

AN OVERVIEW OF DOMESTIC DEBT IN SADC

A SYNTHESIS OF TRENDS, STRUCTURE AND DEVELOPMENT IMPACTS



AFRODAD



**AFRICAN FORUM AND NETWORK
ON DEBT AND DEVELOPMENT**

AN OVERVIEW OF DOMESTIC DEBT IN SADC: A SYNTHESIS OF TRENDS, STRUCTURE AND DEVELOPMENT IMPACTS

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CONTENTS

ACRONYMS	6
ACKNOWLEDGEMENTS	7
PREFACE	8
EXECUTIVE SUMMARY	9
INTRODUCTION	10
Definitional Issues on Public Debt	10
Methodology	11
DEVELOPMENT OF DEBT RELATIVE TO GDP	12
External Debt Developments in Post HIPC	13
Common Drivers of External Debt Increases in these countries	14
IMPORTANT ASPECTS OF DOMESTIC DEBT MANAGEMENT	18
Reasons for Domestic Debt Issuance	18
Macroeconomic Risks Related to Domestic Debt	18
Maturity Structure	19
CHARACTERISTICS OF DOMESTIC MARKETS IN SADC COUNTRIES	20
Domestic Debt Developments in selected post HIPC countries	20
Debt Developments for Countries that mainly rely on Domestic Debt:	
South Africa, Namibia and Mauritius	23
Drivers of Domestic and Total Public Debt Increases in these countries:	
South Africa, Namibia and Mauritius	25
The positives	26
Debt Developments for Countries that mainly rely on External Debt	29
Swaziland, Botswana and Lesotho	29
Debt Sustainability Analysis for Swaziland, Lesotho and Botswana	30
Debt Developments in Zimbabwe	31
Debt Developments in Angola	32

AN OVERVIEW OF THE LEGAL AND INSTITUTIONAL FRAMEWORKS AND THE OVERSIGHT ROLES IN LOAN CONTRACTION AND DEBT MANAGEMENT IN SELECTED SOUTHERN AFRICAN COUNTRIES	34
Swaziland	34
Namibia	35
Zambia	36
South Africa	36
Tanzania	37
Zimbabwe	37
Mauritius	38
CONCLUSIONS AND POLICY IMPLICATIONS	40
LIST OF SOURCES	41
Tables	
Table 1 SADC RISDP Macroeconomic Convergence Target	12
Table 2: External Debt as a % of GDP in Southern African post HIPCs	14
Table 3: Zambia-Key Indicators for Public and Publicly Guaranteed External Debt	15
Table 4: Malawi-Key Indicators for Public and Publicly Guaranteed External Debt	16
Table 5: Tanzania-Key Indicators for Public and Publicly Guaranteed External Debt	16
Table 6: Mozambique-Key Indicators for Public and Publicly	16
Table 7: Total Debt as at end December 2013	32
Figures	
Figure 1: SADC Member Countries Public Debt as a % of GDP	13
Figure 2: External Debt Stock Trends in Southern African post HIPCs	14
Figure 3: Domestic Debt as a % of GDP for selected Southern African post HIPCs	20
Figure 4: Domestic Debt as a % of Total Public Debt for selected	21
Figure 5: South Africa- Evolution of National Debt, March 1994 – March 2013	23
Figure 6: Namibia- Evolution of Central Government Debt, 2000 – 2013	27
Figure 7: Mauritius-Evolution of Total Public Sector Debt, June 2000-June 2013	27
Figure 8: Broad Money/GDP Ratio for selected SADC Countries as of end 2012	25
Figure 9: Total Government Debt Servicing vis-a-vis Capital Expenditure	27
Figure 10: National Debt Interest Payments, 1994 – 2013	28
Figure 11: Swaziland-Public Debt Developments: March 2004– December 2013	29
Figure 12: Botswana- Public Debt Developments: March 2004 – March 2013	29
Figure 13: Lesotho: Public Debt Developments: 2004 - 2013	30
Figure 14: Wage Bill in Sub-Saharan Africa, 2005-10, % of GDP average	31
Figure 15: Angola Public Debt Developments 2009-2014	33

ACRONYMS

DSA	Debt Sustainability Analysis
GDP	Gross Domestic Product
HIPC	Highly Indebted Poor Countries
IMF	International Monetary Fund
MDRI	Multilateral Debt Relief Initiative
MFMA	Municipal Finance Management Act
MGDS	Malawi Growth Development Strategy
PAC	Public Accounts Committee
PFMA	Public Finance Management Act
RISPD	Regional Indicative Strategic Development Plan
SADC	Southern Africa Development Community
TIPEEG	Targeted Intervention Programme for Employment and Economic Growth
ZAADD	Zimbabwe Accelerated Arrears Clearance and Debt Development Strategy

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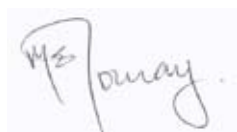
PREFACE

Borrowing from the domestic market has become a viable option for most developing countries owing to budget deficits, against a backdrop of drying up of concessional lending and reduction in official development assistance due to the impact of the global financial crisis among others. Besides the implementation of debt relief programmes such as the Highly Indebted Poor Countries Initiative (HIPC) and the Multilateral Debt Relief Initiatives (MDRI), which aimed to reduce the debt levels of some of the most indebted developing countries, recent AFRODAD studies have noted a looming resurgence of unsustainable debt in the Southern Africa Region (and across the continent for that matter).

Domestic debt has been used to finance primary deficits and implement monetary policies in most African governments, such that in some countries domestic debt now constitutes a large share of the total debt stock. However, given shallow financial markets and poor debt management capacity which are found in many Low Income Countries (LICs) and even specifically in the Southern African Development Community (SADC) region, many observers believe that domestic debt expansion will have significant negative implications for private investment, fiscal sustainability and, ultimately, economic growth and poverty reduction.

The shift in the composition of overall public debt in favour of domestic debt in sub-Saharan Africa countries has brought to the fore the need for governments to formulate and implement prudent domestic debt management strategies to mitigate the effects of the rising debt on the economy. In a broader macroeconomic context for public policy, governments should seek to ensure that both the level and rate of growth in their public debt is fundamentally sustainable, and can be serviced under a wide range of circumstances while meeting developmental objectives.

As an area of policy interest, current international discussions on the financing of the social development goals post-2015 means that the question of domestic resource mobilisation can only be sustainably addressed through a deeper understanding of the forces that constrain domestic borrowing in developing countries. We hope this study will contribute to that understanding.



Dr. M. E. Touray
Executive Director a.i.

EXECUTIVE SUMMARY

The Southern Africa Development Community (SADC) regional economic integration agenda includes a macroeconomic convergence programme, that is intended to achieve and maintain macroeconomic stability in the region and committed to following stability-oriented economic policies that are monitored and measured against specific convergence criteria indicators amongst them, a public debt threshold of 60% of GDP, thereby contributing to faster economic growth and laying the basis for eventual monetary union. Most SADC member states have recorded good macroeconomic performance in recent years, in general coming close to, and in many cases surpassing, the convergence targets specified for 2008. As of end 2013, almost all the countries were below the set target of 60%, with the exception of Seychelles which had a series of large government deficits and defaulted on its US\$230 million Eurobond in October 2008; and Zimbabwe which was in the grip of hyperinflation.

This paper seeks to give a snapshot of developments in domestic debt in selected SADC countries. For analytical purposes SADC member countries were divided into four groupings namely; (i) Those that benefited from the Highly Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiatives (MDRI); (ii) those that also rely mainly on external debt to meet their funding needs (iii) those that depend mainly on their domestic debt markets and (iv) Zimbabwe and Seychelles which currently have significant debt overhang.

The increase in domestic debt stocks due to the decline of external debt stocks has been due to the need to finance budget deficits and infrastructure development. Furthermore there has been an increasing issue of long term government securities, with commercial banks being the dominant holders of domestic debt instruments. This dominance reflects the narrowness of the investor base outside the banking system and the high risks of a “crowding out effect.” Generally domestic debt financing was found to be much more expensive than foreign borrowing and may raise considerable concern about fiscal sustainability.

The issue of parliamentary oversight is of major concern in most SADC countries. There is evidence that internal processes in various countries still need to be strengthened so as to enhance transparency, accountability and the oversight roles in loan contraction and debt management.

INTRODUCTION

Southern Africa Development Community comprises of Angola, Botswana, Democratic Republic of Congo (DRC), Lesotho, Malawi, Mauritius, Mozambique, Namibia, Swaziland, South Africa, Seychelles, Tanzania, Zambia and Zimbabwe. It seeks to promote peace, security, and economic integration in the region and is recognized by the African Union (AU) as one of the building blocks toward achieving an African Economic Community. SADC's regional economic agenda is outlined in its Regional Indicative Strategic Development Plan (RISDP), adopted by member states in 2003. One important component of the RISDP is the programme to achieve macroeconomic convergence among member states. SADC member states agreed to achieve and maintain macroeconomic stability, committing to follow stability-oriented economic policies and to be monitored and measured against specific convergence criteria indicators amongst them, a public debt threshold of 60% of GDP.

Of extensive debate in the past decades, has been the external debt burden and its impact on fiscal sustainability and economic growth in low income countries. This has resulted in several initiatives to reduce the debt stock such as the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) which envisaged freeing up resources for growth development projects by the government. Little attention has however been given to the issue of domestic debt in low-income countries, despite its potentially significant impact on macroeconomic stability, private sector lending, government budgets and ultimately growth performance.

The main objective of this paper is to identify key characteristics of SADC countries' debt development over the past ten years. The discussion will focus on (1) the development of debt over the period relative to various indicators such as GDP, foreign debt, and broad money; (2) the difference in domestic debt markets in HIPC and non-HIPCs; (3) the impact of domestic borrowing on budget and private sector credit (4) an overview of the legal and institutional frameworks and the oversight roles in loan contraction and debt management.

Definitional Issues on Public Debt

The World Bank defines public debt as the sum of public and publicly guaranteed debt. Public debt is therefore the sum of all domestic and external obligations of the public sector and these include the Central Government and its agencies; States, Provinces and other political subdivisions including their agencies and autonomous state bodies such as state enterprises and subsidiaries in which they have joint ownership with the private sector as a major shareholder. It also includes obligations of the public bodies outside the Central Government including borrowings that are both guaranteed and not guaranteed by the Government.

The IMF and World Bank hence classify the debt of a country as external and domestic debt on the basis of the residence of the lender. Accordingly both foreign and domestic currency debts held by non-residents is classified as external debt and those held by residents as domestic debt.

The evolution of public debt in most developing countries includes to a large extent, the thrust by the countries to undertake development and reconstruction programmes and investments in health and education, roads and other infrastructure network designed to enhance the livelihoods of disadvantaged indigenous communities.

