Africa Debt Monitor Analysis

The state of public debt transparency and accountability in Africa

CONTENTS

List of Figures

Acknowledgements

This report forms part of a series of publications informed by CABRI's Africa Debt Monitor. The report was written by José Maurel and reviewed by Danielle Serebro and Jim Matsemela of the CABRI Secretariat.

ACRONYMS

ADM	Africa Debt Monitor
AGO	Auditor General Office
CS-DRMS	Commonwealth Secretariat's Debt Recording and Management System
DMFAS	Debt Management and Financial Analysis System
DMO	debt management office
DRMS	debt recording and management system
DQT	Debt Data Quality Toolkit
DRS	Debtor Reporting System
IDS	International Debt Statistics
IFIs	international financial institutions
IFMIS	integrated financial management information system
IIF	Institute for International Finance
IMF	International Monetary Fund
MTDS	Medium-Term Debt Management Strategy
PDM	public debt management
PFM	public finance management
PPP	public-private partnership
QEDS	Quarterly External Debt Statistics
QPSDS	Quarterly Public Sector Debt Statistics
SAI	supreme audit institution
SDDS	Special Data Dissemination Standard
UNCTAD	United Nations Conference on Trade and Development
WB	World Bank

1. INTRODUCTION

The Africa Debt Monitor (ADM), launched in September 2019, provides a unique platform for sharing information on African central government debt and debt management policies, practices and institutional arrangements. It offers multiple tools for cross-country peer learning on public debt issuance and management and provides policymakers with additional insight into the capacity of their debt offices to manage debt and associated risk.

This paper is part of the ADM Analysis series, a set of reports that investigates trends in debt management in Africa using quantitative and qualitative information available on the ADM. It focuses on public debt transparency and accountability, a topic that has been at the top of the public debt management (PDM) reform agenda over the last few years.

A lack of debt transparency can have serious implications. At the global level, it obscures the true extent of rising debt levels and associated debt vulnerabilities to the point that it can delay the identification of debt crises, thus worsening the situation and making its eventual resolution more complicated and lengthier. At the national level, the sudden discovery of a large amount of previously unaccounted debt, or financial liabilities that can translate into debt, can itself trigger a debt crisis with substantial economic and social costs for the country concerned while also inflicting severe reputational damage.

Recognising the severe consequences that a lack of debt transparency can cause, the G-20 Finance Ministers and Central Bank Governors meeting held in Buenos Aires, Argentina in 2018 noted that 'Rising debt levels in Low Income Countries (LICs) have led to concerns about debt vulnerabilities in these economies. We agree that building capacity in public financial management, strengthening domestic policy frameworks, and enhancing information sharing could help avoid new episodes of debt distress in LICs. We call for greater transparency, both on the side of debtors and creditors'.[1]

International financial institutions (IFIs) have responded to this call with several suggestions and initiatives that range from the publication of operational guidelines for creditors to the setting up of a voluntary register of commercial loans. While such measures may improve the overall international debt architecture, the main conclusion derived from the ADM surveys suggests that a different approach is required to improve debt transparency and accountability.

A lack of debt transparency is not necessarily due to the unwillingness of countries to share information or to a lack of or poor debt statistics. As has been observed through the qualitative data collected for the ADM, the problem is more complex and reflects weaknesses in the way PDM is organised at the country level. In this paper we identify six main dimensions of debt transparency and accountability, namely: the legal framework, institutional arrangements for debt management, the debt recording and management system (DRMS), debt data quality, debt data reporting and dissemination, and oversight. For each of these dimensions, we assess the situation in the 23 countries that took part in the ADM surveys in 2019 and 2021 and point to gaps and areas for improvement.

The overall conclusion is that the achievement of debt transparency and accountability is work in progress and the degree of achievement and capacity differs from country to country and from dimension to dimension. This calls for a 'bottom up', case-by-case approach targeting transparency and accountability. Such a response would not only improve public debt transparency and accountability but also allow countries to enjoy the benefits that come with it, including good governance and ultimately, lower borrowing costs.

1 See G-20 (2018).

2. UNDERSTANDING DEBT TRANSPARENCY AND ACCOUNTABILITY AND ITS IMPORTANCE

The issue of debt transparency and accountability has gained considerable attention over the past few years following several cases of undisclosed or 'hidden' debt in various countries, including Greece (2010), Ecuador (2021) and Mozambique (2016) to name only a few. In all cases, the lack of transparency has resulted in huge direct and indirect economic costs to the economies concerned. The Mozambican case[2] is unique as it was effectively a conspiracy involving foreign banks, businessmen, local politicians and civil servants to engage in fraudulent practices. The amount involved – some USD2 billion or 12 percent of the country's GDP – as well as the economic and social costs were also exceptional.

Other forms of hidden debt include:

- Borrowing from 'non-traditional' creditors[3] whose loan terms are in some cases not fully disclosed;
- Contingent liabilities that arise from various guarantees issued by the central government including those extended as part of public-private partnerships (PPPs) contracts;
- Debt agreements that include collaterised conditions, whereby the creditor would benefit from preferential rights over some specific assets (e.g., commodity exports) or future flows of funds in the future; and
- Various other lending practices including the use of special purpose vehicles which can be used to keep debt liabilities off the government's balance sheet.

The World Bank (WB) defines debt transparency as 'the availability of debt data and borrowing processes that are legitimate, rule-based, and traceable'.[4]

- Transparency in reporting refers to the free flow and availability of debt statistics so that these can be accessed by all stakeholders concerned. As discussed in Section 3.4, the provision of data on debt implies that the latter must also meet acceptable quality standards.
- Transparency in borrowing operations is a more qualitative consideration. It refers to information covering the entire borrowing cycle such as: what was the justification to resort to borrowing in the first place? How was the loan sourced? How was it negotiated? On what terms and conditions? How were the proceeds supposed to be used? Were they used for the intended purposes? What were the benefits accruing from the borrowed funds, especially if used to finance a project?[5] The reference to legitimacy and rule-based processes implies that laws and regulations must be in place to define what is allowed and what is not, and whether these prescriptions are adhered to. Further, traceability involves the availability of documentation and records for each loan and related transactions throughout the loan cycle.

While much of the focus has been on debt transparency, accountability is equally important. Transparency and accountability are both components of good governance and are therefore inextricably linked. Blommestein aptly describes the two concepts as 'Siamese twins'.[6]

2 The case of Mozambique, which has received unprecedented attention due to the amounts involved (an estimated USD2 billion) as well as the aftershocks to the Mozambican economy, is well documented. See Centro de Integridad Ade Publica and Chr. Michelsen Institute (2021) and Halon (2016). At the time of writing a court case was ongoing to make those responsible accountable for their actions.

3 'Non-traditional creditors' is a term used to describe several relatively new lenders, including China. For a discussion of the impact of Chinese overseas lending, please see Horn, Reinhart and Trebesch (2019).

4 See World Bank (2021).

5 It will be noted that some of these considerations fall outside the scope of debt management, which tends to focus on the cost and risk trade-off that stems from borrowing.

6 See Blommestein (2006).

Why is debt transparency and accountability important?

Debt transparency and accountability are important for both domestic and external stakeholders.

Domestic stakeholders

Within the borrowing country, several stakeholders are concerned.

The availability of accurate and timely debt data is crucial for sound macroeconomic and public financial management, as well as for managing the risks associated with the debt portfolio. Debt data feeds into various aspects of macroeconomic and public financial management, including budget formulation and implementation as well as treasury and cash management. The debt management office (DMO) will itself require comprehensive debt data for the day-to-day management of the debt portfolio, to identify associated risks and to determine the country's medium-term debt management (MTDS) strategy.

By law, most countries must report on the debt situation to Parliament. Many countries also require the submission of a statement on outstanding government guarantees in view of the fiscal risks that these represent. Other domestic stakeholders include the wider public, civil society, the media, researchers and so on, all of whom need to be informed on the debt situation.

External stakeholders

The creditor community also requires accurate and timely information on a country's debt portfolio so that they can develop sound and sustainable lending policies or, should the need arise, implement debt restructuring options or put in place debt relief mechanisms – such as the Debt Service Suspension Initiative, which was recently introduced to mitigate the economic effects of the COVID-19 pandemic.

In the case of private creditors and investors in government securities, information about the debt portfolio is particularly important for such securities to be correctly priced. A lack of transparency is likely to increase a country's risk premium and, hence, the cost of borrowing.

