDCs) is often limited to concessional and semi-concessional loans from IFIs and MDBs. These loans are attractive to countries due to their long maturities, low cost, and barriers LIDCs have accessing alternative financing. However, the loans are usually structured as project financing with strict conditions and denominated in foreign currency, exposing countries to foreign exchange risks.

Sovereign bonds are debt instruments governments use to raise financing on domestic and international capital markets. A sovereign bond is a government-issued security that promises to pay creditors periodic interest (coupon payments) and the face value of the security on the maturity of the bond. Governments use identical sovereign bond instruments to process hundreds and thousands of transactions with various creditors through nominated banks. Governments issue bonds through domestic or international capital markets. When demand for sovereign bonds increases, the bond price rises, and the yield decreases (that is, creditors' return on investment for the bond's duration). Investors in international debt capital markets include banks, mutual funds, pension funds, life insurance companies, and hedge funds.

Governments often prefer issuing bonds over taking loans as there is no conditionality, and they can use the funds to finance programs, cover coupon payments, and repay old debt. In practice, access to international markets is generally limited to countries with an international credit rating of B- (van der Wansem and others, 2019; 6). Governments predominantly use bond issuances in more mature markets to manage coupon and redemption payments on existing debt. The diversity of countries in Africa means that several markets have matured sufficiently to issue securities on international markets and have active domestic markets. Over a dozen African countries have undertaken one or more bond issuances on international debt markets in the last 20 years, including Cameroon, Cote d'Ivoire, Ethiopia, Ghana, Kenya, Namibia, Nigeria, Rwanda, Senegal, Seychelles, South Africa, Tanzania and Zambia (van der Wansem and others, 2019; Annex V).

Innovative financing instruments that more clearly link private capital with countries' climate and sustainability investments and strategies adopt 'use-of-proceeds' or 'target-linked' formats. Finance raised through use-of-proceeds instruments is dedicated to spending on specific topics, sectors or investments (Lindner and Chung, 2023; 9). Often, the purpose of the instrument relates to GSS uses. The structural or financial characteristics of target-linked debt instruments adjust depending on whether the borrower achieves specific sustainability targets (OECD, 2024). The use-of-proceeds or target-linked format can be used when raising debt on international or domestic debt markets (depending on domestic regulation and government borrowing authority). The debt can be issued as either bonds or loans.

Creditor interest in GSS investing is growing as a share of the global debt market. Emerging economies and LIDCs need help attracting international investors if they are to issue GSS-focused use-of-proceeds and target-linked debt successfully. African nations experience market and institutional barriers, such as capacity constraints and the availability of a pipeline of suitable projects (Falchi, 2023), to use this format to raise financing. Despite these challenges, several green and sustainability bond issuances have been issued by African sovereigns in international debt markets since 2019. They include Nigeria, Egypt, Benin and Cote D'Ivoire (ICMA, ND). Interestingly, Seychelles was the first country globally to launch a sovereign blue bond in 2018 to support fisheries (World Bank, 2018).

SLBs and SLLs are a new format used more extensively by corporate issuers but have recently started to be used by sovereign issuers and borrowers. Chile was the first sovereign SLB issuance in 2022, followed by Uruguay in the same year (OECD, 2024; 14). The targets for both issuances focused on the countries' NDCs (OECD, 2024; 14). Chile followed up with a second issuance linked to gender targets, consistent with the country's sustainable development goals (SDG) obligations. Rwanda became the first LIDC and African country to issue a SLB. The Development Bank of Rwanda (DBR) – a public institution – issued the first sovereign SLB on the domestic market (compared to the international debt market) in 2023. The DBR linked the issuance to targets focused on improving GSS compliance in the local financial sector, boosting funding to women-led projects, and financing affordable housing projects (Alatabani and others, 2023). Despite the success of this recent example, the SLB "market in developing countries and globally remains underdeveloped despite their many advantages" (OECD, 2024; 10).

3. Limitations of debt accountability

Debt accountability occurs when the government's debt strategies, policies, decisions, and operations are scrutinised by oversight actors (O'Brien and Jessen, 2025). It promotes good debt management practices by holding decision-makers accountable for their debt management policy choices and borrowing decisions. Parliaments' constitutional role in establishing legal and regulatory frameworks, authorising the budget, approving borrowing, and holding governments accountable means they are central to enhancing debt accountability (O'Brien and Jessen, 2025).