Methodology

For analytical purposes for debt management, it is useful to divide the SADC member countries into four groupings namely:

- Those that benefited from the Highly Indebted Poor countries(HIPC) and Multilateral Debt Relief Initiative(MDRI) and these include the Democratic Republic of Congo, Malawi, Mozambique, Tanzania, Madagascar and Zambia
- Those that also rely mainly on external debt to meet their funding needs, but whose external debt indicators have historically remained low and sustainable. These include Lesotho, Swaziland and Botswana
- Those that depend mainly on their domestic financial markets to meet their funding needs and these include South Africa, Namibia and Mauritius;
- Zimbabwe and Seychelles which currently have significant debt burdens and/or debt overhang due to defaulting on their scheduled debt servicing.

Information on domestic and external debt data was obtained primarily from IMF country reports, country desk databases and SADC Statistical Yearbooks. In cases where these were insufficient, Central Bank reports helped to fill the gaps.

DEVELOPMENT OF DEBT RELATIVE TO GDP

As a starting point of analyzing and synthesizing the overall SADC debt developments over the past years, the performance of the member countries against the Regional Indicative Strategic Development Plan (RISDP) Public Debt-to-GDP Macroeconomic Convergence Target of 60% is done first. As shown in table 1 below, this is one of the key macroeconomic targets that was identified as critical for the attainment and maintenance of macroeconomic stability and thus promote deeper integration in the region.

Table 1 SADC RISDP Macroeconomic Convergence Target

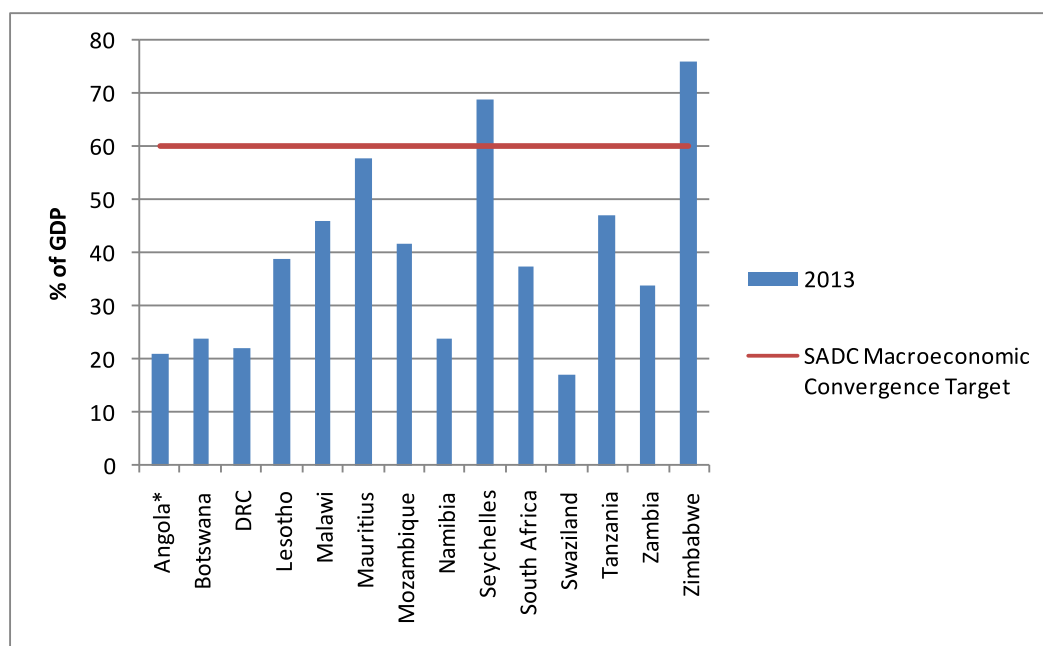
	2008	2012	2018
Inflation (annual rate)	Single Digit	5%	3%
Fiscal Deficit	5% of GDP	3% of GDP as anchor, with a range of 1%	3% of GDP as anchor, with a range of 1%
Public Debt	60% of GDP	60% of GDP	60% of GDP
Current Account Deficit	9% of GDP	9% of GDP	3% of GDP

As shown in Figure 1 below, as of end 2013, almost all the countries were below the set target of 60% with the exception of Seychelles and Zimbabwe, who had Public Debt to GDP ratios of 68.8% and 76% respectively. For Seychelles, the prevailing situation is a result of a series of large government deficits that existed prior to the 2008 IMF reform programme. The country is also on record of having defaulted on its US\$230 million Eurobond in October 2008, following a sharp fall in tourism revenues during the global financial crisis as well as years of excess government spending. The default led to debt restructuring and government spending cuts. Though the public debt to GDP ratio is still high, it is notable that it has been declining over the years, from 117 percent in 2009 to 68.8% as of end May 2013.

For Zimbabwe, approximately 80% of the outstanding public and publicly guaranteed debt is in the form of payment arrears, with the precarious debt situation/debt overhang emanating from the early 2000s when the country started accumulating arrears as a result of both external and internal factors, which negatively impacted economic performance and viability, thus reducing foreign currency earnings to meet debt obligations. The country has since adopted a debt resolution framework within the auspices of the Zimbabwe Accelerated Arrears Clearance and Debt Development Strategy (ZAADS), to reduce public debt to sustainable levels.

For countries such as Malawi, Mozambique, Madagascar, Tanzania, Zambia and the Democratic Republic of Congo, debt relief helped to reduce external debt stocks, which in turn has also enabled the maintenance of Public Debt to GDP ratios below the set targets regardless of the nominal increases in both external and domestic debt stocks, over the recent years.

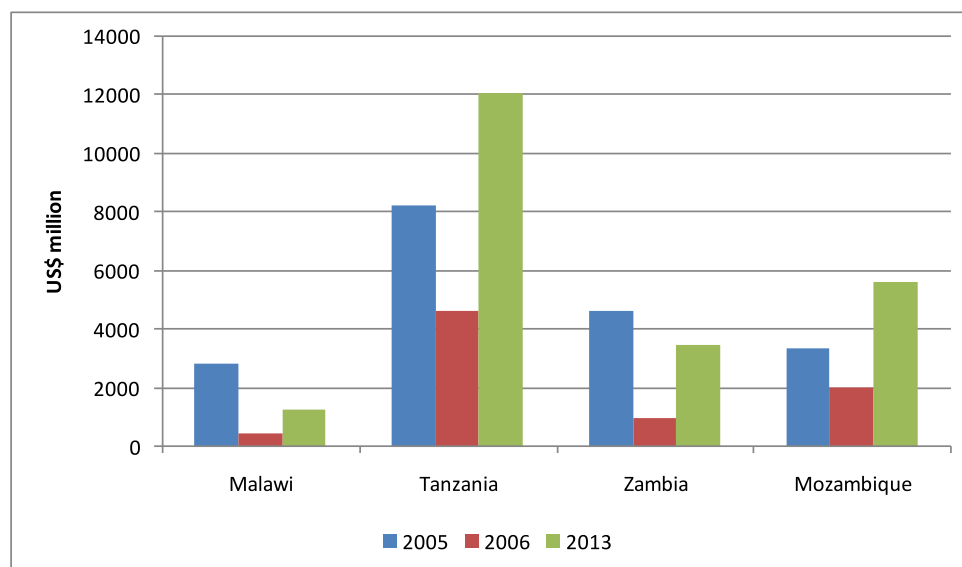
Figure 1 SADC Member Countries Public Debt as a % of GDP



Source: Compiled from Countries' Central Bank Annual Reports Publications and other National Reports
Angola* (only External Debt to GDP)

External Debt Developments in Post HIPC

For the post HIPC, external debt declined significantly between 2006 and 2007 under the MDRI thereby shifting the countries debt from unsustainable to sustainable positions respectively. However, as shown in fig 2 and table 2, over the past years, external debt stocks have increased both in nominal terms and as a % of GDP from the end of 2006 positions. The nominal increases are more pronounced in Tanzania and Mozambique, where as of end 2013, the external debt stocks were already higher than the pre HIPC levels.

Figure 2: External Debt Stock Trends in Southern African post HIPC

Source: Compiled from the Country Central Bank Annual Reports and the World Bank Country Databases

Table 2: External Debt as a % of GDP in Southern African post HIPC

	2005	2006	2013
Malawi	108.4	15.9	30.2
Tanzania	57.5	30.8	42.5
Zambia	64.8	9.3	13.7
Mozambique	51.2	28.8	36.6

Source: Calculated from the Country Central Bank Annual Reports and the 2014 African Statistical Yearbook

Common Drivers of External Debt Increases in these countries

Analysis of the drivers of external debt stock increases in these countries shows that persistent budget deficits and ambitious public investment programmes being undertaken by Government such as infrastructure development are some of the major drivers for increases in external debt accumulation. Local currency depreciations and/or devaluations against the US\$ and other major currencies in which external debt stocks are denominated in have also resulted in external debt stock increases when converted to local currency terms.

Zambia for instance, in September 2012 issued a debut 10 year US\$750 million Eurobond on the international capital market, where 91.3% of this Eurobond proceeds were earmarked for infrastructure development i.e. road, rail and energy generation and transmission.¹ This was in addition to other multilateral and bilateral sources for the same purposes since 2007.

For Mozambique, a large proportion of external loans disbursements to projects and public

¹ Ministry of Finance, 2013 Citizen's Budget page xxx

companies are mainly directed towards the rehabilitation and development of infrastructure projects particularly roads, railway, ports, telecommunication, energy and rural development. Out of the 49 loans that were active in Malawi as of end July 2012, 77% were directed to the Malawi Growth and Development Strategy (MGDS) related priorities which specifically mention transport and infrastructure development in addition to education, health and rural development. The devaluation of the kwacha in 2011 and 2012, expenditure overruns and widening fiscal deficits also contributed to putting pressure on the Malawi external debt stock in addition to borrowing for infrastructure development purposes.

For Tanzania, there has been new borrowing from both domestic and external sources to finance infrastructure investments in line with the country's Five Year Development Plan 2011/12-2015/16.

In Madagascar, political instability and the turbulence associated with the period of democratic transition exacerbated the debt crisis. As of November 1993, Madagascar's external debt was estimated to exceed US\$4 billion, with an outstanding initial debt of US\$295 million and rescheduled debt of US\$625 million being owed to Paris Club members.

Regardless of the external debt stock increases, there is consolation in that, the recent debt sustainability analysis indicate that the countries have low to moderate risk of debt distress as their external debt ratios were still below the sustainability thresholds as of end 2013 and also projected to remain so even up to 2018 in line with the World Bank/IMF Debt Sustainability Framework.

