**Concept Note for webinar series 2024**

# Transforming Public Debt Management: Enhancing Democratic Governance and Accountability

The world is facing a potential new debt crisis. Twenty-five of the poorest countries spend more on debt repayments than on education, health, and social policy combined. Sixty percent of low- and middle-income countries are highly debt vulnerable. In its latest International Debt Report, the World Bank revealed the sharpest rise in global borrowing costs in four decades.

Breaking out of the current debt crisis and avoiding future ones will require a fundamental shift in oversight and accountability for the way that governments borrow and manage debt. In this context, there is increasing recognition of the unique roles for parliament in the governance of public debt, as identified in the written submission to the UK House of Common's International Development Committee's inquiry by Westminster Foundation for Democracy (WFD). And by extension, there will be an increased role for citizens and civil society to engage in public debt debate and scrutiny through their representatives in parliament, with traditional and social media important conduits.

Unsustainable and opaque debt is a democratic deficit. It undermines the social contract which underpins a democratic system of governance. That is why WFD is working around the world to strengthen parliamentary oversight of public debt, including improved debt transparency and debt management practices. WFD also supports robust civil society monitoring of public debt.

AFRODAD, African Forum and Network on Debt and Development, is championing the need for debt disclosure by African Union (AU) Member States with the objective to enhance debt transparency and accountability. As a result, AFRODAD is currently working in partnership with the Africa Union Commission to realize the inception of the African Debt Monitoring Mechanism whose main aim is to enhance debt data transparency for realizing the African Financial Architecture under the Abuja Treaty.

AFRODAD see the mechanism to have the potentials to contribute and enhance publicly available debt data in Africa thereby promoting the momentum around establishing debt registries in African countries which will potentially lead to increased transparency and hence accountability for prudent public debt management in line with Regional Economic Communities protocol on Finance and Investment that highlights the need for the debt to GDP convergence ceiling ratio.

To explore these topics in an accessible way, WFD is launching a 2024 webinar series, in cooperation with AFRODAD and with contributions from other international and national organizations, parliaments and institutions.

This series aims to highlight the nexus between improved oversight of public debt/public debt management and democratic governance. By bringing together public debt practitioners and democratic governance experts, the webinars will contribute to the discourse on sustainable, credible, inclusive, and citizen-oriented debt management practices. This initiative also includes fostering public participation to consider how to allocate the limited fiscal space effectively.

The webinar series reflects the partnerships required for a new conversation between policy makers and practitioners working on public debt and on democratic governance. The four webinars delve into four main thematic areas, as summarized here.

| | **WEBINAR THEMES** | **AUTUMN DATES** |
|---|---|---|
| **1.** | Transparency of public debt | 25 September 2024 |
| **2.** | Debt accountability to parliament | 9 October 2024 |
| **3.** | The voice of civil society: from the margins to the mainstream | 6 November 2024 |
| **4.** | Taking the political economy of borrowing seriously | 20 November 2024 |

## 1. Transparency of public debt

"Transparency has been our currency." It was one of the vision statements bringing colour to a recent public debt conference.

Transparency is one of the major anchors of debt sustainability, ensuring that all stakeholders, including policymakers, creditors and investors, can take optimal decisions on a country's debt obligations, based on fully disclosed, reliable and timely information. The issue of debt transparency became more prominent following the discovery of hidden debts in some debtor countries.

According to a 2021 AFRODAD blog, *"Debt transparency is critical for effective debt management, avoiding debt distress and limiting effects of debt crises. Many countries still face significant problems in debt transparency including in coverage and data quality. Building capacity of oversight institutions such as auditor general, citizens and parliaments remain a major priority which enable effective demanding of transparency and accountability from the executive. At global level responsible borrowing and lending need to be pushed so as to discourage reckless and secretive lending especially by private lenders"*

Thus, the increasing diversity and complexity of debt structures in recent years has renewed the interest of various stakeholder groups in greater transparency. Unfortunately, routine disclosure by lenders is not standard and sometimes impeded by nondisclosure clauses.

There are clear advantages to greater debt transparency as it gives credibility to government policies and helps ensure debt and fiscal sustainability. It supports democratic systems and reduces the opportunity for corruption.

Some national governments might not be ready to provide timely, comprehensive, accurate, accessible, and intelligible debt data, policies and operations to their national parliament or the public at large.

While parliaments are responsible for approving the annual budget and overseeing its implementation, debt managers in the Ministry of Finance are responsible for ensuring the government's financing needs are met at the lowest cost over the medium-to-long term, consistent with an acceptable level of risk. Parliaments and debt managers can enhance debt management and transparency outcomes by pursuing a constructive, arm's length working relationship.