The scope of debt management oversight extends to scrutinising policy choices and actions related to the design and implementation of the DMS. Debt oversight includes evaluating how proposed borrowing supports the objectives of the DMS, progress toward achieving the debt management goals (including cost/risk considerations), and the effectiveness of debt servicing and reporting. The ministry of finance or DMO is the institutional focus for debt accountability. As such, parliament's finance committees and/or debt management committees usually play a central role in providing debt oversight. Debt accountability does not extend to overseeing how the government uses resources raised through borrowing (that is, scrutinising the purpose of specific appropriations or what spending agencies do with the resources allocated to them), as this constitutes public expenditure oversight. For a fuller discussion on the role of parliament in approving conventional debt and using the DMS to oversee debt management, please see O'Brien and Jessen (2025).

Parliaments and civil society are increasingly concerned about ensuring the government uses debt financing for the purposes it used to justify incurring the debt in the first place. These sensitivities are particularly acute in countries where borrowing occurs for specific investments rather than being used to manage general funding needs and liquidity. For instance, many LIDCs benefit from investment project finance (IPF), which is usually structured to provide a more explicit link between the decision to borrow and the purpose of a loan. MDBs commonly provide IPF as grants or concessional loans with strict conditions. Project financing supports specific sector investments and reforms consistent with national or sector strategies, with provisional budget allocations for different project components and associated metrics, paired with operational support from the lender.

Parliamentary oversight of IPF projects is often split between the finance committee and the responsible sector oversight committee. The finance committee focuses on macro-fiscal and debt management issues. In contrast, the responsible sector committee focuses on sector expenditure and oversees the implementation of the reforms or investments supported under the loan. This demarcation of responsibility ensures parliament does not conflate the distinct – but equally important – oversight purposes of holding debt managers accountable for achieving debt management objectives and holding spending agencies and public officials accountable for development outcomes meant to flow from investments.

Parliamentarians can become frustrated by decoupling development objectives from borrowing decisions when their government graduates from concessional lending to conventional financing. Creditors usually buy sovereign debt – often in the form of bonds – by calculating the return on investment considering the risk exposure. Conventional borrowing is not linked to specific programmes or reforms like with IPF projects. Delegating debt management responsibilities to a separate DMO tasked with meeting the government's financing needs, consistent with the DMS, reflects the broader decoupling of fiscal policy (that is, expenditure decisions) and debt management. Conventional debt financing raised by the DMO flows into the government's consolidated account and is blended with taxes and other funding sources without being tied to specific outcomes or impacts. The government and parliament use fiscal mechanisms, namely budget approval and appropriations processes, to direct resources from the consolidated account to spending agencies to implement programs. As such, parliament's oversight purpose around conventional financing narrowly focuses on borrowing approval and debt management oversight.

4. Pivoting from debt accountability to performance oversight

The emergence of use-of-proceeds and target-linked formatted debt instruments allows parliaments to link new financing with the intended purpose or impact more directly. Sovereign use-of-proceeds bonds are issued conditional on the government allocating equivalent funds for specific GSS purposes. The DMO reports to creditors and the market on compliance and impact, often verified by external actors. Reporting should affirm that an equivalent amount of financing to that raised through the debt issuance or loan was used for the purposes articulated in the debt contract. Target-linked debt contracts have clearly articulated sustainability performance targets (SPT) that complement national and sector strategies and measure progress using quantifiable key performance indicators (KPIs). The DMO does not set the strategic objectives or implement programming to achieve the SPTs but reports to the creditors and the market on progress in achieving the KPIs. The structure of the SLBs and SLLs determines coupon payments and maturity dates for the securities or repayment terms based on the public sector's progress in meeting the KPIs.

Parliaments can draw on their experience overseeing the implementation of IPF projects and national and sector strategies to pivot from debt accountability to performance oversight when scrutinising use-of-proceeds and target-linked debt. Parliaments can achieve both oversight purposes by establishing separate – but equally important – scrutiny processes. This way, parliaments can hold debt managers accountable for achieving debt management objectives related to conventional, use-of-proceeds and target-linked borrowing, and spending agencies and public officials responsible for development outcomes and compliance with reporting requirements related to GSS bonds or KPI progress attached to SLBs and SLLs.