Table 3: Zambia-Key Indicators for Public and Publicly Guaranteed External Debt

Indicator	Critical Threshold ²	2013	2014 (projection)	2018 (projection)
PV of Debt to GDP	40%	13	17	20
PV of Debt to Exports of Goods and Services	150%	27	32	36
PV of Debt to Revenue	250%	67	82	82
Debt Service to Exports of Goods and Services	20%	2	2	3
Debt Service to Revenue	30%	5	6	6

Source: IMF Staff Report for the 2013 Article IV Consultations

² The World Bank's Country Policy and Institutions Assessment (CPIA) ranks Zambia as a medium performer (the average 2010–12 CPIA score is 3.45). Thus, the external debt burden thresholds for Zambia are (i) a PV of debt-to- GDP at 40 percent; (ii) a PV of debt-to-exports at 150 percent; (iii) a PV of debt-to-revenue at 250 percent; (iv) a debt service-to-exports at 20 percent; and (v) a debt service-to-revenue at 20 percent.

Table 4: Malawi-Key Indicators for Public and Publicly Guaranteed External Debt

Indicator	Critical Threshold ³	2013	2014 (projection)	2018 (projection)
PV of Debt to GDP	40%	24	21	16
PV of Debt to Exports of Goods and Services	150%	59	55	45
PV of Debt to Revenue	250%	90	82	64
Debt Service to Exports of Goods and Services	20%	3	4	3
Debt Service to Revenue	30%	4	6	5

Source: Third and Fourth Reviews under the Extended Credit Facility Arrangement

Table 5: Tanzania-Key Indicators for Public and Publicly Guaranteed External Debt

Indicator	Critical Threshold ⁴	2013	2014 (projection)	2018 (projection)
PV of Debt to GDP	50%	25	27	24
PV of Debt to Exports of Goods and Services	200%	94	102	86
PV of Debt to Revenue	300%	121	136	110
Debt Service to Exports of Goods and Services	25%	3	4	6
Debt Service to Revenue	35%	4	5	7

Source: IMF Staff Report for the 2013 Article IV Consultations

Table 6: Mozambique-Key Indicators for Public and Publicly Guaranteed External Debt

Indicator	Critical Threshold ⁵	2013	2014 (projection)	2018 (projection)
PV of Debt to GDP	40%	32	35	39
PV of Debt to Exports of Goods and Services	150%	97	98	91
Debt Service to Exports of Goods and Services	20%	3	4	5
Debt Service to Revenue	30%	4	5	7

Source: IMF Staff Report for the 2013 Article IV Consultations

³ Malawi is classified as a medium policy reformer under the IDA Resource Allocation Index (IRAI)

⁴ With a 2006-08 Country Policy and Institutional Assessment (CPIA) of 3.89, Tanzania is ranked as a strong performer. Debt Burden thresholds for strong performers are PV of Debt to GDP ratio of 50%, PV of Debt-to-Exports ratio of 200%, PV of Debt-to-Revenue Ratio of 300%, Debt Service-to-Exports ratio of 25% and Debt Service-to-Revenue ratio of 35%.

⁵ Under the Country Policy and Institutional Assessment (CPIA), Mozambique is rated as a medium performer, albeit close to the threshold of 3.75 for strong performers, with an average rating of 3.71 during 2010-12; the DSA uses the indicative threshold for medium performers

Regardless of this prevailing sustainability, various DSA results show that the public debt ratios are highly sensitive to:

- Shocks in GDP growth and higher primary deficits;
- Exchange rate shocks especially resulting from currency depreciation;
- Less favourable terms on new public sector loans; and
- High sensitivity to export shocks.

These factors highlight that the maintenance of high growth rates and macroeconomic stability among the former HIPCs are important in ensuring continued public debt sustainability.

IMPORTANT ASPECTS OF DOMESTIC DEBT MANAGEMENT

Reasons for Domestic Debt Issuance

The need to issue domestic debt can arise both from government deficits due to revenue shortfalls or within year borrowing requirements that are not fully financed by foreign aid and from implementation of monetary policy by selling government bills to stem inflationary pressure from excess liquidity. A budget deficit can be financed either by draw downs from domestic assets, or by incurring new liabilities, domestic or foreign issuances. The choice between foreign and domestic borrowing, in theory, in turn depends on cost (interest rate), maturity structure and risks. Since the 1990s, SADC countries have undergone market economic reforms supported by the IMF and the World Bank including liberalizing their trade and foreign exchange regimes unilaterally and this has allowed them access to foreign financing at very low interest rates with very long maturities. Moreover they increase the supply of foreign currency, which is important to meet import requirements. These terms are more favorable than for domestic borrowing, which carry higher interest rates with shorter maturities.

Domestic borrowing however remains attractive to governments due to the following reasons. Firstly, the supply of foreign financing is determined by aid agencies' budgets and their assessment of the economic performance of the recipient country. Secondly, foreign aid is usually linked to project financing and hence cannot finance government's recurrent expenditures or capital projects unsupported by donors. To close their budget gaps, governments with recurrent budget deficits therefore resort to domestic savings through issuance of domestic debt.

Macroeconomic Risks Related to Domestic Debt

According to the research conducted by Jakob Christensen (2005)⁶, there are several repercussions on the economy that arose due to the extensive use of domestic borrowing. He revealed that domestic debt service can consume a significant part of government revenue, given that domestic interest rates are higher than foreign ones. The increase in interest rates was seen to be more pronounced if the investor base is relatively narrow, since the government may be held hostage by a particular group of investors (World Bank and IMF, 2001). A diverse investor base reduces the monopoly power of a particular group of investors, bringing down not only costs but also rollover risks. A diverse investor base can be achieved through promoting investment by retail investors and developing and reforming pensions and retirement funds to encourage their investment in government bonds (J. Christensen, 2005).

⁶ J. Christensen, 2005. *Domestic Deb Markets in Sub-Saharan Africa*; <https://www.imf.org/external/pubs/ft/wp/2004/wp0446.pdf>

The risk of crowding out private investment was also revealed. When issuing domestic debt, governments use domestic private savings that would otherwise be available to the private sector, resulting in increased domestic interest rates therefore affecting private investment. In case that interest rates are controlled, domestic borrowing can lead to credit rationing and crowding out of private sector investment (Fischer and Easterly, 1990). This can be exacerbated in the absence of non-bank financial institutions such as pension funds and retirement funds to which the government could sell its debt without necessarily crowding out private sector credit, hence the importance of a diverse investor base.

Maturity Structure

A number of countries in the SADC issue only Treasury Bills (T-Bills) for example the Democratic Republic of Congo (DRC), which issues only 7 and 28 day bills in weekly auctions. T-Bills are also the predominant issuing vehicle for the government like in Mozambique (85%), Seychelles (64%) and Swaziland (88%). The issuance of T-Bills serves the purpose as a short-term financing requirement instrument for the Ministry of Finance (MoF) that is used to smooth temporary or cyclical fluctuations in revenue and it is also used as an instrument by the Central Bank to mop up excess liquidity in the economy to keep down inflationary pressure. In countries such as South Africa and Zambia, the government bond market is more developed and T-bills are not the primary issuing vehicle for the government.

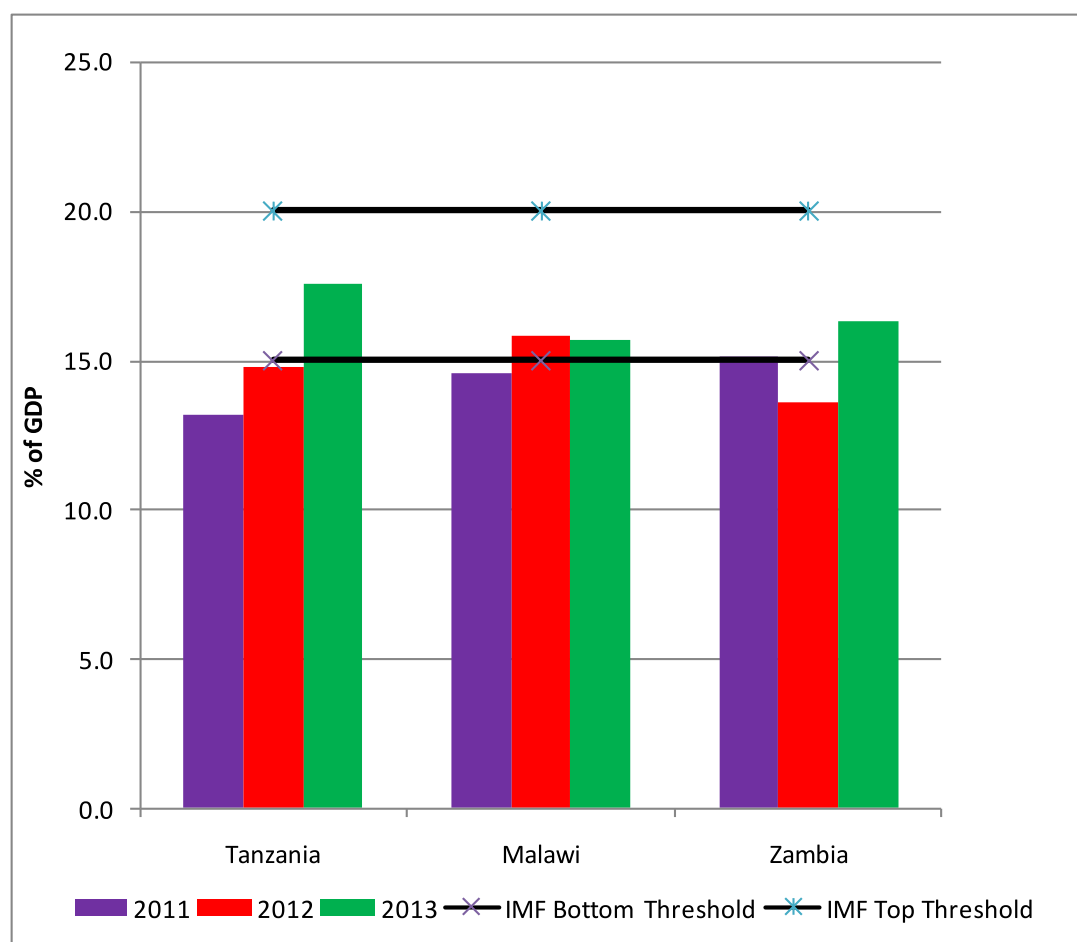
The government debt portfolio should comprise of both short and long term papers. A debt portfolio which mainly consists of short-term debt poses considerable cash-flow risks to the government, as frequent rollovers exposes the government to sudden increases in interest rates which can raise debt service significantly. This undermines the markets' confidence in government bonds, prompting even higher interest rates on government debt. Secondly, administrative costs tend to be higher with short maturities, as the government must frequently roll over large parts of its debt, notably in countries without an automated book-entry system. The maturity structure also determines the diversity of the asset portfolio. The challenge however with pursuing a longer term debt portfolio is that the market itself might not be willing to hold long term paper in view of inflation and default risks. The government may also hesitate to extend the maturity since long term bonds can entail higher interest rates in view of a rising yield curve, which would raise financing costs.