Credit rating agencies are also important consumers of debt statistics in the determination of country's risk profile and rating, especially for countries that access the international financial markets. A lack of transparency is bound to have a negative impact on a country's credit rating and hence, on the cost of borrowing.

In the debt management context, measures to ensure accountability are multilayered. Accountability starts within the DMO itself, with the setting up of guidelines and standard operating procedures to guide debt management. These should be reinforced by internal control measures to ensure compliance. Internal and external audits, a compulsory legal requirement in most countries, also have an important role to play in promoting good governance and accountability. Mandatory reporting to Parliament and oversight by parliamentary committees ensures that legislative oversight – a key component of democracy – can be exercised. It is also important to provide debt management information to civil society organisations and the public at large. This is discussed in more detail in Section 3.6.

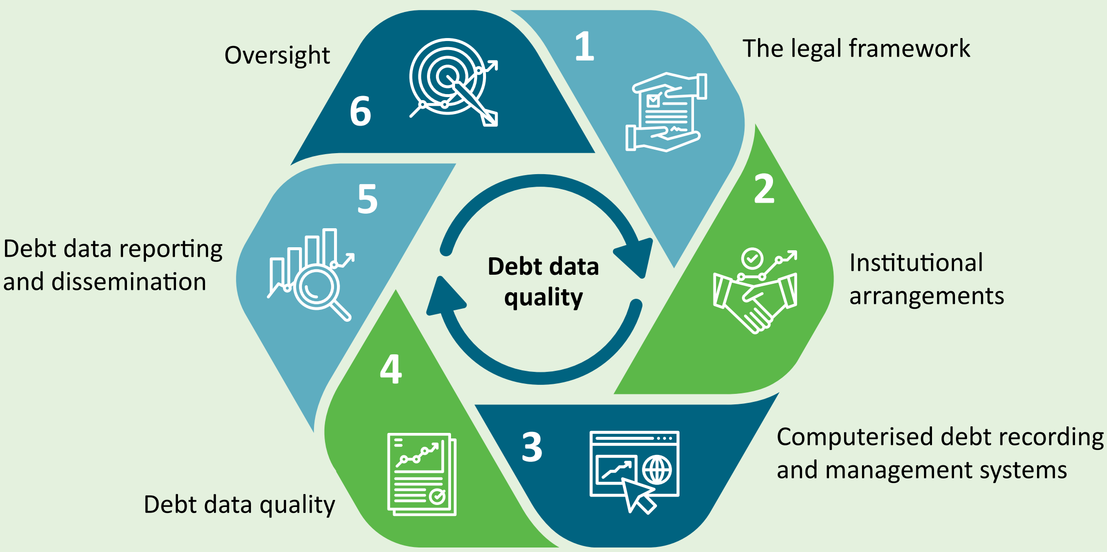
Achieving debt transparency without ensuring an adequate level of accountability would be futile as it would leave the door open to the ineffective use or misuse of borrowed funds and, in extreme cases, to corrupt practices without the perpetrators being held responsible for their actions. Indeed, corruption was the root cause behind some of the 'hidden debt' cases referred to above. However, accountability is not only about sanctions. It also implies an opportunity for redress, improving systems and procedures to prevent similar occurrences in the future and ensure the optimal use of borrowed resources.

3. THE SIX DIMENSIONS OF DEBT TRANSPARENCY AND ACCOUNTABILITY

Debt transparency and accountability is multidimensional. We identify six main dimensions as depicted in Figure 1. The six dimensions are mutually inclusive and build on each other. For example, it is not possible to set up a sound institutional structure for debt management unless the legal framework recognises that structure and identifies its mandates and functions. Similarly, the effective reporting and dissemination of debt statistics requires adherence to quality standards and the successful implementation of a computerised DRMS.

The following subsections discuss each dimension in turn.

Figure 1: The six main dimensions of debt transparency and accountability



Source: The author

3.1 The legal framework

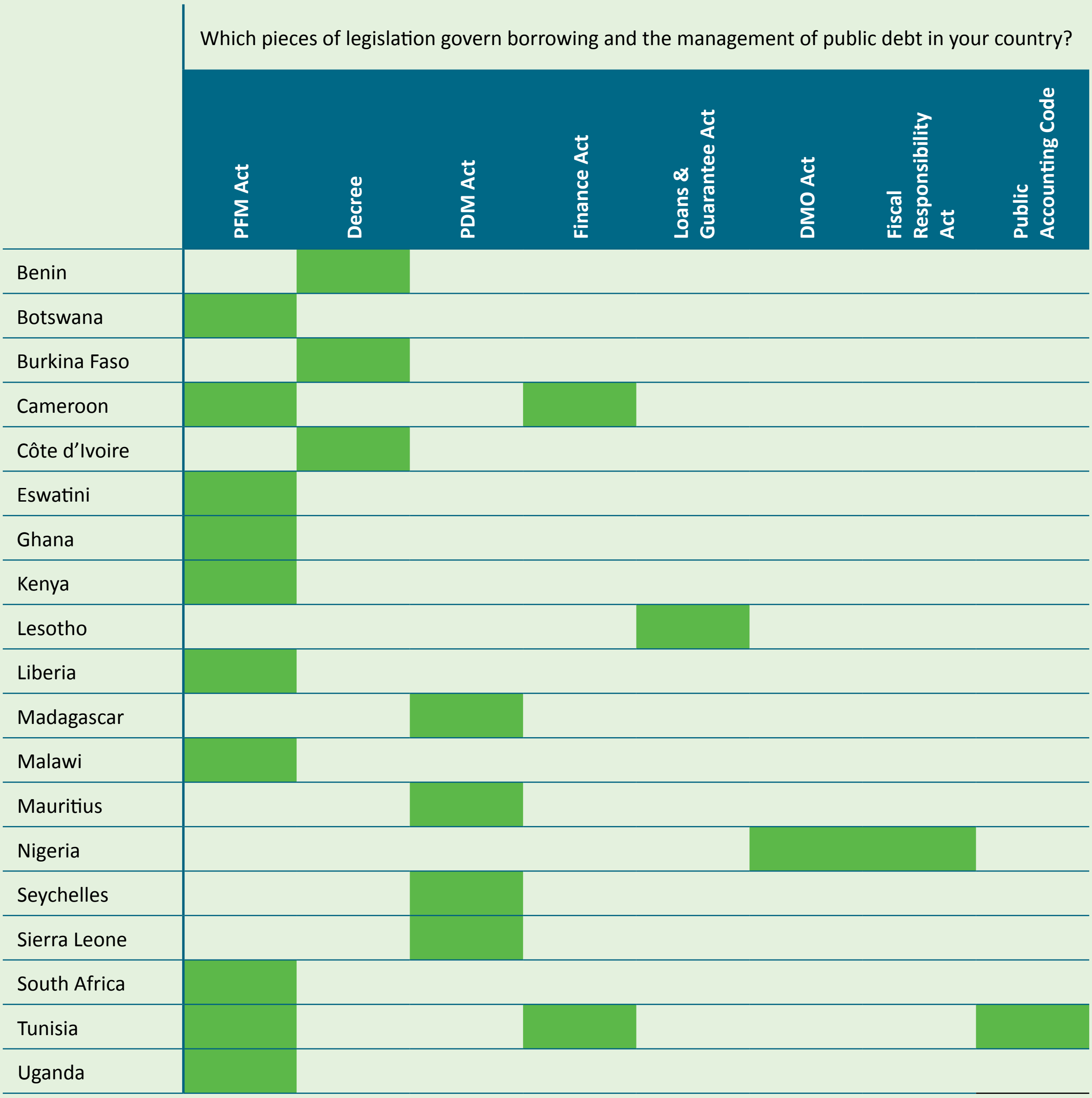
The legal framework is the cornerstone of PDM in a country. It defines the process and environment within which debt management takes place and how borrowed financial resources will be contracted, utilised and repaid, in other words the governance structure.

In the past, debt management-related legislation in developing countries tended to be fragmented among many different pieces of legislation, with specific acts dealing with different debt categories or even instruments, for example, external loans, external grants, treasury bills, treasury bonds etc. Over the last two decades or so, many countries have consolidated debt-related legislation either by enacting PDM law or introducing public financial management (PFM) legislation. Both approaches are satisfactory and have advantages and disadvantages. PDM legislation is by definition very specific and addresses debt management-related issues in detail while the scope of PFM legislation is broader and may not be so exhaustive when dealing with debt management. However, PFM legislation has the advantage of anchoring PDM within the overall PFM framework.