Parliaments have a long history of contributing to national development strategies and using performance oversight to monitor their implementation. The Poverty Reduction Strategy Paper (PRSP) approach was adopted by the World Bank and IMF in 1999 and used until 2014 to shape national priorities. The approach was designed as a country-driven, participatory process to establish long-term national plans focused on poverty reduction. From 1999 to 2005, parliamentary involvement in the PRSP approach exhibited a mixed record, but there was a notable upward trend from that point onward (IMF and World Bank, 2005; 50). A review of the PRSP approach in 2005 noted concerns about the lack of involvement of parliaments in the process and recommended institutionalising a role for parliamentary committees within the PRS monitoring system (IMF and World Bank, 2005; 43). Subsequent reviews of several African countries' role in the PRSP approach noted that performance monitoring was emerging as a strength for parliaments in their oversight of PRSPs (Draman and Langdon, 2005; 6). Performance monitoring approaches included parliamentary committees holding hearings on the impact of PRSP initiatives, some parliaments establishing standing PRSP oversight committees (for example, Ghana), legislative review of annual PRSP progress reports (for example, Mozambique), requiring the government to submit routine reports on PRSP implementation to parliament for scrutiny (for example, Benin), and integrating parliamentarians or parliamentary committees into monitoring and evaluation groups (for example, Chad) (Hubli and Mandaville, 2004; 14-16; and Sharkey and others, 2006; 6-7).

Recent reviews of parliamentary practices concerning the sustainable development goals (SDGs) emphasise the significance of parliament's oversight role in monitoring progress to achieve national targets. "Committee oversight is one of the strongest mechanisms available to parliaments to engage in SDG implementation" (ParlAmericas and UNDP, 2019; 20). Parliaments can use existing sector or subject committees or establish standalone SDG committees to provide performance oversight. An Inter-Parliamentary Union (IPU) global survey indicated that 52% of parliaments that participated in the survey had established at least one parliamentary mechanism (including forming a committee or sub-committee) to focus on SDG implementation, while 43% had mainstreamed the SDGs into the work of all relevant parliamentary committees (IPU, 2019; 9-10). This illustrates the trend in parliamentary practice to adapt oversight mechanisms to ensure effective government implementation of commonly agreed strategic goals. The skills that parliaments have developed in response to the PRSP approach and the institutionalisation of SDGs enable them to bridge the gap between debt accountability and the performance oversight required for these new use-of-proceeds and target-linked borrowing formats.

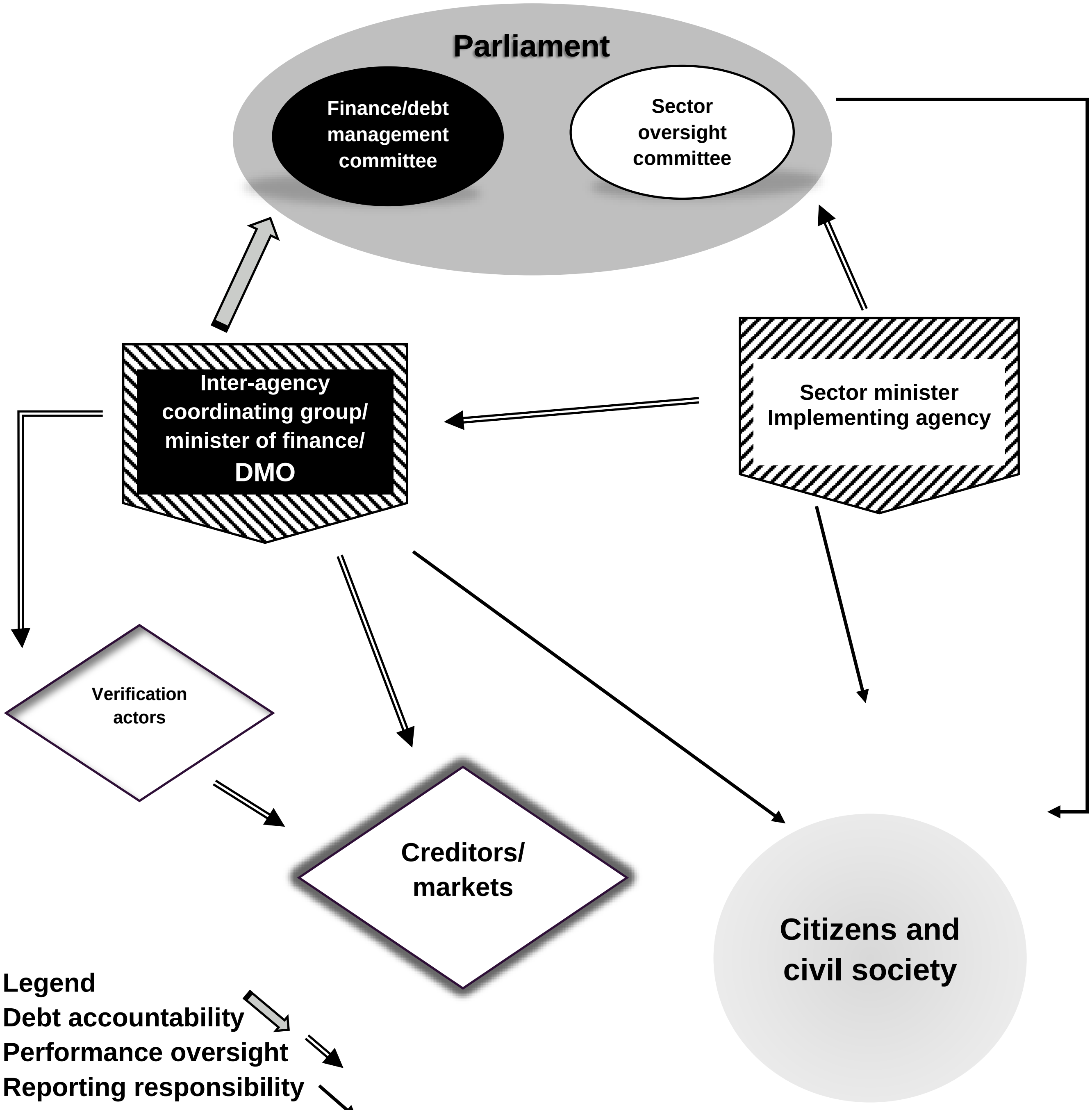
5. Identifying optimal parallel committee oversight arrangements by mapping the reporting relationship between agencies and parliament

