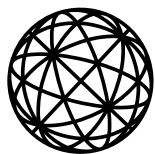


Knowledge building and capacity assessment of parliaments in public debt management

Webinar: The Role of Parliament in Public Debt Management

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WFD



Foreign, Commonwealth
& Development Office

Ten observations from the workshops

Workshops in West-Africa and East/Southern Africa enable *inter-jurisdictional* learning between participants from different countries and *inter-disciplinary* learning between debt managers, MPs and parliamentary staff.

1. Parliamentary oversight of debt management is strengthened through a working relationship & trust between DMO and Parliament, resulting from transparency to parliament.
2. From an institutional viewpoint, we notice a trend towards establishing dedicated public debt committees in parliament (Kenya, Nigeria). In other countries, Committees on Finance, Budget or Public Accounts include public debt in their remit. (Sierra Leone, The Gambia)
3. Where parliaments receive debt related information, it often lacks info on debts and liabilities of sub-national governments (Nigeria) and SOEs (The Gambia, Nigeria). Need for whole-of-government debt information, beyond central government information on debt.

4. The annual budget cycle provides an opportunity for parliament to receive debt information through the different phases of the budget cycle, including at the Pre-Budget Statement, and through mid-year and in-year reports.
5. Where debt information is available to parliament, it is sometimes treated for informational purposes, and is not actively reviewed or scrutinized by parliament. This indicates a significant gap in oversight practices. (e.g. Sierra Leone and The Gambia)
6. Where there is a PBO, it is sometimes focused on examining revenues and expenditures, and doesn't always include public debt in its remit. As PBOs are still emerging, they need the staff and knowledge to be able to cover debt. (Sierra Leone)
7. Where there is no PBO, public debt is left to be covered by Committee staff. The Nigeria parliamentary committees and their staff are reviewing borrowing practices regularly. The legal framework for a National Assembly Budget and Research Office (NABRO) is underway.

8. Where a DMS is approved by parliament, it results in tangible benefits (e.g. Kenya):
 - Provides visibility of public debt management and reinforces citizens, lenders / investor confidence.
 - Enhances accountability, transparency and prudence in borrowing decisions.
 - Potentially contributes to refinement of DMS.
 - Contributes to cross-party consensus building on the DMS.
 - Enables parliamentary scrutiny of regular reports on implementation of the DMS.
9. There are varying practices regarding the formal approval of borrowing. Some jurisdictions approve borrowing through the ABP, while others review individual loans for approval.
10. Best practice for parliamentary approval of the ABP ensures that the ABP includes key information (e.g. Zambia): purpose of the loans to be contracted, debt instruments to be used, broad terms of the borrowing. Guarantees are approved by parliament.

Capacity needs of parliaments (as expressed during workshops)

- i. Need for parliament to better understand and identify key players, process and workflow related to debt management.
- ii. Need for parliament to update its Rules of Procedure and the PFM Act to facilitate reviewing debt documents.
- iii. Need for MPs to receive more detailed explanation of the debt related documents tabled in parliament.
- iv. Need for parliament to receive periodic updates on the execution of the Annual Borrowing Plan and Medium-Term Debt Strategy and need to receive guidance on how to review ABP and MTDS.
- v. Need for guidance to the Committee on what to look for in loan agreements.
- vi. Need to identify and analyse options for parliamentary engagement in loan approval based on a solid legal framework on parliaments role in debt management.

Public Debt Management Assessment Tool for Parliaments (PDMAT)

Purpose

- To provide an objective measurement of parliamentary debt management oversight capacity.
- To support parliament in identifying priorities to upscale its ability to address various dimensions of public debt and public debt management.

How it works

The PDMAT conducts the assessment based on a scoring on **46 indicators** across six dimensions

The six dimensions are:

- (1) actual levels of public debt, including any fiscal rules or strategic benchmarks set by the executive branch
- (2) contingent and future liabilities
- (3) parliament's legislative role, including adoption of a legal framework
- (4) ratification of loan agreements/external borrowing
- (5) oversight of the budget through all four stages of the budget cycle
- (6) State owned enterprises.

Six PDMAT debt management dimensions and sub-dimensions

Dimension	Sub-dimension
1. Public debt on the balance sheet	1.1 Actual levels of public debt
	1.2 Reporting on portfolio risks
2. Oversight of contingent liabilities	2.1 Communication and limitation
3. Legislative role	3.1 Legal framework
4. Parliamentary ratification of loan agreements / external borrowing	4.1 Government process for borrowing operations
	4.2 Parliamentary ratification of loan agreements
5. Role of parliament in the budget cycle	5.1 Formulation stage
	5.2 Approval stage
	5.3 Execution phase (debt management processes)
	5.4 Role of parliament in execution stage
	5.5 Audit / oversight stage
6. State-owned enterprises (SOEs)	6.1 Governance

PDMAT indicators

Specific questions, referred to as indicators, were developed in order to assess PDM capacity across all six dimensions and corresponding sub-dimensions.

Many of these PDMAT indicators were drawn from four public financial management (PFM) assessment tools:

- 1) The Debt Management Performance Assessment (**DeMPA**);
- 2) The Debt Transparency **Heat** Map;
- 3) The Public Expenditure Financial Accountability (**PEFA**) Framework for Assessing PFM;
- 4) The International Budget Partnership's Open Budget Survey (**OBS**).