Whether countries opt for a PDM or PFM law, other laws will also impact on the effectiveness of the legal framework for debt management, including the Constitution, Fiscal Responsibility Acts, laws governing PPPs and so on. Secondary legislation (or regulations) also plays an important role in operationalising the provisions of debt management law. Weak regulations can undermine the effectiveness of primary legislation. All relevant laws must therefore be reviewed to ensure that they contain provisions that safeguard transparency.

Out of the 14 countries that responded in English to the ADM surveys, eight have put in place Public Financial Management Acts while five have enacted specific PDM laws. This includes Nigeria,[7] Mauritius, Madagascar, Seychelles, and Sierra Leone. Francophone countries such as Benin, Burkina Faso and Côte d'Ivoire operate through Decrees relating to PDM (see Figure 2).[8]

Figure 2: Legislation governing borrowing in ADM countries



Source: ADM surveys. Central African Republic, the Republic of Congo, Morocco and Namibia did not reply to this question.

7 Nigeria's debt legislation includes the DMO Act (2003) and the Fiscal Responsibility Act (2007).
8 A strict comparison between the English and French legal systems is not straightforward. The data in Figure 2 are therefore presented separately for English- and French-speaking countries which rely on decrees. Reference to English- and French-speaking countries is based on the language that was used to reply to the ADM surveys.

The existence of a PDM or PFM law and associated regulations does not necessarily guarantee debt transparency and accountability. Two other conditions must be satisfied:

1. The debt management legislation (primary and secondary) must incorporate specific provisions to guarantee transparency and accountability, including:

- Clear allocation of roles, including that of the Minister of Finance and powers of delegation;
- Indication of a public debt ceiling and/or an annual limit on government borrowing;
- Statutory (mandatory) reporting requirements;
- Comprehensive coverage including reporting of contingent liabilities;
- Approval of key documents by Parliament; and
- The need for external audit.

The legal framework is also key in defining accountability provisions and penalties for breaches. In doing so, it may also refer to other legislation that deal expressly with integrity, ethics, and the conduct of government officials.

2. There must be evidence that the law and regulations are being adhered to. The ADM surveys sought to find out whether there have been any instances in the past three years of PDM laws not being followed. Out of 22 respondents, the large majority (20 countries or 90 percent), responded in the negative. Two countries (9 percent) indicated that there were occasions when PDM laws had not been adhered to. In one instance, the nature of the breach was that loans were contracted without the DMO being involved. However, responses did not indicate the consequences of such breaches except that the country achieved a lower Debt Management Performance Assessment (DeMPA) score.

Even with an excellent and comprehensive legal framework in place, certain factors may still affect transparency and accountability outcomes, such as political disincentives and limited capacity or capability in implementing the legal provisions. These are aspects that administrations must also address when tackling the issue of debt transparency and accountability.

3.2 Institutional arrangements

The way the main institution responsible for debt management (typically the DMO) is organised and its relationship with other concerned institutions is key to ensuring an adequate level of debt transparency and accountability. Debt management functions must be clearly identified and defined; they must be assigned to respective units considering the segregation of duties as well as an appropriate balance between command and control.

Procedures must also be put in place to ensure accountability both within units and for the institution as a whole. This can be achieved by establishing internal control procedures and audit requirements.

As in the case of debt management legislation, historically, debt management functions tended to be dispersed among various institutions. Such fragmentation made the co-ordination of debt management activities very difficult and, in some cases, certain functions would not be performed due to the lack of a clear mandate. For example, it was not unusual for the Ministry of Foreign Affairs to play the role of front office (in terms of loan/grant sourcing and negotiation) while debt records would be maintained at the Central Bank (due to a lack of capacity in the Ministry of Finance) while very little debt analysis would be undertaken. More fragmentation would exist at the operational level, for example, different institutions would be responsible for external and for domestic debt. With each institution focusing on their narrow responsibilities, it was difficult to achieve an overall view of the debt portfolio in order to assess the risks involved and to develop an overall debt management strategy.

Over the years, much progress has been made on the institutional front and all ADM countries have indicated that debt management functions have been consolidated within one entity (a department or division) within the Ministry of Finance. **Figure 3** summarises ADM countries' response to the question: 'In which year was the Debt Management Unit (DMU) set up?'

Figure 3: Year in which the DMU was set up in its current form

Early 1970s	Late 1980s	1992–1999	2000–2005	2009–2010	2012–2021
Congo Republic(1971) Ghana	Lesotho	South Africa Madagascar (1992) Côte d'Ivoire (1999)	Nigeria (2000) Seychelles (2000) Namibia (2001) Sierra Leone (2002) Mauritius (2004) Cameroon (2005) Tunisia (2005) Benin (2008)	Morocco (2010) Central African Republic (2009)	Botswana (2012) Kenya (2014) Liberia (2014) Eswatini (2015) Uganda (2017)

Source: ADM surveys. Two countries did not respond.

It should be noted, however, that the location and institutional level of the DMO changes from country to country:

- Nigeria has set up an autonomous DMO.
- Francophone countries either operate autonomous sinking funds (Benin, Cameroon) or have created debt management entities within Ministries of Finance (Côte d'Ivoire, Madagascar, Morocco, Tunisia).
- Among English-speaking countries, the entity responsible for debt management can vary from being a unit (Eswatini, Lesotho, Liberia), a Division (Ghana, South Africa) to a department (Uganda) or a directorate (Kenya).

The case of South Africa illustrates an important point: the fact that the role and designation of DMOs also evolves over time. Prior to 1990, the focus in South Africa was on debt issuance and recording; between 1990 and 1999 the focus changed to liability and cash management. Since 1999, the main objective has been asset and liability management (ALM) with the setting up of an ALM division within the National Treasury.

It is important to note that even in the presence of a DMO, other institutions or departments will be involved in some aspects of debt management. With very few exceptions, the ADM countries indicated that the following institutions play a role in debt management: the Central Bank, the Accountant General Office, the Macro-economic Department, and the Budget Office. A common example, as pointed out in Namibia and Mauritius, is the auctioning of government securities, which is often undertaken by the Central Bank in close collaboration with the Ministry of Finance. In South Africa, the Treasury retains policy and operational decisions to allocate the auction where the multiple-price auction method is to be used, as in the case of Treasury Bills. The uniform price auction method is used for the auctioning of fixed-rate bonds and inflation-linked bonds. The auction infrastructure, however, resides with the South African Reserve Bank.

The way debt management entities are structured has also evolved and most countries have adopted a three-tier configuration following best practice among financial institutions.[9] This structure,[10] which is based on organising activities by function rather than product, has resulted in the creation of:

- A front office, responsible inter alia for liaising and negotiating with creditors and investors;
- A middle office, involved in risk management and the development and update of the debt management strategy; and
- A back office, in charge of maintaining comprehensive, accurate and timely debt databases, generating debt statistics, and settling transactions, such as debt service.

9 Some countries, such as Botswana, are in the process of doing so as indicated in its survey return: 'all debt duties are managed in the Budget Analysis and Debt Management section. Preparations are ongoing to set up a Debt Management Unit which will perform all functions of a DMO including those of front, middle and back offices'.