The oversight purpose, the institutional focus and the oversight actor that government agencies report to are usually different for debt accountability and performance oversight processes. Based on reporting relationships, performance and impact monitoring related to GSS bonds, SLBs and SLLs would fall to the oversight committee responsible for overseeing the sector associated with the investment or targets the bond issuance or loan supports. In contrast, the DMO is traditionally accountable to the finance and/or debt management committees for borrowing decisions and achieving the government's debt management objectives articulated in the DMS.

Examining the reporting relationship between oversight actors, implementing agencies, creditors, and citizens reinforces the need for parallel oversight processes to ensure debt accountability and performance oversight. Figure 1 below maps the reporting relationships and lines of accountability between key oversight actors (that is, finance committee, debt management committee, and sector oversight committees); the inter-agency coordinating group and DMO; government implementing agencies; and external actors (that is, private verification and audit actors, creditors, the market, and citizens). The shaded arrow reflects the responsibilities of debt accountability reporting and the debt accountability relationship between the DMO and the finance or debt management committees.

The arrows with two parallel lines represent the reporting responsibilities related to performance oversight and impact monitoring. Reporting responsibilities exist between the sector implementing agency and the parliamentary sector oversight committee; the implementing agency has lateral or intra-governmental reporting obligations to an inter-agency coordinating group and the DMO to provide information about activities related to the bond issuance or loan agreement; and the DMO has disclosure obligations to external audit actors that are sometimes engaged to verify GSS impact, and creditors and the market. The narrow solid lines in Figure 1 are onward reporting responsibilities unrelated to debt accountability or performance oversight. They highlight the responsibility of all public actors (that is, parliament, DMO, and implementing agencies) to be transparent and to share information with citizens.

Figure 1: Mapping reporting arrangements to distinguish between debt accountability and performance oversight processes



Source: Author

6. Enhance DMO capacity before including GSS and sustainability-linked borrowing in a country’s debt portfolio

A segment of individual and institutional investors is interested in associating their investments with GSS goals. Creditors seek standardised approaches to compare instruments in the market, monitor issuers’ progress in achieving SPTs, and quantify the impact of investments. Portfolio managers for investment and pension funds must report to their investors and plan participants and customers on their targeted investments’ GSS impacts. Issuers have responded by setting quantifiable and verifiable KPIs in issuance documents and adopting impact reporting, which is disclosed to creditors and the market to enhance transparency and accountability.

The DMO and debt managers are critical to successfully issuing and managing GSS bonds and loans, SLBs, and SLLs. They are directly accountable to parliament for achieving the DMS objectives, debt servicing and reporting for the entire debt portfolio, including GSS bonds or loans, SLBs and SLLs. The DMO is responsible for disclosing performance information to creditors and the market and, in some instances, verification actors. Data collection and performance reporting quality are crucial for debt managers to effectively carry out their financing and debt servicing responsibilities for use-of-proceeds and target-linked debt. The quality of debt management and debt reporting significantly impacts the marketability of future bond issuances, potential coupon step-up and step-down arrangements, and possibly the redemption price and timeline for bond maturity.

