

PUBLIC DEBT MANAGEMENT

A Research Briefing

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Executive Summary

Public debt is eating into government financial means and undermining implementation of the Sustainable Development Goals (SDGs) in some countries.¹ If rising debt costs are not restructured or reduced, new revenues will not give governments the fiscal space they need to strengthen healthcare systems, pursue women's economic empowerment programs, ensure free public and quality education, or adapt infrastructure to mitigate for climate change, to name a few.

Often, parliaments and MPs have little information at hand on the public debt situation and strategy to tackle debt.² Parliaments should be provided with detailed information on the structure, sources and long-term estimated effects of debts as well as the conditions attached to credits and loans. This paper aims to identify the role of Parliament in the oversight of public debt and debt Management.

Introduction

Public debt management is the process of establishing and executing a strategy for the management of government's debt in order to raise the required amount of funding, pursue its cost and risk objectives, and to meet any other public debt management goals. The government may have set, or develop and maintain an efficient liquid market for government securities.³ In a broader macroeconomic context for public policy, governments through their parliaments should seek to ensure that both the level and rate of growth in their public debt are fundamentally sustainable over time and can be serviced under a wide range of circumstances while meeting cost/risk objectives. Public debt management problems often emanate from the lack of attention policymakers have on the benefits of a prudent debt management strategy, costs of weak macroeconomic management and excessive debt levels.⁴ Authorities should pay greater attention to the benefits of having a prudent debt management strategy, framework, and policies that are coordinated with a sound macroeconomic policy.

Parliament's role in public debt management is beyond vital. Additionally, key institutional stakeholders such as the Ministry of Finance, Central Bank, Auditor General's office and the Civil Society Organizations all have crucial roles to play. Each stakeholder should have a distinct role and set of responsibilities for debt management, which when brought together will enable a system of checks and balances and help set in motion a debt management process based on the dual principles of transparency and accountability.⁵

¹WFD: The Role of Parliament in Public Debt Management
²WFD: The Role of Parliament in Public Debt Management
³Management".
⁴IMF: Guidelines for Public Debt Management.
⁵WFD: The Role of Parliament in Public Debt Management".

Finance Ministries are vested with the borrowing authority on behalf of their governments and are responsible for setting the debt structure and debt management strategy. This is evident by section 35 of the Public Finance Act, 2014 of The Gambia which conspicuously stipulated a provision given similar authority to the Finance Ministry of The Gambia.⁶ Also, it is responsible for monitoring the debt situation to ensure that it remains sustainable. Fundamentally, the Minister is responsible for ensuring that spending decisions do not negatively affect the country's future credit rating.⁷ Central Banks typically intervene if inflation increases in the economy and Inflation can be the result of an increase in domestic debt.⁸ Therefore it behooves the Central Bank to effectively play their role in public debt management.

The Auditor General's office is a key player for auditing the government's consolidated financial statements, examining the government's compliance with rules and regulations, and conducting value-for-money or performance audits.

Civil Society Organizations (CSOs), including think tanks, have historically played an active role in bringing about international debt relief initiatives, strengthening debt management capabilities in developing countries and making a contribution to economic policy research on debt issues.⁹

Parliament's Legislative Role

Debt management legislation is a vital role Parliament plays 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 that can provide a strategic direction to borrowing decisions and clearly specify the roles and responsibilities for the institutions involved in debt management. The absence of such modern public debt management legislation undermines the transparency and accountability of fiscal and debt management operations.¹⁰ The role of the legislature is ideally confined to establishing the broad framework for public debt management and should generally not involve transactional approval.¹¹ The framework established by the legislature, should include a clear articulation of the objectives of public debt, purposes, and other appropriate safeguards, to help promote debt sustainability. The legislature should also play an oversight role to ensure that debt management is conducted in accordance with the established framework. It can do this through reporting and accountability requirements provided in the legal framework.

Among other things, a key role that Parliament plays in many jurisdictions is to approve borrowing transactions and their terms and conditions. In a number of jurisdictions, for example in Ghana,¹² the legal framework requires the legislature to specifically approve all borrowing

⁶Public Finance Act, 2014.

⁷WFD: The Role of Parliament in Public Debt Management.

⁸WFD: The Role of Parliament in Public Debt Management.

⁹WFD: The Role of Parliament in Public Debt Management.

¹⁰WFD: The Role of Parliament in Public Debt Management.

¹¹IMF: Designing legal frameworks for Public Debt Management.

¹²IMF: Designing legal frameworks for Public Debt Management.

transactions. Strictly construing such requirements would imply that no borrowing transaction could be entered into by the Minister without prior approval from Parliament. This could prove cumbersome and costly for the Executive especially in the case of advances, overdrafts, Government securities, etc.

In other jurisdictions, legislative approval may be required for specified transactions only such as external borrowing.¹³ Best practice however suggests that, Parliament's role in approving debt transactions should be kept at a minimum. Parliamentary approval for transactions could be cumbersome, and could increase transaction costs.¹⁴ Parliament's role is ideally focused on delegating borrowing authority to the Executive and establishing through primary legislation, the broad framework within which such authority is to be exercised. Furthermore, through the budget process, Parliament is able to provide additional oversight on debt management. For example, Parliament may in some jurisdictions, set annual borrowing ceilings or targets which will have the effect of constraining the Executive's borrowing authority.