CHARACTERISTICS OF DOMESTIC MARKETS IN SADC COUNTRIES

Domestic Debt Developments in selected post HIPC countries

Countries that benefited for HIPC include, DRC, Malawi, Mozambique, Madagascar, Tanzania and Zambia. Besides the increases in external debt, a snapshot of the countries' domestic debt stocks reveals that it has also been on the rise, both in absolute terms and as a percentage of GDP as shown in Figure 3. For example, for Tanzania, Malawi and Zambia, as of end 2013, the Domestic Debt –to-GDP Ratio was already in the critical range of 15%-20%.⁷

Figure 3: Domestic Debt as a % of GDP for selected Southern African post HICPs



Source: Compiled from the countries' Central Bank Annual Reports and Ministry of Finance Publications

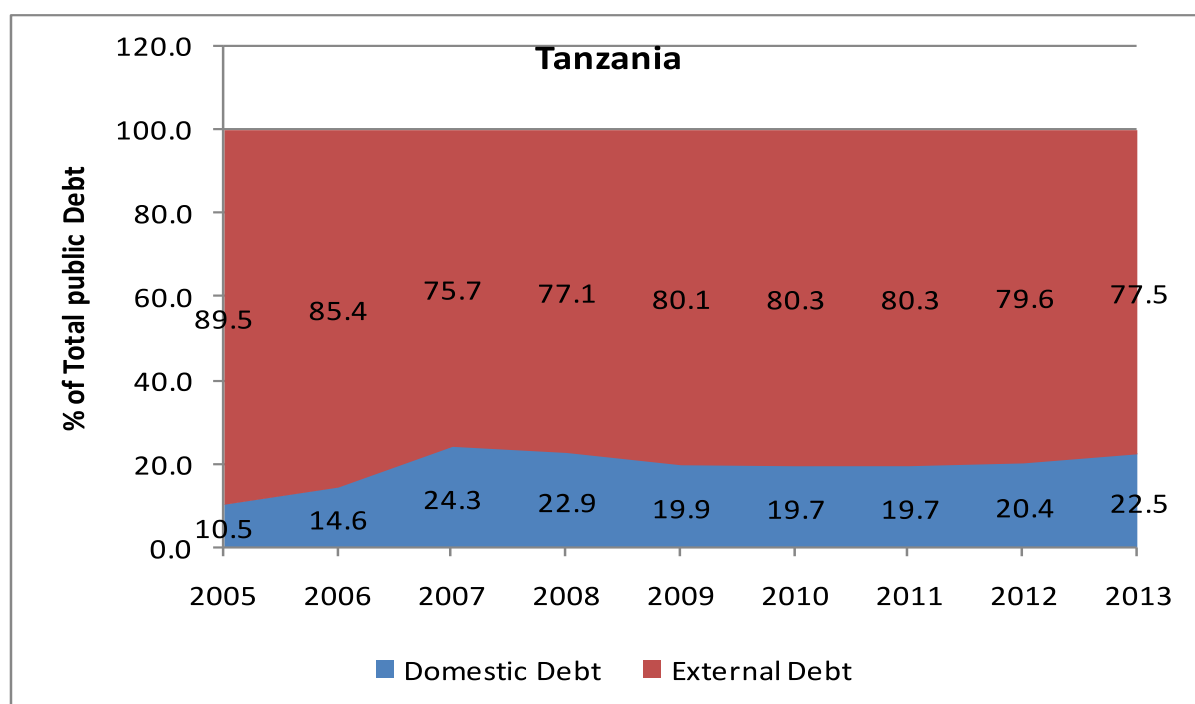
⁷ There are currently no internationally agreed thresholds for assessing domestic debt sustainability. However, the IMF describes the domestic debt burden as significant when the nominal Domestic Debt Stock to GDP ratio is above 15% - 20%. The Debt Relief International (DRI) also gives another range of 20%-25%

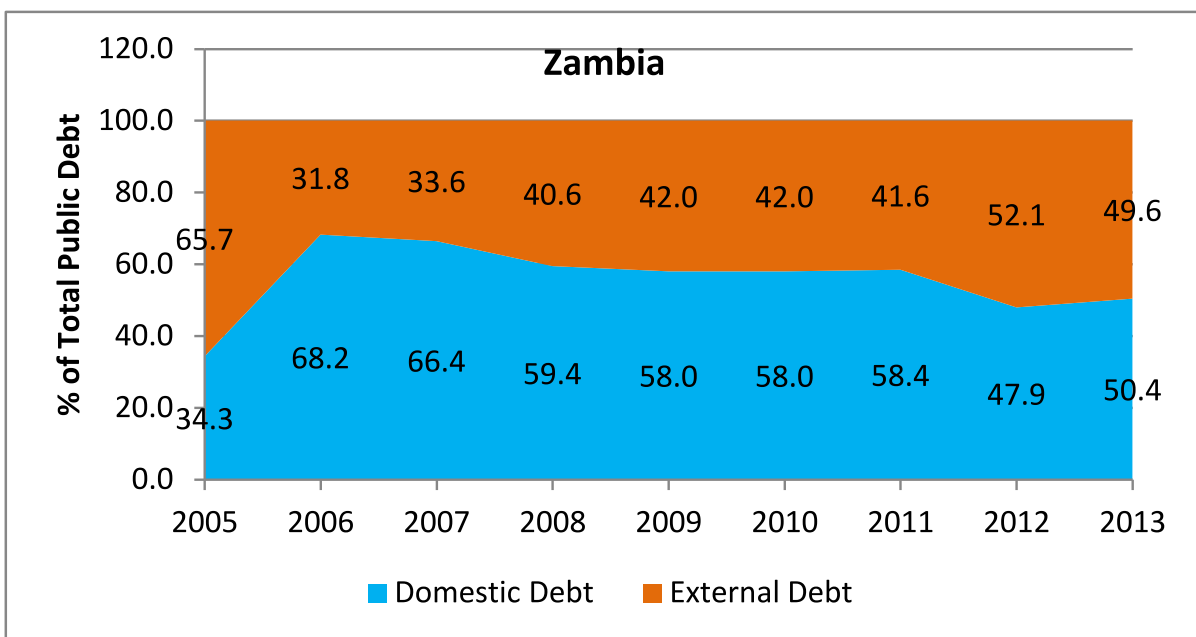
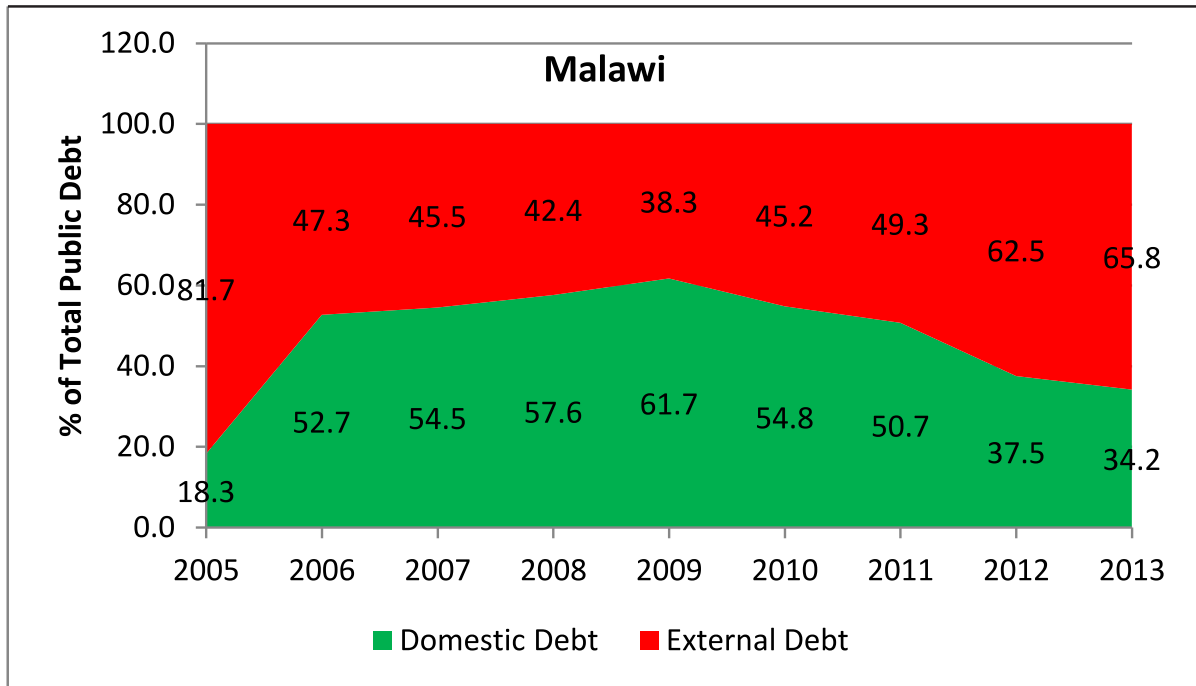
As a proportion of total public debt, Tanzania's domestic debt reached a high of 24.3% in 2007 as a result of the decline in external debt due to debt relief. Though it declined to 19.7% in 2011, it rose to reach 22.5% of the total debt as of end June 2013.

In Malawi, domestic debt increased from 18.3% in 2005 to 52.7% in 2006, as a result of the significant decline in external debt due to debt relief. Domestic debt remained dominant up to 2011, where it accounted for 50.7% of the total outstanding public debt. However, domestic debt stock declined to 37.5% and 34.2% as of end June 2012 and June 2013. Though the government has continued to borrow domestically, the declining proportion of domestic debt in the total public debt portfolio is as a result of the depreciation of the local currency by 10% and 49% in August 2011 and April 2012 respectively, which resulted in the value of external debt in Malawian kwacha increasing respectively, to 62.5% and 65.8% of the total outstanding public debt as of end June 2012 and June 2013 respectively.

Since the reduction of the external debt stock in 2006, Zambia's domestic debt stock remained dominant from 2006 at 68.2% of the total public debt to 58.4% in 2011. The domestic debt lost its dominance in 2012 as a result of the high increase in external debt stock after the country issued its debut 10 year US\$750 million Eurobond on the international capital market. However, domestic debt gained its dominance again as of end 2013, accounting for 50.4% of the total outstanding public debt.