Scoring options for the indicators under one debt management dimension:

4.2. Parliamentary ratification of loan agreements

	Indicators	Answers with rating
4.2.1	Is parliament legally required to ratify any loan agreements before they become effective?	L1 No legal requirement
		L2 Legal requirement with government override
		L3 Legal requirement - no government override and occasional vote
		L4 Legal requirement - no government override and frequent vote
4.2.2	Does a parliamentary committee scrutinise individual loans? If yes, which committee(s)?	L1 No
		L2 Yes on an ad hoc basis
		L3 Yes occasionally as per rules of procedure
		L4 Yes regularly as per rules of procedure
4.2.3	Does parliament have the authority to request amendments to loan agreements?	L1 No
		L2 Ad hoc
		L3 Yes - in rules of procedure or law but seldom applied
		L4 Yes - in rules of procedure or law and frequently applied
4.2.4	Is parliament involved in the loan approval process (pre-ratification)?	L1 No
		L2 Ad hoc
		L3 Yes - in rules of procedure or law but seldom applied
		L4 Yes - in rules of procedure or law and frequently applied
4.2.5	Are criteria in place to assess the individual loans as part of the approval or ratification process?	L1 No
		L2 Yes used on an ad hoc basis
		L3 Yes used on occasion
		L4 Yes used regularly

5.2. Dimension of debt *in the budget approval phase in parliament*

	<i>Indicator</i>	<i>Answers with rating</i>	<i>Indicator explanation</i>
5.2.1	Does the EBP or any supporting budget documentation present three estimates related to government borrowing and debt : the amount of net new borrowing required during the budget year; the total debt outstanding at the end of the budget year; and interest payments on the debt for the budget year?	L1 No - none of the three estimates are presented L2 Yes - one of the three estimates is presented L3 Yes - two of the three elements are presented L4 Yes - all of the three estimates are presented	According to best practices the EBP or other supporting documentation should present three estimates related to government borrowing and debt: the amount of net new borrowing required during the budget year; the total debt outstanding at the end of the budget year; and interest payments on the debt for the budget year.
5.2.4	Does committee scrutiny of the EBP include scrutiny of public debt information ?	L1 No parliamentary committee scrutiny of EBP L2 Parliamentary scrutiny of EBP but does not include public debt L3 Parliamentary scrutiny of EBP includes public debt L4 Parliamentary scrutiny and committee report on EBP includes public debt	According to best practices at least one committee of parliament should scrutinise the EBP, which should also include scrutiny of public debt information.

5.4. Dimension of debt *in the budget execution phase in parliament*

	<i>Indicator</i>	<i>Answers with rating</i>	<i>Indicator explanation</i>
5.4.3	Does the mid-year review of the budget include updated estimates of government borrowing and debt , including its composition, for the budget year underway?	L1 No - estimates not updated	The mid-year report provides a comprehensive update on the implementation of the budget, including an updated forecast of the budget outcome for the current fiscal year and, at least, the following two fiscal years. The report may contain additionally the economic assumptions underlying the budget as well as a comprehensive discussion of the government's financial assets and liabilities, non-financial assets, employee pension obligations and contingent liabilities.
		L2 Yes - estimates updated but information on differences not presented	
		L3 Yes - estimates updated and information on some differences is presented	
		L4 Yes - estimates updated and information on all differences is presented	
5.4.4	Does a parliamentary committee scrutinise the in-year or mid-year reviews?	L1 No committee review	According to best practices at least one parliamentary committee should scrutinise the in-year or mid-year reviews.
		L2 Committee review but no witnesses	
		L3 Committee review with expert witnesses and representative from executive	
		L4 Parliamentary committee review with expert witnesses and representative from executive and committee recommendations	

INDICATOR ON THE MEDIUM-TERM DEBT STRATEGY (MTDS)

	<i>Indicator</i>	<i>Answers with rating</i>	<i>Indicator explanation</i>
5.1.5	To what extent is the MTDS tabled in parliament and reviewed by a parliamentary committee ?	L1 Not published L2 Published but not tabled in parliament L3 Tabled in parliament for informational purposes L4 Tabled in parliament and scrutinised	According to best practices the MTDS should be tabled in parliament and reviewed by at least one parliamentary committee.

Aggregation of scoring and averaging of scoring per dimension

- Once each indicator is assigned a score of 1 to 4.
- The individual scores for each of the six dimensions are then aggregated and averaged.
- Given that scores range from 1 to 4, averages for each debt management dimension will range from a minimum of 1 to a maximum of 4.
- These averaged scores determine the level of (recommended) attention required by parliamentarians.

Averaged scoring for each of the six debt management dimensions

Averaged score	Level of attention required
1 to 1.74	Urgent priority
1.75 to 2.49	High priority
2.5 to 3.24	Medium priority
3.25 to 4	Low priority

Examples of Averaging of 'Public Debt on the Balance Sheet' indicators

Public Debt on the Balance Sheet dimension	$(2+3+4+1+3+3+2) \div 7 = 2.57$
Actual levels of public debt sub-dimension	$(2+3+4) \div 3 = 3$
Portfolio risks sub-dimension	$(1+3+3+2) \div 4 = 2.25$

Steps in conducting the assessment



Most information should be available in the four datasets: the DeMPA, the Debt Transparency Heat Map, the PEFA framework, and the OBS Data Explorer.



If data are not available from the datasets, responses to the indicators can be collected through parliament, MoF, or SAI.



Need to consult parliament prior to contacting external organisations. CSOs, academics, or monitoring parliamentary monitoring organizations may be able to contribute.



All data should be validated through the parliamentary interlocutor, to ensure the accuracy of the responses to the indicators, including cross-referencing.



Any remaining informational gaps should be identified. It may be necessary to obtain some answers directly from parliament.



Develop a narrative report that covers or flags key dimensions and functions requiring urgent and high priority and make specific recommendations.