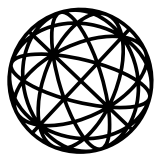


The role of parliament in debt management

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1. Establishing the debt management legal framework

Legislation on borrowing power and statement of purpose.

Country examples:

- Maldives: Constitution, the Public Finance Act (PFA) and Public Finance Regulation (PFR).
- Moldova: Constitution and the Debt Law.
- Uganda: the Public Finance Management Act.

Post-legislative scrutiny of the debt management legal framework.



2. Parliament's oversight of public debt through the budget cycle

	Phase of Budget Cycle	Main Parliamentary Oversight Role
EX ANTE	Formulation	Review, debate/approval of government's Medium-Term Economic Framework and Pre-budget statement
	Approval	Scrutiny of Debt Management Strategy and Debt Sustainability Analysis as part of Executive Budget Proposal
	Execution	Review of in-year and mid-year reports
EX POST	Oversight	Public Accounts Committee review of Supreme Audit Institution reports on debt and debt management ; PAC review of government reporting on debt and debt management ; and parliamentary monitoring of investment loans

3. Reviewing the Debt Management Strategy (DMS) and monitoring its implementation

Government to draft and table a strategy that sets out the medium-term framework for how the government will achieve its debt management objectives.

The DMS should be updated or revised regularly, and reviews portfolio risks such as:

- The ratio of external to domestic debt
- The ratio of short-term to long-term debt
- The amount of foreign-currency-denominated debt.

By scrutinizing the DMS, parliament can contribute to improving the choices for borrowing.

Examples of parliamentary approval of DMS

- United Kingdom: Treasury Committee
- New Zealand: Finance and Expenditure Committee
- Sweden: Committee on Finance
- Australia: Economics Committee.
- South Africa: Parliament

4. Scrutiny of DMS & scrutiny of Annual Borrowing Plan (ABP)

Transparency of DMS is a prerequisite for transparency of ABP.

Countries who do well in DMS are not necessarily doing well on transparency of the ABP. Need to focus on both documents, and transparency of both documents.

Ref. Debt Reporting Heat Map 2022 -- 74 countries

DMS: 36 in green (full DMS) and 2 in yellow (partial): half of the countries included in the HEAT Map have a full DMS available.

ABP: 10 in green (full ABP with timely publication), 1 yellow (ABP with publication within 3 months); and 8 orange (ABP with publication after 3 months). 55 in red : no ABP published. Only one in 7 have an ABP available.

Examples:

- Burkina Faso: green for DMS and ABP
- Maldives: green for DMS and ABP
- Nigeria: green for DMS and red for ABP
- Solomon Islands: green for DMS and red for ABP
- Nepal: yellow for DMS and red for ABP
- Tanzania: orange for DMS and red for ABP

5. Parliament in the loan ratification process

Study by the Inter-Parliamentary Union (IPU) with 99 parliaments responding

- Just under 60 percent of respondents have laws requiring parliament to ratify loan agreements before they become effective.
- 65 percent of parliaments responding stated that the loan approval process is designed to go through the committee system.
- 20 percent of parliaments rely only on a single committee, primarily the finance, budget or economic committee, while 45 percent have two or more committees involved.

Range of Options for Parliamentary Ratification

From high degree to low degree of parliamentary involvement in ratification of loan agreements

- Every borrowing transaction must be approved by parliament (i.e., Mauritania)
- Specific approvals for certain transactions only (i.e., above a specified threshold [Belize, Ethiopia, Tonga] or for external borrowing only [Bosnia-Herzegovina])
- Blanket approval for borrowing under certain standard terms and conditions (Ghana)
- Legislative approval of government borrowing granted on an annual basis (Grenada, Japan)
- Parliamentary delegation of all loan approvals to the executive branch.

6. Parliamentary Approval of Contingent Liabilities, or Information on Contingent Liabilities Provided to Parliament

According to international best practices, annual borrowing, contingent liabilities and guarantees should either be approved by parliament directly, or approved by government and reported to parliament in a timely and detailed manner.

More than two-thirds (69 percent) of countries that have participated in a Public Expenditure and Financial Accountability (*PEFA*) assessment since 2016 (42 of 61) undertake annual approval of borrowing approved by either parliament or government, but only 18 percent (11 of 61) produce an annual report outlining all or most significant contingent liabilities.

Examples on parliaments & contingent liabilities

- Malawi: legislation authorizes Minister of Finance to issue guarantees subject to approval of parliament.
- El Salvador: parliament approves every loan or loan guaranteed by the government.
- Botswana: Contingent liabilities are published in the Annual Statement of Accounts for parliament.
- Bhutan: contingent liabilities are reported in detail in the Annual Financial Statement to parliament.
- Fiji: Constitution prevents the government from providing a guarantee to an individual or body without the authorization of parliament, and also establishes a reporting mechanism back to parliament.