Figure 4: Domestic Debt as a % of Total Public Debt for selected Southern African post HIPC





Source: Compiled from the countries' Central Bank Annual Reports and Ministry of Finance Publications

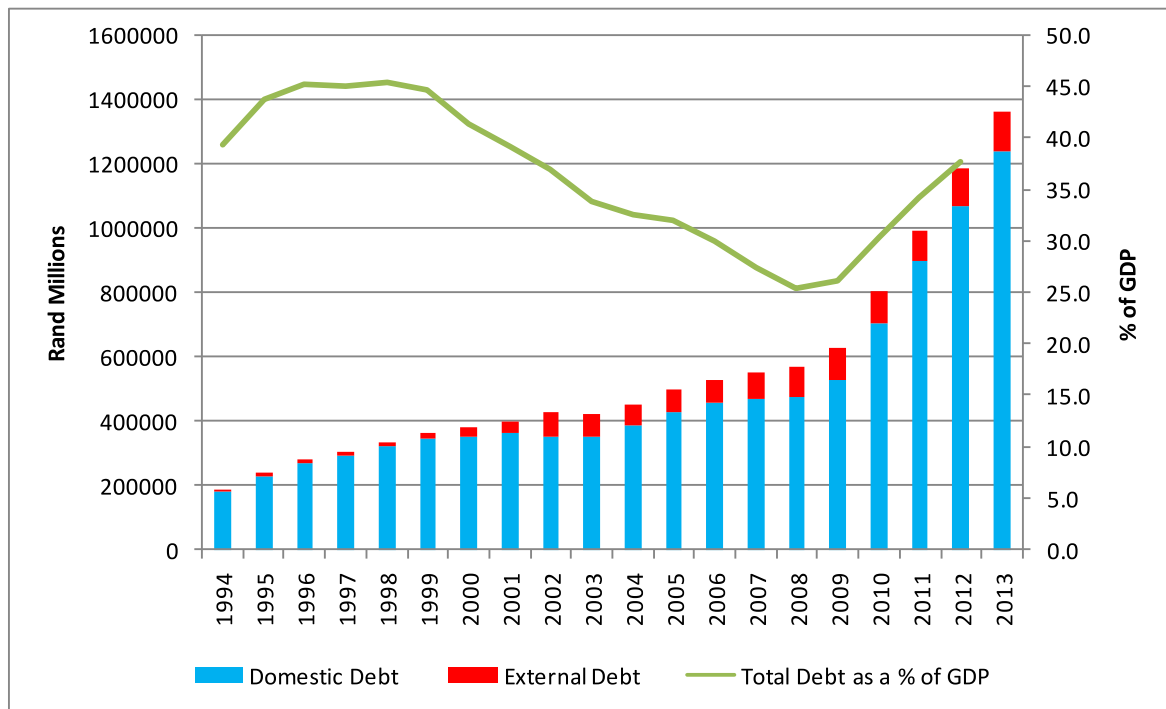
The increase in domestic debt stocks due to the decline of external debt stocks in 2006 has been driven by the countries' need to finance budget deficits and infrastructure development. Furthermore there has been an increasing issue of long term government securities, which has contributed to the deepening and development of domestic debt markets in these countries.

When it comes to the holding of the various domestic debt instruments, commercial banks have remained as the dominant buyers and holders (45.9% as of end June 2013 in Tanzania), 40.9% as of end June 2013 in Malawi and 70.4% as of end December 2012 in Zambia. This dominance reflects the narrowness of the investor base outside the banking system. It also puts on the fore the possibility of the “crowding out effect” that is normally associated with this dominance especially when banking portfolio become overwhelmingly made up of government securities thus reducing the space and availability of funds for private sector lending.

Debt Developments for Countries that mainly rely on Domestic Debt: South Africa, Namibia and Mauritius

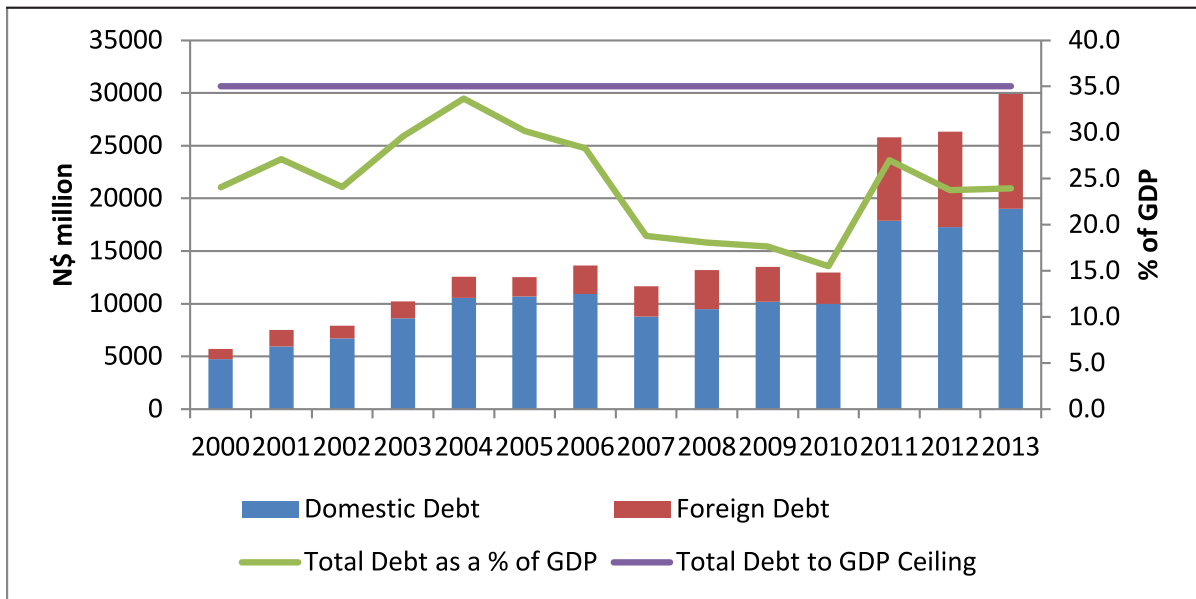
As compared to the above countries which mainly rely on external sources of finance to meet their development finance needs, South Africa, Namibia and Mauritius use their domestic debt markets more and this is reflected by the dominance of domestic debt in the total public debt portfolio as in Figure 5.

Figure 5: South Africa- Evolution of National Debt, March 1994 – March 2013



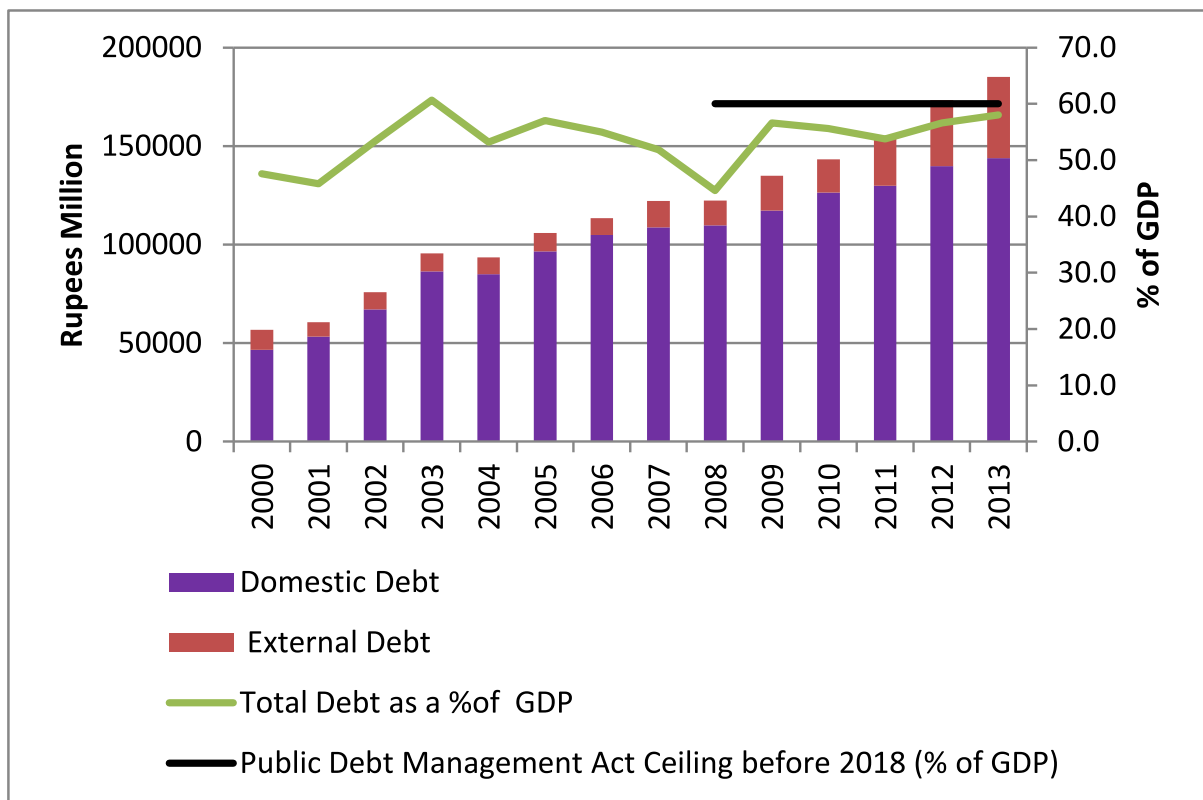
Source: Compiled from the Government Finance Statistics of South Africa: 1994 – 2012 and the Reserve Bank of South Africa, June 2013 Quarterly Bulletin