In a parliamentary context, transparency of public debt means transparency of the Debt Management Strategy, of the Annual Borrowing Plan, of regular debt reports, of Terms and Conductions of individual loans, and information on contingent liabilities and the management of State-Owned Enterprises.

Over the past 12 months, World Bank, WFD and other partners have cooperated in organizing regional round tables with parliamentarians and public debt managers in South and East Africa and in West Africa, exploring how transparency of public debt can contribute to better debt management, considering the World Bank's Debt Management Performance Assessment relevant to transparency. The International Budget Partnership (IBP) recently released its 2023 Open Budget Survey, which provides a comparative, independent, and regular assessment of transparency, oversight and participation in national budgets.

## 2. Debt accountability to parliament

Breaking out of the current debt crisis and avoiding future ones will require a fundamental shift in oversight and accountability for the way that governments borrow and manage debt. In this context, there is increasing recognition of the unique roles for parliament in the governance of public debt.

In its submission to the UK House of Common's International Development Committee's inquiry, WFD suggested several incentives as to why parliaments can play a more active role with regards to public debt: 1) It serves as a catalyst for greater debt transparency. 2) It helps to establish and implement a stronger legal framework on public debt management. 3) It strengthens oversight over government policies and spending. 4) It protects the national interest in emergency contexts and highlights the gendered effects of public debt. 5) It unearths the risks of State-Owned Enterprises becoming a major cause of debt accumulation and debt crises.

AFRODAD has signed a MoU with the SADC Parliamentary Forum and the African Organisation of Public Accounts Committees (AFROPAC) with the main aim of enhancing financial and debt management within African parliaments. At the same time, AFRODAD's work with these organizations underscores the crucial role of Public Accounts Committees in overseeing public debt in African parliaments, in alignment with the principles outlined in the African Borrowing Charter.

It's always important to promote sound financial and debt management through parliamentary and other initiatives which will inter alia set the precepts for the development of a model law that is grounded in sustainable financial commitments in Africa. We see this as a way in making Africa a rule-maker as the continent strives for in sustainable development through enhanced parliament oversight role and also empowering governments, engage citizens and ensure that sound financial governance becomes a cornerstone for African governments

How can parliaments play a meaningful role in public debt oversight? Firstly. setting a legal framework for public debt management ensures that parliament provides strategic direction to borrowing decisions and clearly specifies the roles and responsibilities for the institutions involved in debt management. While most countries in the world have a financial administration act, public debt can also be regulated by more specific legislation.

Secondly, the budget cycle provides the main structure for financial decision-making in parliament, and there are opportunities to scrutinize public debt and public debt management throughout the four stages of the budget cycle: formulation, approval, execution and audit/oversight. Understanding the role of different key players who support the effectiveness of parliament is an important step in parliamentarians' fulfilling their roles.

Parliaments can incorporate debt management into their regular law-making and budgeting responsibilities in various ways, such as: Reviewing and endorsing the Debt Management Strategy and monitoring ongoing implementation; Reviewing and ratifying external loan and guarantee agreements in a timely manner; Drawing on debt management compliance/ performance audit reports prepared by the Supreme Audit Institution (SAI) to check the effectiveness of regulatory and systems arrangements; Maintaining one or more permanent parliamentary oversight committees with overall responsibility for budget and debt management scrutiny.

Worldwide, parliaments fulfil their debt management roles to varying extents, as MPs often struggle to understand the availability, completeness and timeliness of public debt statistics and other debt management documents. Many parliaments lack staff with the specialized knowledge and skills to support stronger oversight of public debt. However, some parliaments have established a Parliamentary Budget Office (PBO), which provides members with specialized analysis on fiscal and budget issues, including issues of public debt. Many countries are affected by an information disconnect between the government and parliament with regards to public debt policies. Parliament often only has partial access to the relevant data to exercise oversight on public debt. And achieving enhanced parliamentary oversight on public debt is not a stand-alone issue. It is very much linked to the depth of parliamentary scrutiny throughout the budget cycle, the resources available to committees and parliament's oversight practices in general.

To assist parliaments for more meaningful involvement in public debt management, WFD has developed the Public Debt Management Assessment Tool for Parliaments (PDMAT). It aims to provide an objective measurement of parliamentary debt management oversight capacity; and to support parliament in identifying priorities to upscale its ability to address various dimensions of public debt and public debt management. The tool has been piloted in Kenya and Uganda, and is about to be piloted in Albania. Together with NDI, WFD published four policy briefs on parliament's role in public debt management. At the same time, AFRODAD has also published variety of policy briefs and papers on the role of parliamentarians when it comes to public debt management

## 3. The voice of civil society: from the margins to the mainstream

When countries are in or at high risk of debt distress and need financial assistance, governments are the sole parties that negotiate with the International Monetary Fund, often with little input from civil society. Because of this, unpopular deals often lack legitimacy in the eyes of citizens. But active and inclusive civil society oversight can significantly enhance the legitimacy, transparency, and effectiveness of financial assistance programmes. This has been the topic of a new WFD research paper on the role of CSOs in monitoring IMF agreements, examining case studies from Kenya and Sri Lanka, among others.