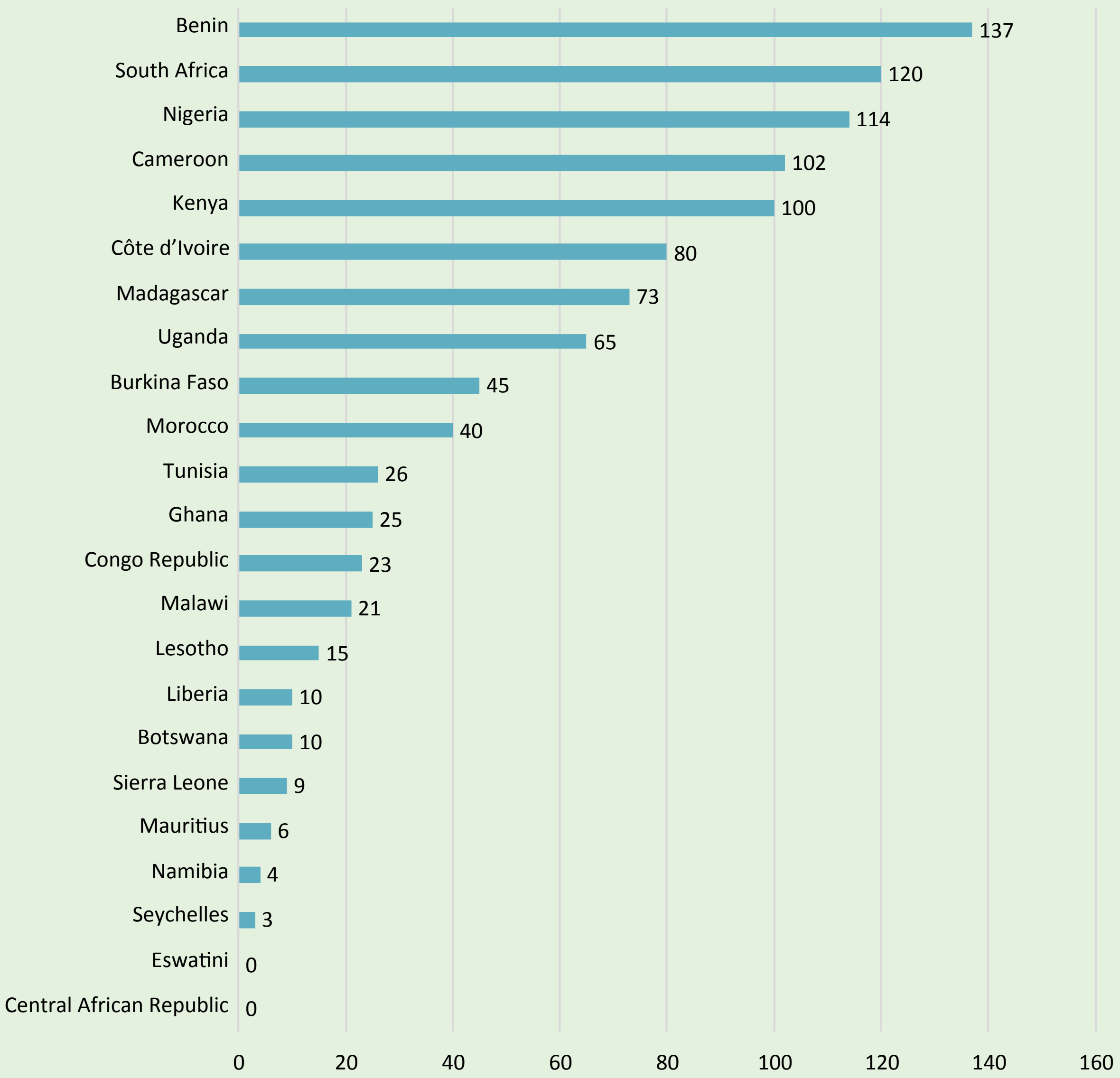
10 Some countries, like South Africa, have adapted the basic three-tier structure to be able to assess the risks posed by the debt of state-owned enterprises.

The level of staffing and skills available is also an important consideration in achieving debt transparency and accountability objectives. The debt office needs to have an adequate number of staff, suitably trained in areas such as debt data statistics, debt data reporting, and so on in order to be able to deliver its mandate and meet debt transparency and accountability objectives.

Lack of staff may also lead to officers working in multiple areas, thus violating the principle of segregation of duties, which would have a negative impact on transparency and accountability.

The ADM surveys collected data on the size of debt management entities. As shown in **Figure 4**, there is a wide variation among countries.

Figure 4: Size of debt management entities



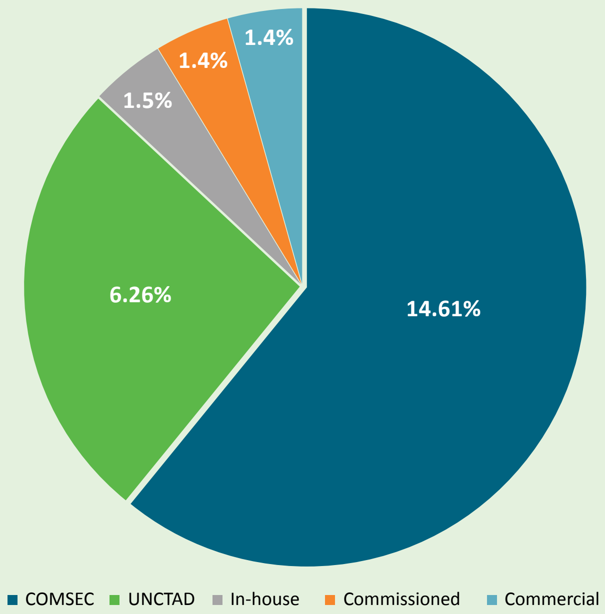
Source: ADM surveys. 0 indicates a non-response.

3.3 Computerised debt recording and management systems

Computerised DRMSs can be considered as the backbone of any debt management office. They provide a repository of the country's debt, facilitate the processing of related transactions such as disbursements and debt service, allow countries to compute and forecast the debt situation, and report on the debt portfolio in various ways. Most DRMSs will also comprise some analytical functionality or will at least allow the download of debt data to third party analytical tools such as the debt sustainability analysis framework, the MTDS analytical tool of the IMF/WB.

All 23 countries that participated in the ADM surveys in 2019 and 2021 have a DRMS in place. Most countries surveyed (87 percent) use off-the-shelf solutions: 14 countries (61 percent) have opted for the Commonwealth Secretariat's Debt Recording and Management System (CS-DRMS)[11] and UNCTAD's Debt Management and Financial Analysis System (DMFAS) is used by six countries (26 percent). South Africa and Tunisia are developing customised systems while Morocco indicated that it has acquired a commercial product. **Figure 5** displays the information graphically while **Figure 6** provides information on the DRMS used in respective countries and when it was introduced.

Figure 5: DRMSs in ADM countries



Source: ADM surveys. The format of the data label is (number of countries, % of the total).

11 The Commonwealth Secretariat is currently migrating countries using CS-DRMS to its new software, Commonwealth Meridian.

Figure 6: Type of DRMS used in ADM countries and when first introduced

Country	Prior to 1990	1991–1995	1996–2000	2001–2005	2006–2010	2011–2015	2016–2020
Benin Rep.		CS-DRMS					
Botswana	CS-DRMS						
Burkina Faso			DMFAS				
Cameroon		CS-DRMS					
Central African Rep.							DMFAS
Eswatini		CS-DRMS					
Cote d'Ivoire				DMFAS			
Congo Rep.				DMFAS			
Ghana	CS-DRMS						
Kenya			CS-DRMS				
Lesotho		CS-DRMS					
Liberia					CS-DRMS		
Madagascar				DMFAS			
Malawi		CS-DRMS					
Mauritius	CS-DRMS						
Morocco*							
Namibia		CS-DRMS					
Nigeria	CS-DRMS						
South Africa				Custom			
Tunisia			Custom				
Uganda	DMFAS						

Source: ADM surveys, supplemented by data from DRMS suppliers.
*Morocco reported that it has opted for a commercial product but the year the system was installed was not provided.

3.3.1 Statistical coverage

One of the questions the ADM surveys addressed is whether or not all government debt is recorded in the

DRMS. Twelve of the countries surveyed (52.2 percent) indicated that all government debt is recorded in their DRMS while nine countries (39.1 percent) responded in the negative. The debt categories that tend not to be computerised in the DRMS include:

- Domestic debt (six countries);
- Guarantees to state-owned enterprises and private firms (two countries);
- Derivatives (one country); and
- Accounts payable, pension liabilities and currency and deposits (one country).

Two countries (8.7 percent) did not answer the question.

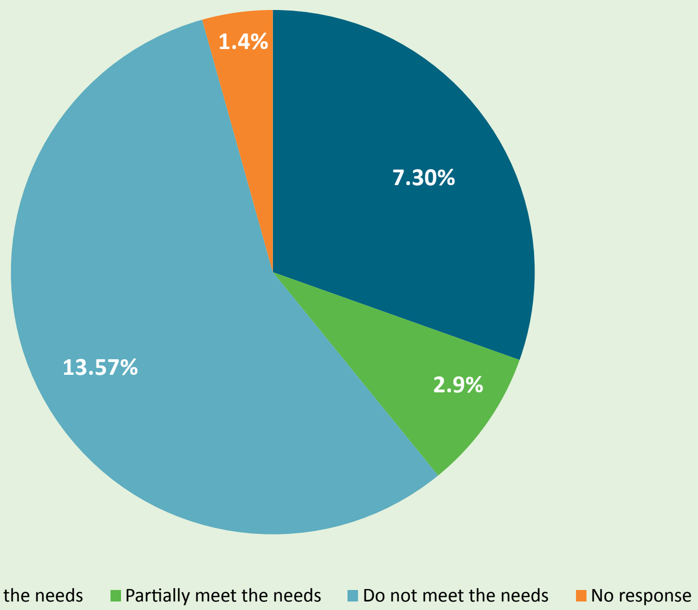
3.3.2 Do existing DRMSs fulfil the needs of countries?