Figure 6: Namibia- Evolution of Central Government Debt, 2000 – 2013



Source: Compiled from the 2000 to 2013 Bank of Namibia Annual Reports

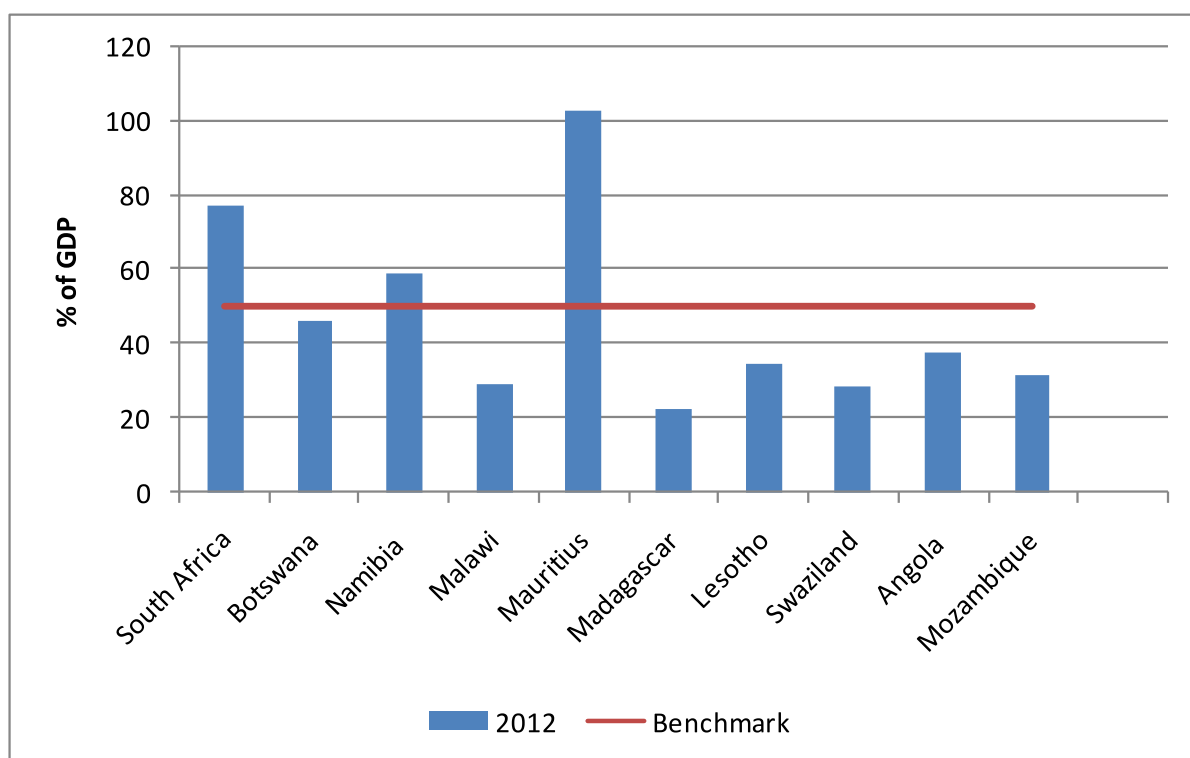
Figure 7: Mauritius-Evolution of Total Public Sector Debt, June 2000-June 2013



Source: Compiled from the Bank of Bank of Mauritius Publications, the Mauritius Public Debt Management Act 2008 and the Ministry of Finance Reports

The need to minimize the exchange rate risk that is associated with foreign currency debt as spelt out in South Africa's 2011/12 Debt Management Report, Namibia's 2005 Sovereign Debt Management Strategy and Mauritius 2008 Debt Management Strategy all point to the preference of domestic debt over external debt in these countries. This preference has driven the countries to concentrate on developing their domestic financial markets. Therefore, using the Broad Money to GDP as a measure of the depth of the financial sector as of end 2012, these countries had more developed domestic financial markets as compared to other Southern African countries as shown in fig 8 below.⁸

Figure 8: Broad Money/GDP Ratio for selected SADC Countries as of end 2012



Source: Compiled from the individual countries' Central Bank Annual Reports, 2013 African Statistical Yearbook and other various sources

Drivers of Domestic and Total Public Debt Increases in these countries:

South Africa: The country's national budget was generally balanced up to 2008, thus putting minimum pressure on total debt accumulation. However, budget deficits have been recorded since 2009, due to the 2008/09 global financial and economic crisis. Consequently, the Total Debt/GDP ratio which had declined from 41.3% as of March 2004 to 25.3% as of March 2008 rose to reach 37.6% as of end March 2012, mainly driven by domestic debt which accounted for 90.2% of the total outstanding debt as at end of financial year 2012.

⁸ Benchmark of 50% is suggested by the IMF in its working paper titled "What determines bond market development in Sub-Saharan Africa".

Namibia: The largest annual increase in the central government stock of debt was experienced between 2010 and 2011 when the total outstanding debt increased by 98.8% from N\$12 968.7million as of end 2010 to N\$25 787.6million as of end 2011. In a bid to address the country's high unemployment rate and also support strategic economic sectors in the face of the 2008 global and regional economic slowdown, the government of Namibia unveiled the Targeted Intervention Programme for Employment and Economic Growth (TIPEEG) in 2011. Given the huge funding requirements of this programme, the government turned to both domestic and international capital markets to source funding, resulting in a corresponding huge upsurge in the country's debt respectively. It was also during the same year that the country first issued a debut US\$500 million Eurobond on the international capital markets. As a percentage of GDP, total debt thus increased from 15.5% in 2010 to 27% in 2011 respectively. Though total central government debt increased further in nominal terms to N\$29 903.3million as of end 2013, as a percentage of GDP it declined to 23.9%, on the backdrop of a higher economic growth. Notably, it was still below the country's total debt ceiling target of 35% of GDP.

Mauritius: The percentage stock of total public debt to GDP actually declined from approximately 61% in 2003 to 45% in 2008, as a result of the implementation of a structural reform programme under which the government managed cut the budget deficit and thus brought public debt down while GDP grew rapidly due to high investment inflows, attracted by the low tax rates that also prevailed concurrently. The exchange rate appreciation experienced from 2005 to 2008 also contributed to the decline of the Public Debt/GDP ratio as the country's foreign currency liabilities declined respectively. The 2008/09 global credit crisis however resulted in a reversal of the downsizing of the total public debt as the government adopted a considerable fiscal stimulus package to buffer the local economy against the crisis. Consequently, the public debt to GDP ratio increased to 57% in 2009. In regard of these increases, as of end June 2013, the Public Debt/GDP ratio of 58% was just slightly below the 2008 Public Debt Management Act ceiling of 60%. Taking note of the fact that the same Act also stipulates that total outstanding amount of public sector debt shall be reduced so that at the end of the fiscal year ending 31 December 2018, the percentage shall not exceed 50%; there is thus need for continuous fiscal consolidation to reduce debt vulnerabilities. This includes public spending savings through better targeting of social spending, reduction of subsidies, revenue reform, and efficiency gains for public enterprises, including applying full cost recovery pricing policies.⁹

The positives

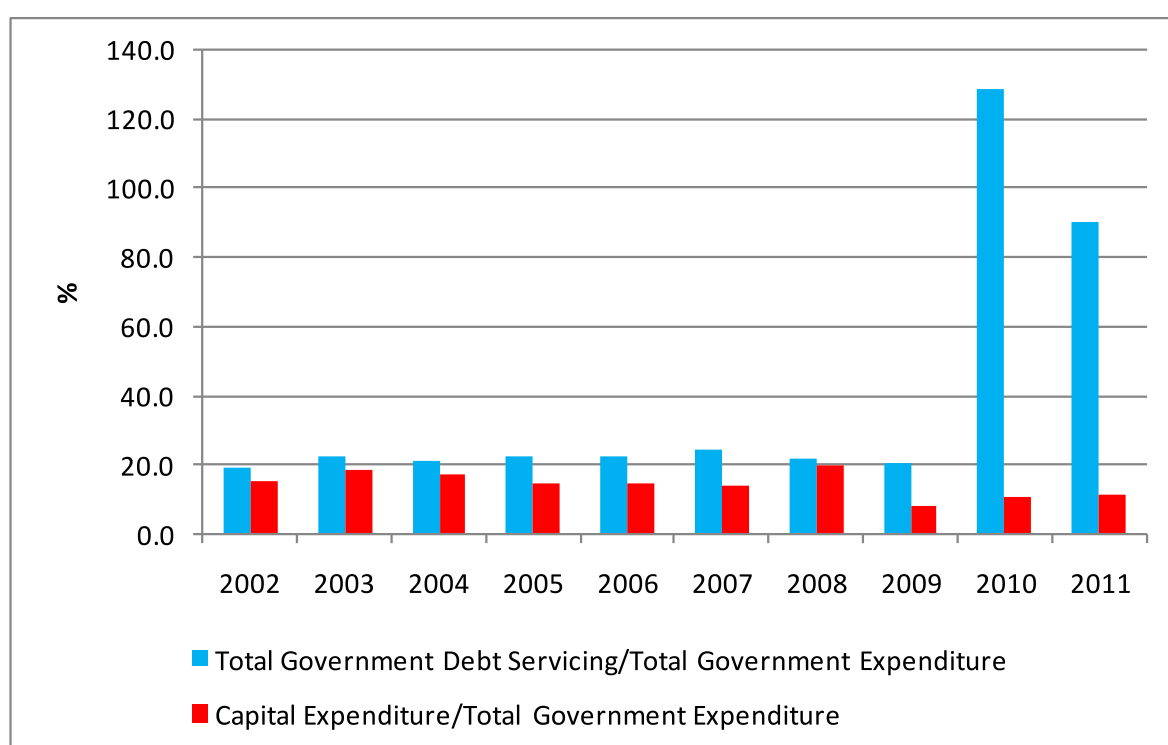
Mauritius: Regardless of the recent increases in the country's debt stocks and debt – to-GDP ratio, respectively, it is notable that the country's domestic debt portfolio has tilted towards long-term and medium-term maturities, which reduces rollover risks and possibly borrowing costs. Furthermore, external debt pressures remain low as it continues to be financed by multi- and bilateral sources at long maturities and favourable interest rates.

⁹ IMF, *Staff Report for the 2013 Article IV Consultation*

From an interest cost perspective, it is notable that domestic debt interest payments as a percentage of total recurrent expenditure actually declined from a high of 20.7% in 2008 to 15.1% in 2012 while external debt interest payments remained consistently below 1% between 2002 and 2012.

However, being mindful of the trade-off between spending on debt servicing (recurrent expenditure) and investment in capital development expenditure, it is of concern that between 2002 and 2011 for instance, national budget allocations for total government debt servicing have consistently been higher than those allocated for new capital expenditure respectively as shown in fig 9 below. Unless the debt being serviced is being specifically used for economic productive services that generate resources which are commensurate with their servicing respectively, this allocation has an impediment to sustainable growth and development.