Yet for some jurisdictions, transactional approval by Parliament may continue to be regarded as a necessary component of the governance and accountability regime.¹⁵ Ultimately, tradeoffs are required to balance accountability and good governance against flexibility and autonomy for debt managers. Important considerations could include the level of institutional development in the jurisdiction, and the extent to which the Executive could be relied on to police itself without transactional approvals by the legislature.

In other jurisdictions, the legislature provides blanket approval for borrowing under certain standard terms and conditions, instead of transaction-by-transaction approvals. For example, in Ghana, section 11 of the Loans Act allows the legislature to approve standard terms and conditions for Government loans,¹⁶ except that and even in such events, the Minister of Finance is required to seek ex post legislative approval for specific borrowing agreements after their execution. One example of how debt management law can strengthen accountability and transparency is by specifying the purposes for which the government can borrow. This can be a minimum requirement for debt management legislation intended to safeguard against borrowing for speculative investments or to finance expenditures that have neither been included in the annual budget nor approved by the parliament.

¹³ IMF: Designing legal frameworks for Public Debt Management.

¹⁴ IMF: Designing legal frameworks for Public Debt Management.

¹⁵ IMF: Designing legal frameworks for Public Debt Management.

¹⁶ IMF: Designing legal frameworks for Public Debt Management.

Debt Management Framework

Parliamentarians may want to ensure that in their debt management framework; key elements of a debt management law are included. The table below demonstrates the elements and their justifications.¹⁷

Element	Justification
Regulation of the borrowing power by a statement of purpose including borrowing objectives and restrictions in borrowing limit based on debt ceiling or annual borrowing limit.	This safeguards against borrowing for speculative investments or to finance expenditures that have neither been included in the annual budget nor approved by the parliament.
The parliament retains the authority to ratify and issue loan agreements, particularly loans contracted abroad and classified as treaties.	This enhances accountability as it deters the occurrence of imprudent borrowing without appropriate government accountability.
Government is required to draft and table a strategy that sets out the medium-term framework on how it will achieve its debt management objectives.	Having a regularly reviewed strategy raises the profile of debt management activities and objectives.
Debt management activities are audited annually by independent auditor including performance and financial audits.	This ensures that debt management objectives comply with procedures and policies and that all borrowings are appropriately recorded and financially accurate.

Parliaments Oversight Role on Public Debt in the Budget Process

The four stages involved in a budget cycle are; formulation, approval, execution and ex-post oversight. The formulation and approval phases are known as *ex-ante*, which means “before the event”. 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. The government is then responsible for execution of the budget, and parliament is responsible for ex-post oversight.¹⁸ Therefore, from this, it can be deduced that Parliament’s role in the budget process are approval and ex-post oversight. These are further described below;

Budget Approval

¹⁷ WFD: The Role of Parliament in Public Debt Management

¹⁸ WFD: The Role of Parliament in Public Debt Management

This is the second stage of the budget cycle and the first stage of the Parliament's role in the budget process. After the draft budget and relevant documentation is presented before the Parliament by the Executive, it is generally examined and reviewed by one or more committees in the Parliament. Often, a key role in the review process is played by the committee responsible for economy and finance, which carries out the majority of the budgetary review task or coordinates the respective reviews of the other committees.¹⁹ In the Gambia, the Finance and Public Accounts Committee (FPAC) of the National Assembly examines accounts showing the appropriation of the sums granted by the National Assembly to meet the public expenditure and such other accounts laid before them.²⁰

A budget or finance committee usually takes the lead in reviewing budget documentation and questioning the underlying macroeconomic assumptions contained in the budget. Similarly, a budget or finance committee will often elicit wider societal views on the budget. A range of witnesses can be called including senior officials in the ministry of finance, the Minister of Finance and ministers heading line ministries, as well as CSOs and other relevant stakeholders who would like to provide their opinions on the impacts of the proposed budget on the economy. In smaller legislatures, parliamentary scrutiny in the budget process is often undertaken by the Committee of Supply.²¹

According to best practice, two accompanying reports related to debt and debt management should be produced by the ministry of finance for inclusion in the annual budget. One of those documents is the Debt Sustainability Analysis (DSA), which is a key fiscal and budgetary policy tool to assess the long-term sustainability of the future debt path under certain macroeconomic assumptions. This is distinct from the Medium-Term Debt Strategy (MTDS), which articulates how the government intends to implement its debt management approach over the medium term to achieve a desired composition of its debt portfolio, that captures its preferences regarding the cost risk trade-offs.²²

Parliament's role is more than just to accept or reject the budget Bill. It should be able to discuss the budget as an instrument of policy and to assure itself that it meets the values and principles enshrined in the Constitution. Parliament should also be able to proceed to a detailed sectorial analysis and reading of the budget and be able to cross-examine the accounts, and request separate votes for each allocation.²³

Ex-Post Oversight Role

¹⁹ WFD: The Role of Parliament in Public Debt Management
²⁰ National Assembly Standing Orders, Revised Edition 2019.
²¹ WFD: The Role of Parliament in Public Debt Management
²² WFD: The Role of Parliament in Public Debt Management
²³ IPU: Parliament and the Budgetary Process.