As depicted in **Figure 7**, seven countries (30.4 percent) felt their DRMS completely meets their needs; two countries (8.7 percent) felt the system only partially fulfils their needs while 13 of the countries surveyed (56.5 percent) indicated that the existing DRMS does not meet their needs. One country did not respond to the question.

The top five reasons that were given for countries' dissatisfaction are that the system:

1. does not generate debt service payments;
2. does not interface with integrated financial management information systems (IFMISs);
3. makes it difficult to input guarantees;
4. lacks reporting flexibility; and
5. has weak analytical tools.

Figure 7: Performance of DRMSs



Source: ADM surveys

Other shortcomings mentioned include that the DRMSs do not meet specific requirements, for example, domestic instruments besides T-bills and T-bonds are not well catered for; interest on an accrual basis cannot be calculated; the systems do not have a reminder on payments due; and existing products cannot record bank overdrafts.

It should be mentioned that the situation regarding DRMSs is fast evolving and DRMS providers are known to be addressing the shortcomings mentioned in the ADM surveys.

Besides the DRMS, there are other computer-based systems that support PDM. These include:

- Auctioning systems, used to manage the issuance of government securities;
- Payment systems, which permit the payment of debt service; and
- IFMISs, which concern government-wide accounting and financial management functions.

It is important that these systems are linked to the DRMS so that electronic data exchange can take place. For example, connecting the auctioning system with the DRMS will ensure that domestic debt can be integrated with external debt data, thus allowing debt managers to have a global picture of the entire debt portfolio. At least six ADM countries mentioned that domestic debt is not integrated within the DRMS and another two mentioned the need to integrate with IFMIS and accounting packages.

3.4 Debt data quality

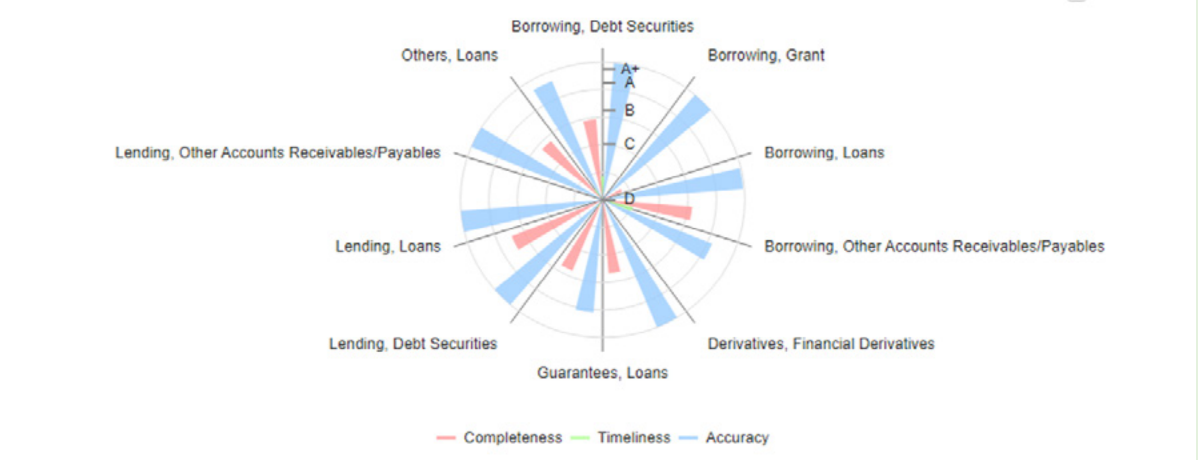
Any level of debt transparency would be futile unless debt statistics produced by the DMO is of ‘good quality’. How does one assess the quality of debt data? Methodological frameworks to do so exist, such as the IMF’s Data Quality Assessment Framework (DQAF).[12] DQAF is a generic methodology, but specific frameworks have been developed for datasets, including external debt datasets. DQAF identifies six dimensions of data quality, namely, prerequisites of quality, assurance of integrity, methodological soundness, accuracy and reliability, serviceability, and accessibility. Debt transparency is an element of assurance of integrity.

The maintenance of complete, accurate and timely debt databases, compiled and reported according to internationally accepted statistical definitions and concepts, has been a challenge for many countries over the years. For example, as discussed above, the ADM surveys indicate that many countries have not been able to achieve full coverage of their debt liabilities. The integration of domestic debt and guaranteed external debt has been particularly difficult for some countries to achieve. Other liabilities – including contingent ones – are even more problematic to include.

The lack of accuracy and timeliness of debt databases can result from a wide range of factors, ranging from inadequate data flow and difficulty in capturing more complex instruments in existing debt recording systems, to poor staffing levels or a lack of trained debt managers. A new and innovative development has been the incorporation of tools to assist debt offices assess the quality of their databases and take corrective action into DRMSs. One such tool is the Debt Data Quality Toolkit (DQT) jointly developed by UNCTAD and the Commonwealth Secretariat and which has been incorporated into their respective debt recording software.[13] The module allows users to gauge the quality of the debt database by analysing its completeness, timeliness, and accuracy and generating scores. **Figure 8** is a screenshot of the implementation of the DQT in Commonwealth Meridian.

12 See https://www.imf.org/external/np/sta/dsbb/2003/eng/dqaf.htm
13 See UNCTAD and the Commonwealth Secretariat (2020).

Figure 8: Data Quality Toolkit



Source: Screenshot from the Commonwealth Meridian software.

In discussing data quality, data coverage is an important consideration as it has a direct impact on transparency. A too narrow coverage of debt would exclude important debt categories. For example, although the collection of debt statistics on central government debt is important, it is difficult to assess overall fiscal sustainability without extending coverage to public and publicly guaranteed debt. Another important category to monitor is contingent liabilities.

Ensuring that published debt data meets data quality standards has been a focus for CABRI and a consideration throughout the ADM project. Going forward, CABRI will explore additional avenues to ensure that this objective is fully met. Measures to achieve this goal may include extending the coverage of the ADM from central government debt to public debt, generating data directly from debt recording systems so as to minimise the possibility of errors when filling in the ADM questionnaire and to make the ADM data collection process easier, expanding the section on contingent liabilities and guaranteed debt, and working directly with debt management officials to strengthen their capabilities to produce high-quality data.

3.5 Data reporting and dissemination

Debt data reporting and dissemination are two different 'communication channels' that are core to debt transparency. However, responses provided in the ADM surveys to questions about reporting and dissemination, as well as our review of available literature, seems to indicate that the difference between the two channels is not well understood.

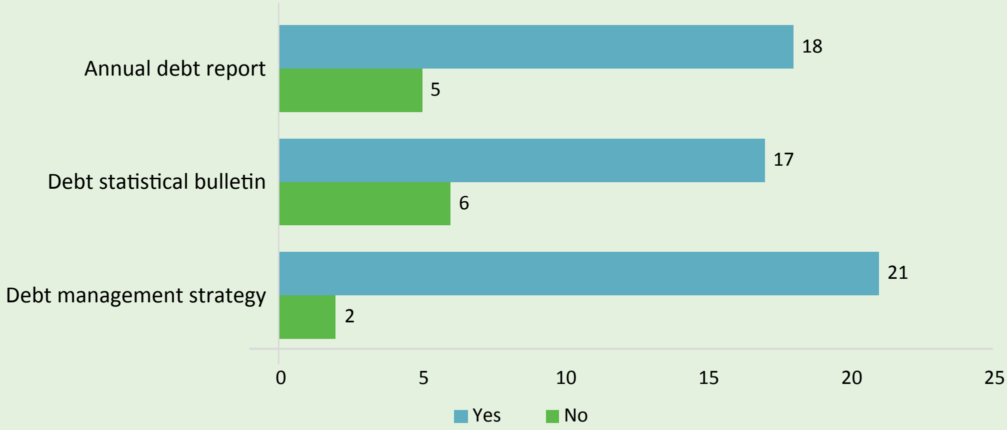
3.5.1 Debt reporting

In this analytical paper we take the view that debt reporting refers to the country-driven publication of debt statistics through debt bulletins and other reports, for either internal or external purposes.[14] Over the years, countries have made considerable progress in publishing debt bulletins and annual reports, in some cases thanks to the assistance of capacity building organisations such as UNCTAD and the Commonwealth Secretariat, which have been offering technical assistance in this area. However, there is still more work to be done in some countries.