Figure 9: Total Government Debt Servicing vis-à-vis Capital Expenditure Allocations, 2002 –2011

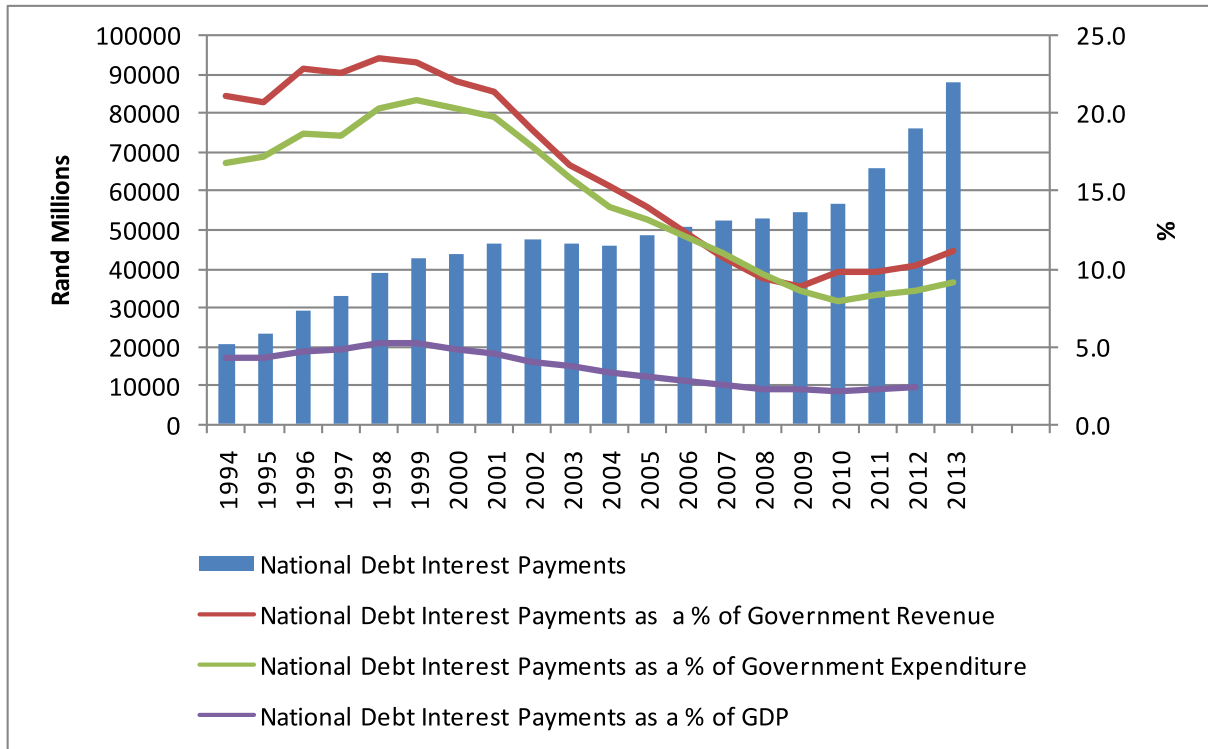


Compiled from the 2013 African Statistical Yearbook and the Bank of Mauritius Annual Reports

South Africa: The South African 2011/12 Debt Management Report defines long term debt sustainability as the need to ensure that spending levels do not continually increase debt and interest costs. In this view, it is notable that though national debt interest payments increased in nominal terms since 1994, the actual burden of debt servicing on the economy has declined over the years as shown below by the declining debt interest payments/ government revenue, debt interest payments/ government expenditure and the debt interest payments/ GDP ratios respectively. Holding everything else constant, the slowdown in the

debt interest payments ratios is a commendable prudent debt management achievement as it implies creation of room for scarce resources to be used for key socio-economic development projects in the country.

Figure 10: National Debt Interest Payments, 1994 – 2013



Source: Compiled from the December 1999 and June 2013 Quarterly Bulletins of the Reserve Bank of South Africa and the Government Finance Statistics of South Africa: 1994-2012

Namibia: The Namibia 2005 Sovereign Debt Management Strategy sets the benchmarks for Total Debt Service to Revenue and Total Debt Service to GDP at 10% and 3% respectively. It is noteworthy that despite the debt increases, as of end March 2014, the total debt service to revenue ratio was 6%, below the 10% benchmark and the total debt service to GDP was 2% below the 3% benchmark.

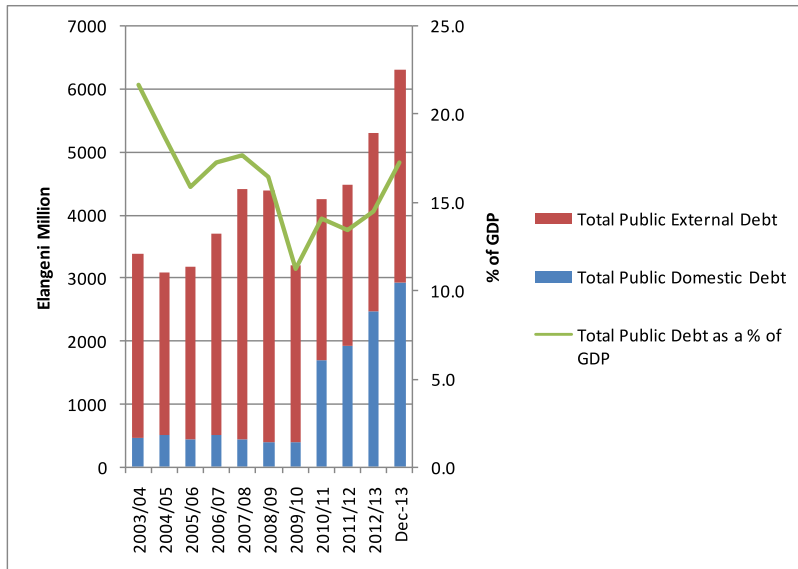
However, regarding the need for effective utilization of debt resources for economic development and poverty reduction it is of concern that though the country’s debt increased significantly in 2011 as a result of the high government borrowings to kick-start the implementation of Targeted Intervention Programme for Employment and Economic Growth (TIPEEG), there are concerns on the slow implementation, lack of an effective monitoring mechanization and lack of project reporting on TIPEEG by various ministries and government institutions.¹⁰ This obviously compromises the effective utilization of borrowed resources for their intended purposes.

¹⁰ <http://www.thevillager.com.na/articles/662/Turf-Wars-Ministries-delaying-NPC-on-TIPEEG-imple-mentation/>
http://www.informante.web.na/index.php?option=com_content&view=article&id=12494:tipegg-fails-to-create-permanent-jobs-&catid=19:inside-pages&Itemid=100
 Unlike Namibia, South Africa and Mauritius have no clearly set Benchmarks for total debt service as a % of GDP and as a % of Revenue. This is key in promoting and ensuring prudent debt servicing monitoring and management.

Debt Developments for Countries that mainly rely on External Debt

Swaziland, Botswana and Lesotho

Figure 11: Swaziland-Public Debt Developments: March 2004– December 2013



Source: Bank of Swaziland Annual Reports

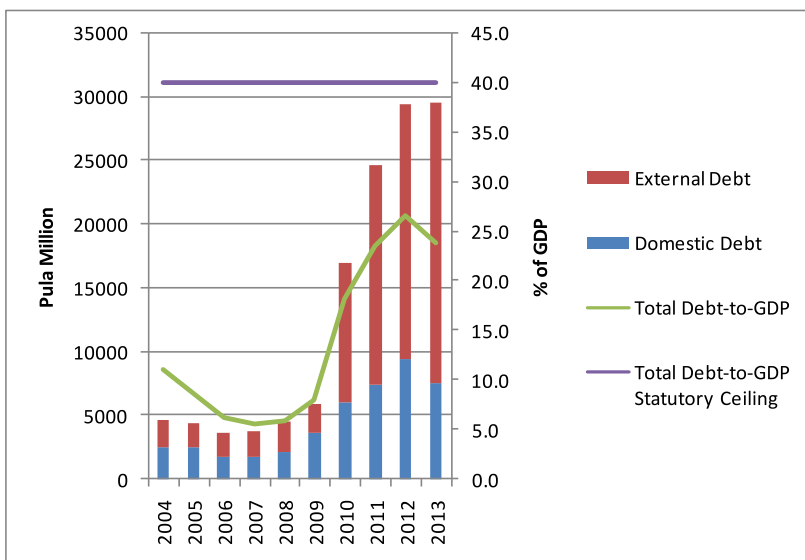
Total Public Debt to GDP declined between March 2004 and March 2009 and has been on an upward trend since then

Decline in SACU receipts (major source of government revenue at 66.4% in 2006/07) in 2009 resulted in increases in total debt so as to finance budget deficits respectively

Accompanied by marked increases in domestic debt from 1.4% of GDP in 2009/10 to 8% of GDP as of December 2013

External debt more dominant at (53.8%) & domestic debt, (46.2%) as of December 2013, **Increasing the use of domestic debt in the country.**

Figure 12 Botswana- Public Debt Developments: March 2004 – March 2013



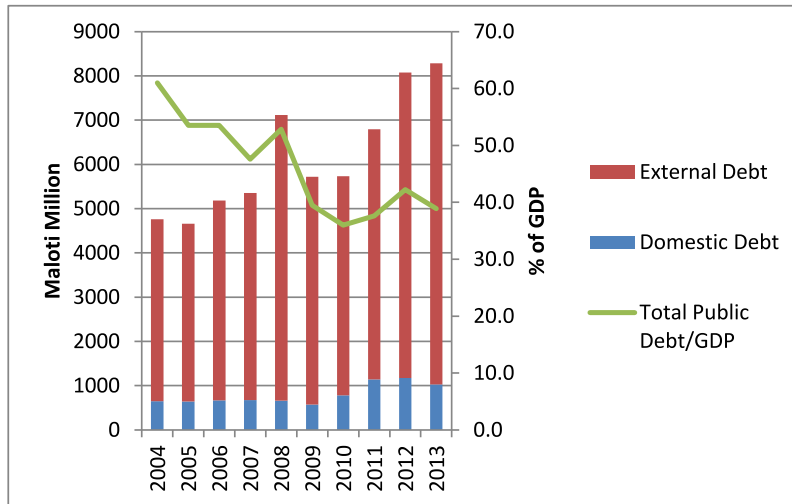
Total Public Debt to GDP declined from 11.2% in 2004 to 5.9% in 2008

382% increase in total public debt between 2009 & 2010:- US\$1.5 billion Economic Diversification Support Loan from the ADB to alleviate the negative impact of the global financial and economic crisis in the country

Total Debt to GDP increased to 18.2% in 2010 & further to 23.8% as of March 2013. It is still below the ceiling of 40% (20% for domestic and 20% for external). At 17.7% of GDP, external debt is almost close to the 20% ceiling

External debt more dominant (74.4%) & domestic debt (25.6%) of total public debt as of March 2013

Fig 13 Lesotho: Public Debt Developments: 2004 - 2013



Source: Central Bank of Lesotho Publications

Regardless of the nominal increases in total public debt between 2009 & 2013, Total Public Debt- to- GDP has declined from 61% in 2004 to 38.9% in 2013.

External debt is dominant (87.6%) & domestic debt (12.4%) of the total public debt as of Dec 2013.

Dominance of external debt is in line with the policy of maximizing concessional loans so as to ease the debt service burden.