DMOs require greater institutional capacity to meet the additional requirements for issuing use-of-proceed and target-linked debt than for conventional debt instruments (Lindner and Chung, 2023: 6). The success of these new formats is contingent on the technical capacity of the DMO and the public sector, more broadly. The public sector should possess policymaking, programme implementation, and performance management capacity to supplement the DMO’s debt management competencies. These skills need to be combined with political will and inter-agency coordination mechanisms to maximise performance and impact (Beschel and others, 2018: 162; Lindner and Chung, 2023: 6). This can be in the form of centre of government coordination mechanisms or the creations of an intra-governmental coordinating committee that includes all agencies implementing aspects of debt-financed GSS and sustainability-linked investments or reforms.

The complexity of planning, structuring, and coordinating reporting on use-of-proceed and target-linked debt is a disincentive for DMOs to use these instruments. Issuance and post-issuance responsibility for monitoring, collecting data and providing more detailed performance reporting to creditors and markets continues until the debt matures. As such, debt managers would typically only use these types of securities if:

- It would allow the government to access a “new, deep pool of capital” (OECD, 2024: 10) that it would otherwise be unable to access through conventional debt instruments (that is, alternative sources of private financing).
- Issuing GSS bonds, SLBs and SLLs contributed to the cost objectives in the DMS due to the bond yields falling below what would be paid on conventional debt (Lindner and Chung, 2023: 11). It should be noted, the interest advantage for these instruments is often limited to a couple of basepoints; or
- The DMO wants to diversify the government’s debt portfolio and spread risk by broadening the investor base.

Alternatively, debt managers may explore issuing these types of securities due to demand from parliament and decision-makers. In advanced economies, government borrowing is used chiefly to finance interest and redemption payments. However, when seeking to borrow additional funds for investments, especially in low-income and emerging economies, parliamentarians may seek more explicit linkages between the issuance of debt and the primary purpose driving the decision to raise additional financing. This linkage also helps parliamentarians explain the benefits of the borrowing decision to constituents, particularly if their constituents benefit from the outcome. The government and parliament should strengthen the DMO’s institutional capacity before proceeding with the issuance if they want to explore using these instruments. Performance oversight conducted by parliamentary sector oversight committees should also question the extent to which implementing agencies are responsible for and have the capacity to collect and provide performance data to the DMO so it can conduct its ongoing debt management functions related to these securities and report to the market.

7. Performance oversight of GSS and sustainability-linked borrowing

Public sector performance focuses on how the public sector translates good policies into development outcomes (Beschel and others, 2018: 10). Performance or outcome budgeting provides a tool through which public sector implementing units can promote a performance-orientated approach to programme design and delivery. However, performance oversight goes beyond public expenditure monitoring to scrutinise whether spending agencies responsible for implementing reforms or delivering investments use public resources efficiently to achieve impact. Ongoing performance oversight emphasises impact over inputs. It also ensures that decision-makers are held accountable for using resources efficiently to achieve defined institutional, policy and investment outcomes. Performance oversight is an element of an oversight committee’s routine monitoring of government agencies and is distinct from targeted scrutiny, whereby a committee investigates a specific incidence of maladministration or misconduct.

The structure and characteristics of debt have implications for the focus of parliamentary performance oversight. Use-of-proceeds debt, such as GSS bonds, defines the allocative intent of the funds (that is, the proceeds are to be used for a specific purpose). In contrast, the characteristics of SBLs and SLLs instruments are determined by the extent to which sustainability targets are met using predefined metrics without limiting how the funds can be applied. As such, public expenditure monitoring plays a more significant role in overseeing the performance of use-of-proceeds debt than target-linked borrowing. Performance oversight of both formats is examined in greater detail below.

7.1 Use-of-proceeds debt

The equivalent amount of funds raised through use-of-proceeds debt must be allocated toward specific outcomes using the public finance system. New approaches to structuring the instrument mean the funds raised no longer need to be ringfenced in the public finance system; equivalent disbursements should be devoted to the specific GSS purposes and the project or portfolio of projects referred to in the issuance documents. The viability of a GSS issuance rests on the government having a pipeline of large-scale GSS investments that the funds raised through the initial and subsequent issuances can support. Maintaining a pipeline of projects can be challenging for smaller jurisdictions and LIDCs.