The ADM surveys revealed that 73.9 percent of countries publish a debt statistical bulletin; 78.2 percent produce an annual debt report;[15] and 91.3 percent publish a debt management strategy, as depicted graphically in **Figure 9**.

14 This could be through electronic means or via hard copies.
15 This is an encouraging score for ADM countries. According to the World Bank, less than one third of IDA countries produce comprehensive debt reports. See World Bank (2020).

Figure 9: Debt data reporting by ADM countries (number of countries)



Source: ADM surveys

With the advent of information technology, countries can either use email to 'push' the bulletins and reports to targeted audiences or place the documents on their website, where they can be 'pulled'. The content and level of detail of such publications, their frequency of update and timeliness are all important considerations.

Besides publishing debt statistical bulletins and reports, countries that access the international financial markets would usually set up a dedicated programme targeting existing and potential investors in government securities. Investor relation (IR) programmes are characterised by the fact that they provide an official, dedicated window for investors. The type of information and the way the data are presented would also be customised to the target group.

According to the ADM surveys, seven out of the 23 countries (30.4 percent) had an official investor relationship management programme. These are: Benin, Cameroon, Eswatini, Ghana, Morocco, Nigeria, and South Africa. Five of the seven countries had a dedicated IR website.

3.5.2 Debt data dissemination

The other channel that countries can use to put debt data in the public domain is debt data dissemination platforms. These differ from reporting because of the following characteristics:

- They are set up and driven by an external party (such as the IMF or WB);
- Subscription is mostly voluntary;
- They are meant for more than one country and therefore standards must be in place in order to facilitate intercountry comparison;
- There must be openness relative to all aspects of quality;
- Related supporting documentation (referred to as metadata) must be available; and
- There must be a certain level of quality control.

To promote the availability of economic data across countries, the IMF has introduced three data dissemination standards:

- The Enhanced General Data Dissemination System (e-GDDS);
- The Special Data Dissemination Standard (SDDS); and
- The Special Data Dissemination Standard Plus (SDDS Plus).

Each standard includes some public debt data but disseminating debt statistics is not their main objective. However, there is debt-specific information that countries can provide through such platforms as the Debtor Reporting System of the WB, the Quarterly External Debt Statistics (QEDS), and the Quarterly Public Sector Debt Statistics (QPSDS). There are also regional debt dissemination initiatives such as CABRI's ADM.

A short review of the above-mentioned debt dissemination platforms is provided below. It will be noted that each platform has its own purpose, coverage, and primary sources of data.

The World Bank's Debtor Reporting System

The Debtor Reporting System (DRS) is the oldest international debt reporting system in operation, having been put in place in 1951. Data collected is published annually in the International Debt Statistics (IDS) report in aggregate form for each country.[16] Reporting to the DRS is mandatory for World Bank member countries as it is a requirement under the institution's general conditions for membership.

The main objective of the DRS is to provide the WB and the IMF with reliable and timely data on external debt for undertaking economic and financial assessments of member countries. Over time, the IDS report has been used more and more by the wider global community.

The DRS collects data on public and publicly guaranteed external debt only on a quarterly basis through a set of standardised forms (Forms 1, 1a, 2, 3 and 4). This includes information on individual loans as well as related transactions during the quarter. External private non-guaranteed debt is captured in aggregate. To facilitate reporting, the DRMS of the Commonwealth Secretariat and UNCTAD can automatically generate the required data, which can then be submitted electronically.

Quarterly External Debt Statistics

QEDS[17] was launched in October 2014 by the WB in collaboration with the IMF. Participation in QEDS is voluntary. The QEDS databases bring together detailed external debt data of countries that subscribe to the IMF's SDDS and a selected number of countries that participate in the IMF's GDDS. The benefit of bringing together comparable external debt data is that it facilitates macroeconomic analysis and cross-country data comparison. The QEDS database, which is maintained by the WB, can be accessed through the Bank's QEDS debt data portal.[18]

Quarterly Public Sector Debt Statistics

The QPSDS database, which has been jointly developed by the WB and the IMF, brings together detailed quarterly public sector debt data of selected countries – initially, mainly developing and emerging market economies.[19] The main purpose of the QPSDS database is to facilitate timely dissemination of public sector debt data in standard formats. By bringing such data and metadata together in one central location, the database supports macroeconomic analysis and cross-country comparison. As in the case of QEDS, participation of countries in this centralised database is voluntary. Currently, 66 developing countries have agreed to participate and 40 provided data to the QPSDS database. The database is updated quarterly and within one month of the end of a quarter (in January, April, July and October). These databases aim to support countries' efforts to improve the coverage and availability of public sector debt data.

CABRI's Africa Debt Monitor

Launched in 2019, the ADM provides a unique platform for sharing information on African central government debt.[20] It targets government officials, debt managers, investors, and researchers. It was developed in consultation with a group of 17 African debt managers to ensure that the content and format reflects the needs and priorities of ministries of finance. So far, two ADM surveys have been held – in 2019 and 2020. The combined number of participating countries in both surveys was 23. Participation is voluntary.

The ADM is the only platform that provides comprehensive information on debt statistics as well as debt management policies and practices, including legal and institutional arrangements. Topics covered include:

1. **Domestic debt:** broken down into marketable and non-marketable debt (short-, medium- and long-term); holding by investor category; interest rate on Treasury Bills; debt service cost; and domestic debt arrears.
2. **External debt:** categorised as marketable bonds; non-marketable instruments broken down by concessionality and creditor type; original maturity and currency composition; debt service cost; and external debt arrears.
3. **Risk measures:** some 17 of the most common risk measures are provided for, although users can add additional ones; information on contingent liabilities.
4. **Legal and institutional arrangements:** including information about the DMO; institutions involved in debt management; allocation of debt management roles and responsibilities; the regulatory framework; legislative oversight; strategies and policies; domestic debt issuance methods and market makers; stock exchange; computerised debt recording systems; settlement practices; debt reporting standards; investor relations; cash management; management of contingent liabilities and sinking funds.

16 The IDS was formerly known as the Global Development Finance and World Debt Tables.
17 https://www.worldbank.org/en/programs/debt-statistics/qeds
18 http://datatopics.worldbank.org/debt/home
19 https://www.worldbank.org/en/programs/debt-statistics/qpsd
20 See https://www.cabri-sbo.org/en/budgets-in-africa/africa-debt-monitor

Data from the ADM have also fed into several analytical reports. Previous reports include:

- *More Debt Reporting, More Marketable Debt*, an analysis of the correlation between information-sharing and debt reporting and debt marketability;
- *Primary Dealers and Stock Exchanges: Gateways to Local Market Development*, which discusses the benefits of auction practices, primary dealership, and links with stock exchanges on debt marketability; and
- *The Three Cs for DMOs: Co-ordination, Consistency and Clarity*, which describes how functional debt management outcomes can be achieved through strategic co-ordination between DMOs and other government institutions, as well as through clear and consistent delegation of debt management responsibilities.

Such initiatives help to improve debt transparency by putting information that had not yet been published into the public domain. The ADM platform is also a useful tool to allow cross-country comparison. **Figure 10** summarises the participation of ADM countries in the various debt data dissemination platforms.

Figure 10: Subscription of ADM countries to debt data dissemination initiatives

	DRS	SDDS Plus	SDDS	e-GDDS	QEDS	QPSDS
Benin Republic	■			■	■	
Botswana*	■			■	■ *	
Burkina Faso	■			■		
Cameroon	■			■	■	
Central African Republic	■			■	■	
Congo Republic	■			■		
Côte d'Ivoire	■			■	■	
Eswatini	■			■		
Ghana	■			■	■	
Kenya	■			■	■	■
Lesotho	■			■		■
Liberia	■			■	■	
Madagascar	■			■	■	■
Malawi	■			■		■
Mauritius	■		■			■
Morocco	■		■			■
Namibia	■			■	■	
Nigeria	■			■	■	■
Seychelles	■		■			■
Sierra Leone	■			■	■	
South Africa	■		■			■
Tunisia	■		■			
Uganda	■			■	■	■

Source: Debt data dissemination websites

Figure 10 notes:

QEDS reporting status as at 29/10/21 available at: which_countries_subscribe_to_qeds_gdds_2021q2_v2.xlsx (live.com)

* Botswana has agreed to participate in the QEDS but has not yet provided data.