The responsibilities of Parliaments do not end at adoption of budgets but to ensure rigorous enforcement of both oversight and audit functions. To that end, there is need to exist a formal link, established by constitutional law, between the Executive and the Parliament with regard to the execution of the budget.²⁴ As a matter of best practice, Parliament should arrange for regular reporting from the ministries on how they do the execution. This can be reported through departmental annual reports, examination of each appropriation by parliamentary committees, audited annual accounts of each ministry, specific estimates debate on each department in parliament, independent authority of the Auditor-General to report to Parliament on any matter of expenditure at any time.²⁵

Typically, as part of the ex-post oversight phase, parliament should be reviewing and holding the government to account for how it has spent and managed public funds. The Auditor General's office is a key player in this phase, auditing the government's consolidated financial statements, examining the government's compliance with rules and regulations, and conducting value-for-money or performance audits. The Finance and Public Accounts Committee should review the audited version of the financial statements to establish whether the financial statements are presented fairly and in compliance to best practice.²⁶ The committee should also review whether government has spent the authorized amount of money for the purpose intended by parliament and Performance audit reports to determine whether the government has spent funds with due regard to economy, efficiency and effectiveness.

Part of Parliament's ex-post oversight role, the Finance and Public Accounts Committee should also review annual debt report to be prepared by the government. This report should include an evaluation of the debt management operations including borrowing, liability management operations such as debt exchanges, loan guarantees extended and on-lending made. It should also include enough information to enable the parliament to evaluate how successful the debt management operations in meeting the debt management objectives. The annual debt report should be tabled in parliament, as is presently the case in Ghana, Ethiopia and Kenya.²⁷ Parliaments can also play a role in monitoring the implementation of investment projects financed by loan agreements through the FPAC and the Committee for Monitoring Government Projects.

Transparency, Accountability and Reporting

²⁴ IPU: Parliament and the Budgetary Process.

²⁵ IPU: Parliament and the Budgetary Process

²⁶ WFD: The Role of Parliament in Public Debt Management

²⁷ WFD: The Role of Parliament in Public Debt Management

Transparency in public debt operations is a key tool for promoting fiscal accountability and responsibility.²⁸ A well-designed system of reporting and public disclosure should be underpinned by the legal framework prepared by Parliament. The key objective here should be to help ensure that the quantum of public debt and contingent liabilities is clearly reported on and performance under the medium-term debt strategy is monitored and evaluated.

Key elements of the transparency framework should include;²⁹

- Publication of Medium-Term Debt Strategies (MTDS) on the Ministry of Finance’s website and local Newspapers of wide coverage.
- Publication of the annual borrowing plan together with the budget.
- periodic public disclosure of the stock and composition of public debt (including loans guaranteed by government) disclosing details such as their currency, maturity profiles and interest rate structure, as well as financial assets of the state in the form of loans made by government.
- Maintenance of public debt records including details of all government securities and a schedule of repayment obligations.
- periodic publication of records and accounts of borrowing by other public sector entities (including local government authorities) and
- Annual report to Parliament evaluating whether public debt management operations conformed to the MTDS, and the reasons for any variance.

Conclusion

The role of parliament is quite fundamental in public debt management. Weak oversight of debt and debt management renders a country to a major debt distress which has been the trend in many countries.³⁰ There is much need for parliaments to play active role and strengthen their stands in the oversight of debt and debt management.

Designing Public Debt Management (PDM) legal frameworks will enhance, equip and provide a sense of direction to parliaments in conducting their oversight role on public debt and debt management effectively and efficiently. The approach for addressing weaknesses in the existing legal framework should be pragmatic and should be carefully calibrated to help meet reform objectives.

The process should involve a thorough assessment of the existing legal framework in its entirety, by reviewing whether the sources of laws discussed above are against a set of best practice that is

²⁸ IMF: Designing Legal Frameworks for Public Debt Management.

²⁹ IMF: Designing Legal Frameworks for Public Debt Management.

³⁰ WFD: The Role of Parliament in Public Debt Management

appropriate to the political, legal, institutional and economic arrangements of the relevant jurisdiction.

A good Public Debt Management legal framework will reflect an optimal balance between flexibility on the one hand and appropriate constraints on the other. Well-designed PDM legal framework helps to promote clarity, transparency, and discipline, which ultimately support debt sustainability objectives. Parliaments, MPs and other relevant stakeholders should be proactive enough to prepare and make legal frameworks that guide and dictate debt and public debt management. This can be the first and best step parliaments can take to ensure effectiveness of their oversight functions on debt management and all other procedures can follow a smooth process provided that an effective legal framework exists.