Efforts to standardise GSS bond issuances make it easier for creditors to assess the risk and return on different instruments in the market. The International Capital Market Association (ICMA) principles[4] emphasise standardisation, transparency, accuracy, and market integrity for the GSS bond market. The ICMA principles and associated issuer templates provide a roadmap that sovereign issuers can use to structure and classify their bond issuance. The European Union (EU) issued its European green bond standard (EuGB)[5] in 2023. The EuGB is a rigorous but voluntary standard that sets out a uniform approach for issuing green bonds in the European market. Market analysts caution that the EuGB's complexity could incentivise issuers to continue relying on the ICMA principles (S&P Global, 2023). Nonetheless, the EuGB provides an additional framework to help issuers consider structuring their bond issuance.

The market for GSS bonds has grown as creditors have sought to move beyond the initial return and risk calculus for their investment to consider how to influence the use of proceeds. GSS investors are interested in knowing that not only is a commensurate level of funding disbursed for a specific purpose, but it has resulted in some GSS impact. The ICMA international principles for impact reporting establish good practices for post-issuance disclosures related to disbursements and reporting on impact (ICMA, 2023: 8). Investors have noted that the timely production of allocation and impact reporting as critical considerations when deciding whether to invest (Hussain and Joseph, 2024). Like issuances, reporting can cover a single significant investment or a portfolio

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[4] The "Principles" consist of the Green Bond Principles (2014), Social Bond Principles (2017), Sustainability Bond Guidelines (2017), and Sustainability-Linked Bond Principles (2020).
[5] Regulation (EU) 2023/2631 of the European Parliament and of the Council of 22 November 2023 on European Green Bonds and optional disclosures for bonds marketed as environmentally sustainable and for sustainability-linked bonds, PE/27/2023/REV/1, http://data.europa.eu/eli/reg/2023/2631/oj

of projects. Third-party auditors verify the impact as part of the reporting to creditors and the market.

The structure and reporting requirements of GSS bonds present opportunities for parliaments to elevate performance oversight to complement existing debt accountability processes. The issuance documents should include the types of projects and sectors supported through a GSS issuance. The projects and desired outcomes should complement the government's NDC or sector strategy. Although the DMO must prepare the debt reporting provided to creditors and the market, the sector implementing agency is primarily responsible for tracking expenditures and delivering the project. Therefore, the implementing agency should help define the anticipated impact and manage information systems to collect verifiable data. The implementing agency should prepare and share the initial performance and impact analysis with any inter-agency coordinating body and the DMO.

The project objectives and impact information included in the project planning documents are baselines against which to hold sector implementing agencies accountable for performance. Parliamentary oversight committees mandated to oversee the sector should draw on the sector strategy, the anticipated impact of the initiative, project objectives, and delivery milestones and timelines to scrutinise project implementation and progress toward achieving the desired impact. Sector oversight committee recommendations from performance oversight processes can help reduce implementation risk by addressing challenges and bottlenecks during the project cycle rather than waiting to conduct an ex-post review.

Parliamentary performance oversight can also contribute to transparency. Creditors value transparency and timely reporting related to GSS investments when considering which investments to make. Performance reporting should ensure consistent classification of projects, provide evidence of how a project contributes to the impact that is claimed, and whether any alternate financing was used in the delivery of the project. The most common reason cited by issuers for delays in providing creditors with impact and performance information is that they have yet to receive the data and analysis from implementing agencies (Hussain and Joseph, 2024). Sector oversight committees can use their routine performance oversight of the implementing agencies to ensure timely reporting is provided to the DMO.

A summary of actions parliaments can take to conduct performance oversight of use-of-proceeds borrowing is detailed in Box 1.

Box 1: Parliamentary performance oversight of use-of-proceeds debt

Parliamentary performance oversight focuses on:

- Public expenditure monitoring ensures funds are consistent with public finance requirements and verifies disbursements are related to investments/projects identified in the issuance documents.
- Scrutinising implementing agencies' progress in implementing GSS-related investments across the entire project cycle to ensure timely implementation and expected outcomes will be achieved. Regular performance oversight can draw on routine reporting on the investments/projects to measure progress against the delivery milestones. Recommendations can focus on addressing any bottlenecks or delivery challenges within the investment/project cycle.
- Holding public officials accountable for maintaining a performance orientation in delivering the project/investment, managing data collection and information management systems, and promptly providing reporting to the inter-agency coordinating committee and the DMO.