7. Annual Debt Report to parliament

Best practices and debt management laws call for annual government reporting against debt management objectives to be provided to parliament. This often takes the form of a separate annual debt report.

Alternately, government can report against its debt management objectives in its annual financial report.

Country examples on parliament & annual debt report

- Ethiopia: Quarterly and annual public debt reports are submitted to parliament.
- Pakistan: An annual debt review and public debt Bulletin is tabled in parliament.
- Jamaica: The debt strategy and the annual report are both published on the government's website and submitted to parliament.

8. Designated parliamentary committee for public debt oversight

According to the constitutional and parliamentary system, Committees on budget, finance, public accounts or public debt oversee public debt and DMS.

Diversity in practices on chairperson and membership of the committee.

Institutions supporting parliamentary committees on oversight of public debt

- Parliamentary Budget Offices (PBOs)
- Fiscal Councils
- Parliamentary Research Services (PRS)
- Scrutiny Units (SUs)

9. Supreme Audit Institutions (SAIs), parliaments and debt

Often, Parliaments must rely on the independent audits performed by the SAI to determine whether the executive's public debt reports show the true condition of public debt and its most relevant details.

The ability of the SAI to audit debt and public debt management will depend heavily upon the SAI's legal mandate.

Some SAIs may have the legal authority to conduct compliance audits of budget resources but not financial and performance audits of public debt. A clear and explicit legal mandate helps SAIs to gain access to debt officials and records.

Some countries have a piece of stand-alone legislation that outlines the SAI's mandate, such as an Auditor General Act. Others include reference to the SAI in their Financial Administration Act.

Parliamentary committees have the possibility to review SAI reports on public debt, though they don't always do (example: Sri Lanka).



10. Challenges for parliaments in PDM

- Technical capacity of MPs
- Access to information and documentation
- Institutional capacity of parliament – need for PBOs, etc.
- Time constraints

=> Value in conducting a baseline assessment on parliament's capacity for public debt oversight.



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.

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; and
- 4) The International Budget Partnership's Open Budget Survey.



Scoring options for the indicators under one debt management dimension:

Parliamentary ratification of loan agreements

Resulting in aggregation of scoring and averaging of scoring per dimension

	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

PARLIAMENTARY DEBT-MANAGEMENT ASSESSMENT TOOL: SUMMARY SHEET

Sample
results

	CATEGORY	Rating / 4	Level of ATTENTION Required
RV Dimension	Public debt on the balance sheet	2.9	MEDIUM PRIORITY
	Actual levels of public debt	2.7	MEDIUM PRIORITY
	Portfolio risks	3.0	MEDIUM PRIORITY
	Contingent liabilities	2.3	HIGH PRIORITY
	Legislative role	4.0	LOW PRIORITY
	Parliamentary ratification of loan agreements/external borrowing	3.0	
	A- Government process for borrowing operations	3.3	LOW PRIORITY
	B- Parliamentary ratification of loan agreements	2.8	MEDIUM PRIORITY
	A- Formulation stage	2.6	MEDIUM PRIORITY
	B- Approval stage	3.3	LOW PRIORITY
	C1- Execution phase (debt management processes)	4.0	LOW PRIORITY
	C2- Role of parliament in execution stage	2.2	HIGH PRIORITY
	D - Audit / oversight Stage	2.1	HIGH PRIORITY
	State-owned enterprises (SOEs)	1.3	URGENT PRIORITY
RV Function	Fiscal or debt transparency	2.9	MEDIUM PRIORITY
	Parliamentary committee review	2.4	HIGH PRIORITY
	Capacity of the executive branch to manage public debt	2.7	MEDIUM PRIORITY

LEGEND

Rating	COLOR	Description
URGENT PRIORITY	PURPLE	Immediate attention required as there are significant deficiencies in many areas
HIGH PRIORITY	RED	Attention required in the short term as there are deficiencies in many areas
MEDIUM PRIORITY	YELLOW	Attention required as there are some deficiencies in some areas
LOW PRIORITY	GREEN	Attention only required to address minor deficiencies in some areas

BRIEF 1

Debt Management for Parliaments



BRIEF 2

Debt Management Legal Frameworks A Primer for Parliamentarians



BRIEF 3

Role of Parliaments in Oversight of Public Debt Management



BRIEF 4

Debt Decision-Making and Oversight in Emergency Contexts



**e-Course
on parliaments and
public debt management**

Conclusion: added value of parliamentary approval of the DMS

- Accountability and transparency
- Informed policy formulation and deliberation on borrowing choices
- Risk management and mitigation
- Public awareness and participation
- Long-term fiscal sustainability.