QPSDS reporting status as at March 2021 available at: https://datahelpdesk.worldbank.org/knowledgebase/articles/311566-which-countries-have-reported-data-to-quarterly-pu

The QPSDS consists of six tables and not all countries have submitted the entire set of data.

The debt data dissemination platforms listed above bring a valued contribution to debt transparency in terms of making debt statistics available. Although they are subject to statistical standards, one obstacle that has been observed is that data are not always comparable across platforms due to coverage or other issues.

3.6 Oversight

The sixth and last dimension of debt transparency and accountability – oversight – has been described as 'the continuation of democracy by other means'.[21] The main objective of oversight is 'to review and monitor public sector organisations and their policies, programs and projects, to ensure that they are achieving expected results; represent good value for money; and are in compliance with applicable policies, laws, regulations, and ethical standards. Oversight is thus a critical governance function which can be performed by senior management, boards of directors, committees, or other internal or external bodies' (see footnote 21). Poor, or the absence of, oversight arrangements can lead to disastrous consequences in the conduct of such bodies.

Although oversight is generally considered to be an independent and objective view of a given activity provided by an authorised third party (the oversight body), a fair amount of oversight happens within the organisation itself at various levels. For example, most debt management entities will include an Advisory Committee or Board that would provide advice and strategic guidance to the DMO. Such a body would usually comprise high-level officials (or their representatives) such as the Minister of Finance, the Central Bank Governor, the Accountant General, the Attorney General, and the Head of the DMO itself. The Advisory Committee provides an arena for discussing debt management-related matters as well as for vetting key documents such as the MTDS. Internal control is another example of oversight that occurs within the institution.

However, it is external oversight that is especially relevant when discussing debt transparency and accountability. This is performed by several bodies as discussed below.

3.6.1 External auditing

External auditing is part of oversight. The existence of a supreme audit institution (SAI) at the national level is a compulsory and legal requirement in most countries, often embedded in the Constitution.[22] The main role of the SAI is to provide an independent and objective assessment of the effectiveness of the government's financial management procedures and the level of compliance with financial management policies and guidelines.

Besides auditing the government's accounts, SAIs can also audit public debt.[23] Such exercises enhance the transparency of public debt operations and make debt managers accountable for their actions. By making the reports public, the Auditor General Office (AGO) makes key debt information available to legislators and informs civil society and citizens.

There are different types of audit that can be performed: compliance audits, financial audits and performance or value-for-money audits. At the very least, countries should at least commit to compliance and financial audits and plan to move to performance audits in due course.

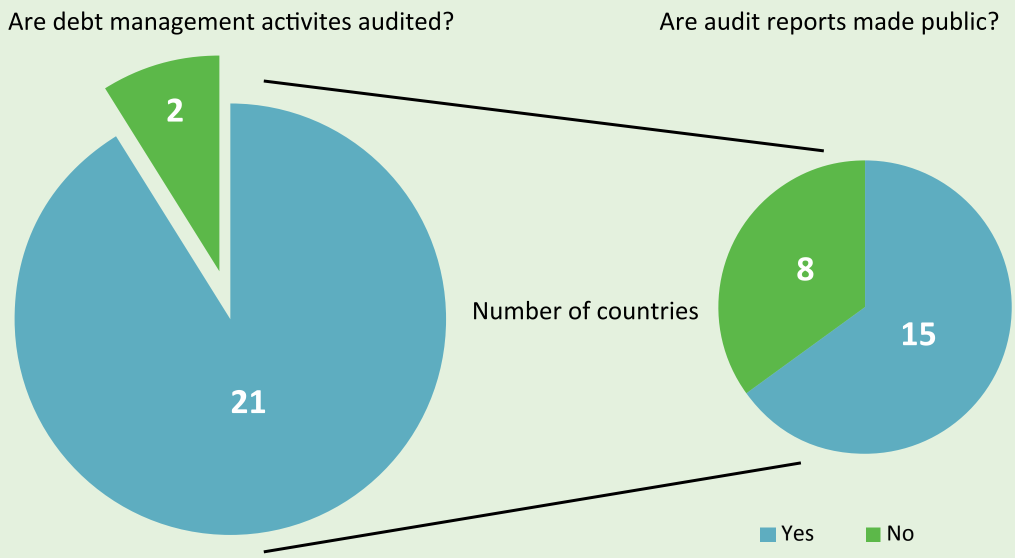
21 See Mayer, Chabot and Cohen (2015).
22 National audit institutions are usually referred to in English-speaking countries as the National Audit Office or Auditor General Office.
23 See INTOSAI (International Organisation of Supreme Audit Institutions) (2018, 2019).

The 2019 and 2020 ADM surveys included two questions on the audit functions. These were:

- Are debt management activities audited?
- Are these audit findings made publicly available?

Twenty-one of the 23 countries (91.3 percent) responded positively to the first question. However, only 15 countries (65.2 percent) responded that the audit reports are made public, indicating that there are still efforts to be made in order to further transparency. The data are shown in **Figure 11**.

Figure 11: Auditing of debt management activities



Source: ADM surveys

3.6.2 Other oversight bodies

Parliament has an important role to play in terms of oversight. There are many avenues for Parliament to exercise this function in relation to the management of public finances and debt. For example, Parliament is likely to approve the signing of external loans (although in some cases this can be delegated to the Minister of Finance and approved in retrospect) as well as the MTDS. Statutory reporting requirements also oblige the DMO to submit various reports on the level of indebtedness, outstanding guarantees, and the evolution of risk indicators to Parliament.

The role of Public Account Committees (PACs) also needs to be stressed. PACs 'assist the legislature in holding the Executive to account for its use of public funds and resources through the examination of public accounts'.[24] PACs are not meant to deal with policy matters. Rather, their task is to determine how efficiently and effectively policies have been implemented. PACs exercise oversight on financial matters, including the budget, debt and so on. One of its remits is to review the Annual Report of the AGO.

In performing their oversight functions, PACs face various challenges, including the need to have expertise in financial matters. However, the fact that several non-Westminster style democracies have adopted the PAC model is an indication that it is perceived as an efficient oversight body.

Civil society can also play a vital role in holding both governments as well as IFIs to account on a variety of issues including debt. They can also play an advocacy role in relation to debt relief and global issues in partnership with international non-governmental organisations.

24 Johnston (no date).

4. THE ROLE OF IFIs IN PROMOTING DEBT TRANSPARENCY AND ACCOUNTABILITY

As discussed in the Introduction, IFIs have an important role to play in the promotion of debt transparency and accountability. A strong case can be made for creditors to disclose details and terms of loans extended to borrowing countries. Most creditors only publish aggregate data.

At least two international organisations have recently launched initiatives to promote debt transparency and accountability.

4.1 The G20 Operational Guidelines for Sustainable Financing

In 2019 the Institute for International Finance (IIF)[25] published a set of Voluntary Principles for Debt Transparency[26] whose main purpose is to encourage central government, subnational entities and public corporations to consistently and timeously disclose financial transactions that represent a debt or a liability arising from a guarantee. The liabilities concerned are broadly defined and range from loan and debt securities to repos, asset-backed securities derivatives, Islamic finance, and transactions that are part of a PPP.

The principles argue that 'greater transparency across all debt transactions should improve the flow of information and mitigate against the risk of an adverse shock arising because of undisclosed public liabilities appearing in central government liabilities. Greater transparency will assist borrowers, creditors and the official sector in the ongoing assessment of debt dynamics, which will greatly aid in supporting debt sustainability'.

Although a laudable private sector initiative, the voluntary nature of the principles could undermine its effectiveness. It has been suggested that providing guidelines on how to circumvent non-disclosure provisions in debt contracts (for example by the addition of a disclosure Annex on key terms and conditions) and monitoring and promoting lenders that comply with the initiative would help enhance its effectiveness.

4.2 The OECD Debt Transparency Initiative

In July 2021, the Organisation for Economic Co-operation and Development (OECD) launched the Advisory Board on Debt Transparency, a multistakeholder group comprising the IIF, global banks, key international financial organisations such as the Bank for International Settlements (BIS), the IMF, WB and the UN, national Ministries of Finance and Central Banks, civil society and academia.[27] The Advisory Board was set up 'to provide a broad range of perspectives on the scope of the initiative, to assess challenges and recommend solutions and, to provide a preliminary assessment of the debt collection, data gaps, and implications of debt trends'.

One aspect of the initiative is to set up a database of commercial loans extended to countries to which commercial lenders would subscribe on a voluntary basis. It remains to be seen how successful this project will be and whether confidentiality may prove a challenge.