7.2 Target-linked debt

Sustainability-linked issuance documents and loan agreements include predefined objectives and metrics; progress toward achieving the targets influences the instrument's financial and/ or structural characteristics. The targets should be consistent with the country's national or sector strategies and measured by improvements in quantifiable KPIs over a specific timeline. The issuer is responsible for collecting data, monitoring and reporting progress to creditors and the market in meeting the KPIs. The structure and characteristics of an SLB determine coupon step-up and step-down payments and redemption conditions based on the extent to which the KPIs are met within the timeline. Similarly, KPIs determine the applicable conditions in an SLL, which are structured to incentivise government efforts to achieve the KPIs or penalise an issuer's failure to meet the targets.

Focusing on achieving measurable, aggregated sustainability targets rather than implementing projects means a country does not need a pipeline of GSS projects to continue raising funds. LIDCs and smaller jurisdictions without a steady stream of significant investments or emerging economies that seek to finance broader, whole-of-government efforts to achieve sustainability goals may find the SLB or SLL structure better suited to their needs. When there is an imbalance in the delivery capacity of different public agencies or the government does not have a whole-of-government strategy, this format can also be used to finance discrete sector strategies.

Post-issuance reporting for SLBs and SLLs relies on performance data captured using domestic statistics and information management systems. Creditors are bound by step-up, step-down and redemption clauses attached to the bond issuance or conditions included in the loan agreement. Milestones are measured using quantitative metrics that, when met, trigger payments based on the structure of the bond or loan agreement. SLB and SLL formatted sovereign debt is in its early stages; however, investor feedback suggests that for SLBs and SLLs to succeed, the SPTs and KPIs need to be more ambitious and data collection strengthened (Sustainability-linked Sovereign Debt Hub, 2023; Stewart and Ul Haq, 2023). Failure to devote upfront resources to strengthen statistics and data collection to track SPTs and KPIs undermines investors' certainty when the bond or loan's different financial or structural characteristics come into effect.

Investors' inability to accurately determine and compare the potential impact of various products in the market can soften demand for SLBs and SLLs. Creditors question whether the penalties arising from missing SPTs have sufficiently incentivised issuers to mobilise to meet the targets (S&P Global, 2023). Although there is no direct evidence yet, parliaments have the potential to enhance market confidence in an issue by engaging with the government and working with their constituents to identify SPTs and KPIs related to bond issuances. Parliamentary endorsement of the SPTs and a commitment to provide ongoing performance oversight could help reassure investors. Democratic approval of ambitious sustainability objectives can help build market confidence by signalling broad support for the goals, and that a critical oversight institution has mobilised to play its role in achieving the targets.

Proceeds raised through SLBs do not need to be allocated to a specific purpose, and there does not need to be a specific accounting for disbursements in reporting. Instead, specific predefined sustainability targets and KPIs in the issuance document or loan agreement determine the governments' debt servicing payments. The "proceeds of SLBs… can be used for general purposes and hence more fungible" (OECD DCD, 2024: 11). The lack of a link between the issuance and disbursement of proceeds means oversight of SLBs and SLLs does not include public expenditure monitoring. However, reliance on KPIs to determine whether the bond or loan's financial and/or structural characteristics apply means that performance directly impacts a country's debt servicing costs.

The characteristics of SLBs and SLLs and the reliance on achieving predetermined goals present opportunities for parliaments to elevate performance oversight to complement existing debt accountability processes. The SPTs and KPIs should reinforce sustainability goals in national or sector strategies. The committee overseeing the sector where action is needed to meet the KPIs can use the national or sector strategy and SPTs/KPIs to inform its performance oversight activity. The oversight committee needs to ensure the sector: (i) has a plan for achieving the goals, including clear milestones; (ii) receives sufficient funding to implement the plan and maintain and manage statistical and information management systems linked to the goals and milestones; and (iii) provides regular reporting to the committee so that it can provide routine performance oversight.

A summary of actions parliaments can take to conduct performance oversight of target-linked borrowing is detailed in Box 2.

Box 2: Parliamentary performance oversight of target-linked debt

Parliamentary performance oversight focuses on:

- Democratic endorsement of the predetermined sustainability goals.
- Encouraging the sector in which action needs to be taken to develop and publish a plan for achieving the SPTs/KPIs (this could be attached to proposed appropriations).
- Scrutinising agencies' progress in implementing the plan (based on routine reporting and tracking progress against the plan's milestones).
- Holding public officials accountable for maintaining a performance orientation in delivering the plan, managing data collection and information management systems, and providing timely and quality KPI reporting to the DMO.
- Coordinating with other parliamentary oversight committees to review and monitor the effectiveness of intra-government planning and coordination mechanisms related to the predetermined sustainability objectives.