In one of its policy briefs, AFRODAD analysed the debt management policies of international financial institutions and multilateral groups amid multiple crisis. It emphasized that high cost of borrowing coupled with high debt servicing obligations pose a significant burden on African economies, diverting resources away from critical sectors such as healthcare, education, and infrastructure development. Moreover, rising debt levels and debt distress have raised concerns about the creditworthiness of African countries, affecting their ability to attract investment, secure favourable financing terms, and sustain economic growth. This, in turn, perpetuates a cycle of debt dependence and limits opportunities for sustainable development.

It therefore confirmed the need for the CSOs voices from the margins to the mainstream. Addressing the escalating debt crisis in Africa requires collective action and concerted efforts from all stakeholders, including civil society organizations and international partners. By coming together, we can advocate for policies that promote debt sustainability, transparency, and accountability, ensuring that African countries can overcome the challenges posed by debt and advance towards a future of shared prosperity and well-being for all.

Citizens deserve to have a say on debt taken out in their name. Hence, the new Debt Transparency and Accountability Checklist, as developed by the National Democratic Institute (NDI) and Transparency International (TI), offers CSOs a way to assess how transparent their country's public debt is and offers recommendations on how to strengthen the public debt legal and institutional framework.

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. When countries are in or at high risk of debt distress, it results in a systematic decline in the quality of social services available to citizens, especially women and girls. The gendered effects of public debt are increasingly recognized in the context of emergency situations.

In many countries, there has been very little if any public participation in public debt issues, and civil society has limited resources and access to decision makers to have its voice heard on the projects and rationale put forward for borrowing. There is need for champions in parliament and in other public institutions to work collaboratively with civil society to enhance the political space to upscale transparency.

## 4. Taking the political economy of borrowing seriously

The origins of the current debt crisis are both historical and more recent. They include global power dynamics, international and regional barriers to trade and infrastructure development, national political histories and governance decisions around economic development, and climatic and other natural disasters. More recently, public debt was exacerbated by the COVID-19 crisis, Russia's full-scale invasion of Ukraine, and the climate emergency – and their economic and financial impacts – as well as sometimes dubious national borrowing decisions.

Alongside the rise of new country and institutional lenders over the past 25 years, with different approaches to transparency and terms of lending, there is increasing discussion about the nature and governance of traditional multi-lateral lending institutions and the role of credit agencies.

However, decisions on how, when, and for what purposes debt should be taken on lie with national decision-makers. Improving the governance of debt decision-making, and monitoring of its usage, should therefore start at this level. Hence, one needs to ask: why and under which circumstances do governments accumulate more debt than it would be consistent with the prescriptions of optimal fiscal policy? What political mechanisms make governments depart from optimal and sustainable decisions on public debt?

There is need for a framework for identifying how political interests constrain borrowing decisions. Efforts to devise parliamentary oversight mechanisms that reduce long-term debt risk must take these politics seriously. If parliamentary oversight of debt is to alter the trajectory of sovereign debt in developing countries, these oversight mechanisms must account for the fact that it is the political interests of fiscal policymakers in parliament that set annual borrowing needs to begin with.

Such endogeneity between policymakers' tax and expenditure preferences and the effects of these preferences on debt outcomes is a complex issue that parliamentary oversight reforms must address if they are to be effective. In other words, parliamentary oversight of debt requires parliamentary accountability of initial parliamentary taxing and spending decisions. This question is all the more daunting in a context of executive dominance or rising authoritarianism.

This challenge cannot be solved by developing countries alone. International financial institutions, debtor nations, creditors, and other stakeholders all have a role to play in solving this problem.

The Principles on the Promotion of Responsible Sovereign Lending and Borrowing developed under the auspices of the United Nations Conference on Trade and Development (UNCTAD) were launched in 2012 to address a fundamental lacuna in international law on sovereign debt. The legal void has resulted in an absence of clear boundaries of behaviour as well as expectations for behaviour for creditors and borrowers and insufficient deterrence for irresponsible or sub-optimal sovereign lending and borrowing. The UNCTAD Principles represent an attempt to introduce behavioural change and set clear boundaries of correct code of conduct for sovereign lending and borrowing.

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