A Debt Data Users Group, which is composed of the IIF and debt analysts from central banks, finance ministries, IFIs, private lenders and asset managers, provides feedback on debt data collection through testing of the process and feedback on relevant challenges, refinement of the reporting template as well as supporting analytical content, including the data platform interface and features.

However, the two initiatives described above tend to focus on the reporting aspect of debt transparency and are unlikely to contribute to other dimensions discussed in this paper. Additional partnerships and targeted initiatives are needed to address debt transparency and accountability meaningfully.

25 https://www.iif.com/
26 See Institute of International Finance (2019).
27 https://www.oecd.org/finance/OECD-Debt-Data-Transparency-Initiative.htm

5. CONCLUSION

Although the ADM surveys were not specifically designed to measure or compare the level of transparency and accountability in participating countries, some interesting conclusions can be drawn from the data collected for each of the six dimensions of transparency and accountability identified in this analytical paper. These are summarised below.

Legal framework

Most ADM countries have taken the first step to consolidate their debt management legislation through the enactment of either PDM or PFM laws. A more detailed analysis is required to be able to gauge the extent to which existing legislation safeguards debt transparency and accountability. This would require: (a) establishing a clear set of requirements that would be deemed as mandatory to achieve this objective; and (b) assessing the legislation of each country against these requirements.

Two other important issues would be to determine whether (a) adequate regulations are in place to support primary legislation and (b) the law is being applied, and if breaches lead to the stated sanctions.

Institutional arrangements

According to the responses provided in the ADM surveys, practically all countries have undertaken institutional reforms and adopted the recommended three-tier structure of having a front, middle and back office. The effectiveness of this model needs to be established on a case-by-case basis. This can be done by reviewing how functions are allocated within the DMO as well as among other relevant institutions; whether all required functions are performed; and whether these functions are implemented effectively. In addition, it is important that the front, middle and back offices operate 'as one' to deliver the DMO's objectives. This requires that information is shared transparently within the DMO itself.

Finally, staffing and capacity remains a major challenge for some countries. To a large extent, this can determine the level of effectiveness of the DMO and its adherence to transparency and accountability standards.

Computerised debt recording and management systems

All 23 ADM countries have acquired a DRMS but only 30 percent of respondents felt their current system meets their needs. However, DRMSs continue to evolve to keep up with changes in debt management, user requirements and technology. Although DRMSs now provide interfaces that facilitate the extraction of information from the debt database, this often requires specialised skills that not all countries possess. Therefore, the capacity of countries to make optimum use of available systems is an important consideration in determining their capacity to fulfil reporting and debt data dissemination requirements.

The linking of DRMSs to government-wide IFMISs is also a key requirement to ensure that debt figures are correctly reflected in the government accounts.

Debt data quality

Debt data quality remains at the core of debt transparency and accountability. In terms of coverage, only 10 ADM countries stated that all government debt is recorded in their DRMS. In many countries some debt categories, including domestic debt, guarantees (e.g. to state-owned enterprises) and derivatives, are still managed outside the DRMS.

A positive development regarding debt data quality is the joint creation of the DQT by UNCTAD and the Commonwealth Secretariat (whose systems are used in 91 percent of the ADM countries), which allows an assessment of debt data quality dimensions including completeness, timeliness, and accuracy.

Debt data reporting and dissemination

Responses to the ADM surveys indicate that some countries still do not publish debt statistical bulletins and/or annual debt management reports. The situation regarding the publication of the debt strategy documents is better, probably due to efforts of the IMF and the WB in building countries' capacity in this area.

The performance of countries for this dimension could be strengthened if countries developed and implemented their own debt reporting and dissemination policy. Such a document would help countries set their reporting and dissemination goals over a given period in the form of a road map.

Oversight

Although a large percentage of ADM countries (91.3 percent) are subject to external audit exercises, a much smaller percentage (65.2 percent) publish the findings. It is unclear how many countries act on the recommendations of the audit reports. More data are required to assess the effectiveness of oversight arrangements in countries, including the role of Parliament and that of civil society.

We conclude that the achievement of debt transparency and accountability in the 23 ADM countries is very much a work in progress. The degree of achievement differs from country to country and from dimension to dimension. To address such a situation, technical assistance and capacity building is required ***at the country level*** to address specific challenges. This would complement initiatives at the international level, where the focus should be more on the design and implementation of for example, standards. In providing technical assistance to countries, it will be important to focus equally on transparency and accountability.

REFERENCES

Blommestein, J. (2006). The growing importance of transparency in debt management and government securities market. Presentation at the 16th OECD Global Forum on Public Debt Management. Available at: https://www.oecd.org/finance/public-debt/37858231.pdf

Centro de lntegridad Ade Publica (Mozambique) and Chr. Michelsen Institute (Norway). (2021). *Costs and Consequences of the Hidden Debt Scandal of Mozambique*. Available at: https://www.cmi.no/publications/7841-costs-and-consequences-of-the-hidden-debt-scandal-of-mozambique

G-20. (2018). G-20 Communiqué, Finance Ministers and Central Bank Governors, 19–20 March 2018, Buenos Aires, Argentina. Available at: http://www.g20.utoronto.ca/2018/2018-03-30-g20_finance_communique-en.pdf

Horn, S., Reinhart, C. and Trebesch, C. (2019). *Chinese Overseas Lending*. NBER Working Paper 26050. Available at: https://www.nber.org/system/files/working_papers/w26050/w26050.pdf

Institute of International Finance. (2019). *Voluntary Principles for Debt Transparency*. Available at: https://www.iif.com/Publications/ID/3387/PageID/3387/Voluntary-Principles-For-Debt-Transparency

INTOSAI (International Organisation of Supreme Audit Institutions). (2019). *Guidance on the Audit of Public Debt*. Available at: https://www.issai.org/wp-content/uploads/2019/08/GUID-5250-Guidance-on-the-Audit-of-Public-Debt-Exposure-Draft.pdf

INTOSAI. 2018. *Audit of Public Debt Management: A Handbook for Supreme Audit Institutions*. Available at: https://idi.no/elibrary/professional-sais/audit-lending-and-borrowing-frameworks/742-exp-v-0-handbook-on-audit-of-public-debt-management-1/file

Johnston, N. (No date). *Financial Oversight: A Handbook for Parliamentarians*. Global Organization of Parliamentarians Against Corruption (GOPAC), World Bank Institute. Available at: https://www.agora-parl.org/index.php/resources/library/financial-oversight-handbook-parliamentarians

Halon, J. (2016). *Following the Donor-Designed Path to Mozambique's $2.2 Billion Secret Debt Deal*. LSE Research Online. Available at: https://www.open.ac.uk/technology/mozambique/sites/www.open.ac.uk.technology.mozambique/files/files/Hanlon-Mozambique-3WQ-Final-Accepted.pdf

Mayer, C. Chabot, J.P. and Cohen, J. (2015). *Oversight is the Continuation of Democracy by Other Means*. Global Organization of Parliamentarians Against Corruption (GOPAC), World Bank Institute. Available at: https://www.researchgate.net/publication/304676023_Oversight_is_the_Continuation_of_Democracy_by_Other_Means

UNCTAD and the Commonwealth Secretariat. (2020). *Debt Data Quality Assessment Framework (Debt-DQA)*. Available at: https://thecommonwealth.org/news/debt-data-quality-tool-support-better-decision-making-public-debt

World Bank. (2021). *Debt Transparency in Developing Economies*. Available at: https://www.worldbank.org/en/topic/debt/publication/report-debt-transparency-in-developing-economies

World Bank. (2020). Debt transparency, sustainability and debt management in the context of COVID-19: A donor's perspective. World Bank presentation, August. Available at: https://www.intosaicommunity.net/wgpd/wp-content/uploads/2020/09/4-Worldbank_Debt-Sustainability-and-Transparency_WGPD_final.pdf

CONNECT • SHARE • REFORM

For information on CABRI, or to obtain copies of this publication, please contact:

CABRI Secretariat
Cnr John Vorster & Nellmapius Drive,
Centurion, 0062
South Africa

+27 (0)12 492 0022
info@cabri-sbo.org
www.cabri-sbo.org
@cabri.sbo
@CABRI_SBO
CABRI – Collaborative Africa Budget Reform Initiative

Copy-editor: Inga Norenius
Production: Leith Davis and Simn Chislett

This project was funded by the Bill & Melinda Gates Foundation. The findings and conclusions contained within this publication do not necessarily reflect their positions or policies.