7.3 Coordination

Solutions to complex GSS challenges may require action across different ministries and agencies. The 'centre of government' is the institutional machinery at the heart of government that aligns the various agencies to accelerate the delivery of priority objectives and achieve results (Shoshtak and others, 2023; 11 and 14). As government responsibilities become more complex, policy and programme coordination have become more critical (Beschel and others, 2018: 162). Centre of government functions includes providing performance management, facilitating horizontal and vertical coordination (interministerial coordination, coordination between levels of government, and external stakeholders), monitoring and improving performance, managing the government's political economy of delivery, and accountability (Shoshtak and others, 2023; 63). Ideally, an inter-agency coordinating mechanism is established to manage the different responsibilities related to use-of-proceeds and target-linked debt. Parliamentary oversight committees can scrutinise the effectiveness of centre of government coordination mechanisms related to these instruments to ensure they operate efficiently and effectively.

Parliaments may also consider establishing internal mechanisms to coordinate debt accountability and performance oversight efforts. Target-linked sovereign debt is a new format, especially in Africa, so no specific practice examples of intra-parliamentary coordination exist. Although sovereign-issued GSS use-of-proceeds debt has been used more broadly in Africa, there are no clear examples where parliament has implemented a coordination mechanism to manage its debt accountability and performance oversight work. However, parliaments can use their experience designing mechanisms to coordinate their SDG work to guide efforts to coordinate these two oversight purposes within parliament. One-quarter of the parliaments that responded to IPU's global survey on institutionalising the SDGs noted that they had assigned the responsibility for coordinating work on the SDGs to a specific parliamentary body or structure, typically a sustainable development committee (IPU, 2019; 11). Alternatively, parliaments can rely on the body within parliament that is responsible for governing parliament's work. Generally referred to as the presidium, the function is often performed by an equivalent house, rules or business committee; it is responsible for, among other duties, coordinating the work of the committees (IPU and others, 2023).

8. Conclusion

Over the last decade, new debt instruments have emerged that allow sovereigns to raise funds on international debt markets to finance green and sustainability-focused investments and strategies. These instruments incorporate unique conditions, distinguishing them from conventional debt instruments. Even more so than conventional borrowing, these innovative instruments are linked to policy and development goals beyond discrete debt management objectives. Parliaments can enhance market confidence in an issue or prospective loan by approving climate and sustainability goals anchored in national strategies, building consensus on targets, and helping identify key investments that can be included in borrowing arrangements.

Parliamentary endorsement of national strategies and targets and a commitment to ongoing performance oversight could help reassure investors. Democratic approval of ambitious climate and sustainability objectives can help build market confidence by signalling broad support for the goals and that a critical oversight institution has mobilised to ensure the government achieves the targets. Strengthening routine performance oversight across the bond or loan duration increases the likelihood that implementation challenges are identified and addressed before a bond matures. This enhances the impact of the issuance and borrowing and contributes to efforts to achieve predetermined climate and sustainability objectives. Both outcomes influence a country's debt servicing costs and the marketability of future bond issuances.

Understanding the distinction between conventional and use-of-proceeds/target-linked formatted debt allows parliaments to reflect on how best to organise themselves to conduct the dual oversight purposes of debt accountability and performance oversight. Target-linked and, to a lesser extent, use-of-proceeds borrowing are new formats to which African parliaments have limited exposure. They have yet to develop organisational models to coordinate and conduct these dual oversight purposes. Parliaments can draw on their experience engaging with the PRSP approach and institutionalising the SDGs to tailor approaches to deliver on the distinct – but equally important – oversight purposes of holding debt managers accountable for achieving debt management objectives and spending agencies and public officials responsible for development outcomes meant to flow from investments.

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Mitchell O'Brien is a fiscal governance and anticorruption lawyer. He has an exceptional record applying legal, policy, and technical expertise to design and implement diagnostic frameworks and deliver advisory services, technical assistance, and capacity-building programs for parliaments, public officials, and institutions in 90+ countries.

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Annex 3: Public Debt Integrity series 2025

The role of parliaments in public debt oversight in Africa

This paper is published as part of the “Public Debt Integrity Series”, a joint knowledge building initiative of AFRODAD, the African Forum and Network on Debt and Development, and WFD. The papers in this series research different aspects of the role of parliaments in public debt oversight in Africa. The full list of papers is:

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