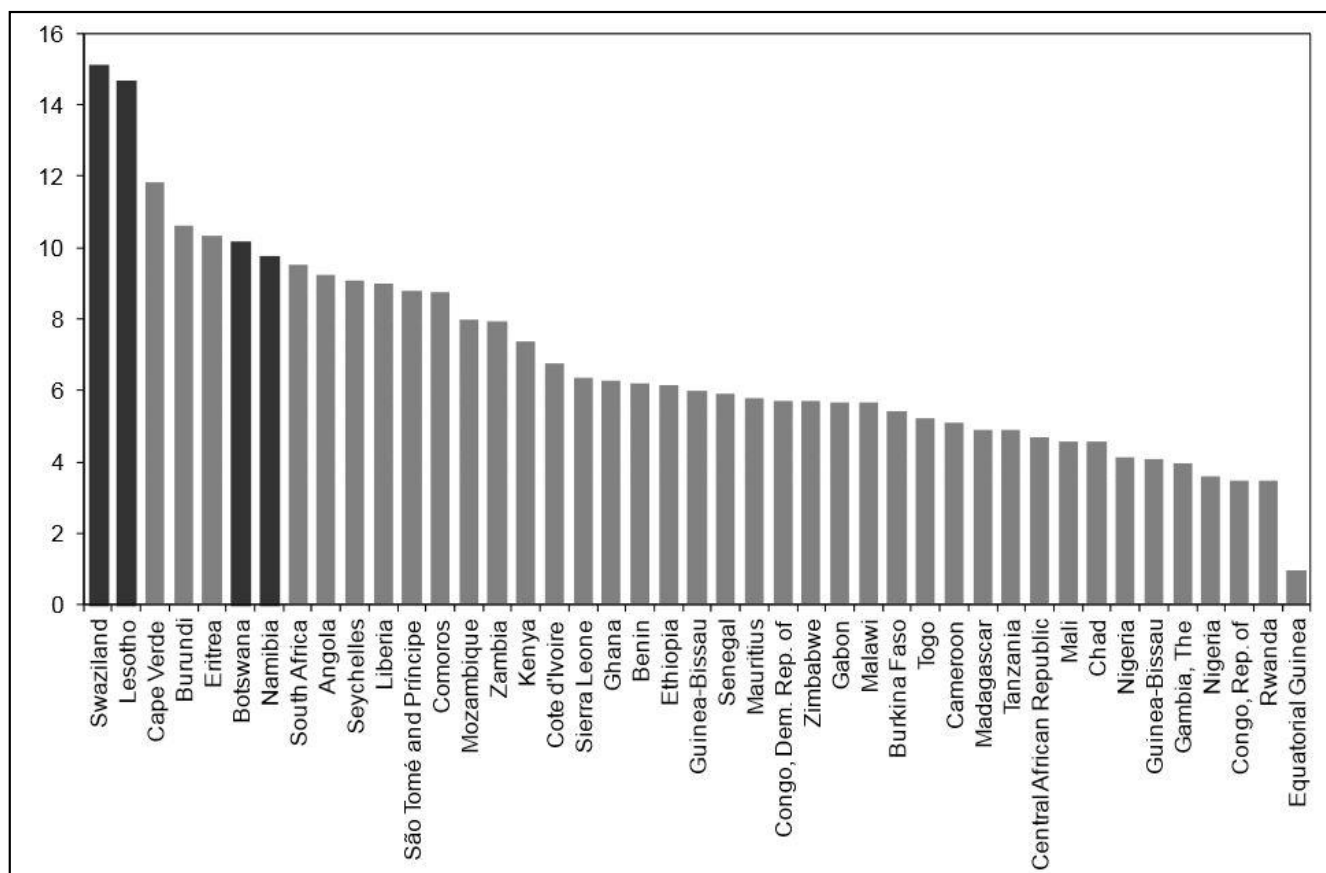
However, there is high vulnerability of public debt to exchange rate movements.

Swaziland, Lesotho and Botswana are classified under countries that rely mostly on external financing as evidenced in the graphs above.

Debt Sustainability Analysis for Swaziland, Lesotho and Botswana

Debt Sustainability analysis for these countries shows that their indicators were sustainable as of end of 2012. However, the key recommendation for them is the need to ensure utilization of debt resources in economic productive sectors that generate resources that are commensurate with meeting the respective debt service obligations and also clear mapping of debt resources for poverty reduction. This is pertinent given that these countries have on average high wage bills as compared to other Sub Saharan African countries, as shown in fig 14 below, which raises the possibility that borrowed funds which are always indicated to be earmarked for budget support might also be being largely used to meet the high wage bills which is recurrent expenditure and not developmental as such. Furthermore, poverty levels are still high (include figures for the countries) which necessitates the need to direct borrowed funds to those sectors that have a quick impact on poverty reduction.

Figure 14: Wage Bill in Sub-Saharan Africa, 2005-10, % of GDP average



Source: IMF Working Paper on the Design of Fiscal Adjustment Strategies in Botswana, Lesotho, Namibia and Swaziland (2011)

Debt Developments in Zimbabwe

As of end December 2013, Zimbabwe's total domestic and external debt amounted to US\$9.9 billion as shown in Table 8 below. This amounted to 95.2% as a percentage of GDP and reduces to 76% of GDP if the private sector non guaranteed external debt is excluded. This exceeds the SADC benchmark of 60%, showing the country's precarious and external debt overhang position. The IMF Debt Sustainability Analysis under the 2012 Article IV Consultations also proved this external debt overhang with the country's debt ratios exceeding the sustainability thresholds for countries with weak policies. This debt distress position emanates from the early 2000s when the country accumulated payment arrears as a result of both external and internal factors, which negatively impacted economic performance and viability and also foreign currency availability. Of the total US\$6,964 million outstanding public and publicly guaranteed external debt, US\$5,563 million (79.9%) are total arrears stock to both multilateral and bilateral lenders. In regard of these arrears, the country has not been able to access new sources of finance, regardless of the urgent need for such funds for infrastructure development for instance. The country is in the process of pursuing available debt relief options.

Table 7: Total Debt as at end December 2013

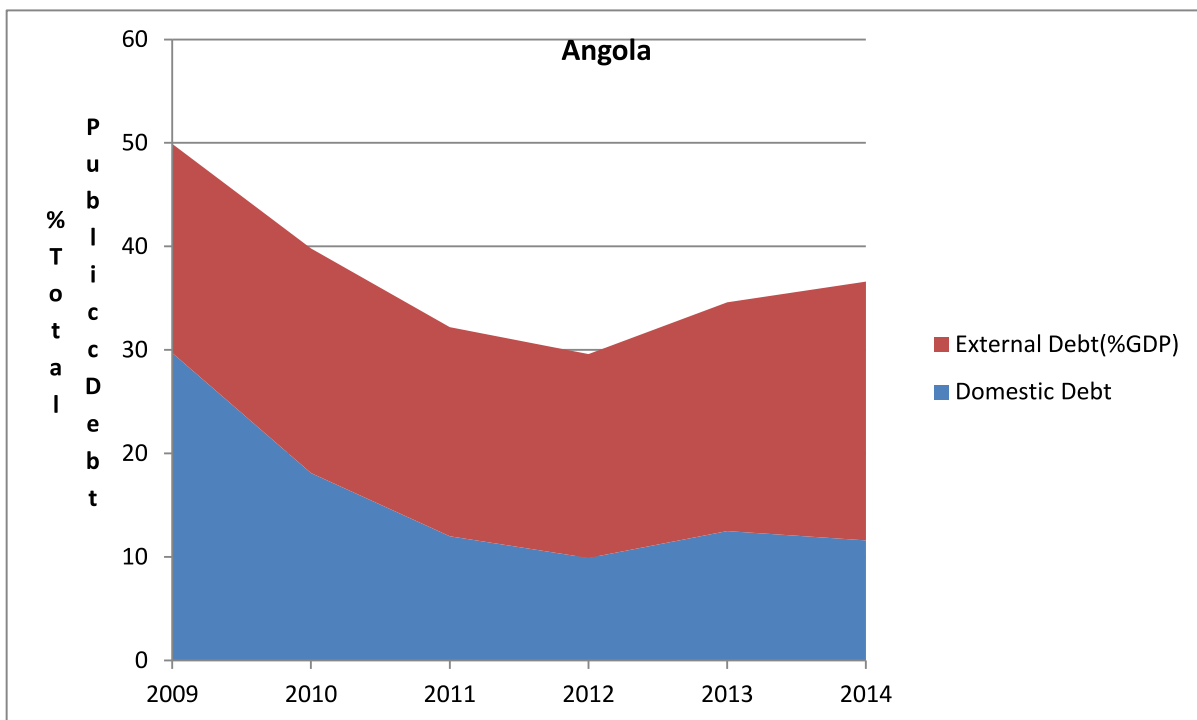
	US\$ Millions
External Debt	
Public and Publicly Guaranteed External Debt	6,964
Of Which: Public External Debt	5,012
Publicly Guaranteed External Debt	1,356
RBZ External Debt	596
Private Sector Non Guaranteed External Debt	1,951
Of Which: Long/Medium Term	1,001
Short Term	950
Total External Debt	8,915
Domestic Debt	
Reserve Bank of Debt	754
Of which: Foreign Currency Accounts (FCA)	255
Bonds	253
Special Deposits and Loans	247
Government Stock (Statutory Reserves)	63
TBs issued for Budget Cash flow support	176
Total Domestic Debt	994
Grand Total Debt	9,909

Source: Minister of Finance, Press Statement on the Setting up Statutorily the Zimbabwe Debt Management Office (3 July 2014)

Debt Developments in Angola

The public and external debts for Angola are rising but remain sustainable as illustrated in Figure 15. Gross public debt rose by about 5 percentage points during 2013, to 35 percent of GDP at end-2013, mostly because of external borrowing by the state-owned oil company Sonangol; the country's net public debt was lower at 21 percent of GDP. The projected path of Angola's public debt is sustainable despite vulnerabilities. Gross public debt is projected to reach 45% of GDP by 2019 due to sizeable projected fiscal deficits for the foreseeable future. This path is vulnerable to real GDP and interest rate shocks. Angola's gross external debt, which was 22 percent of GDP at the end of 2013, is projected to reach 37% of GDP by 2019.

Figure 15: Angola Public Debt Developments 2009-2014



Source: Staff report for the 2014 Article IV Consultation—Debt Sustainability Analysis

AN OVERVIEW OF THE LEGAL AND INSTITUTIONAL FRAMEWORKS AND THE OVERSIGHT ROLES IN LOAN CONTRACTION AND DEBT MANAGEMENT IN SELECTED SOUTHERN AFRICAN COUNTRIES

The next section gives a review of the loan contraction and debt management framework in five selected SADC countries and answers the question whether or not there is a clearly defined legal mandate and institutional arrangement for debt management functions. It also looks at whether or not these functions were carried out in a systematic and coordinated manner, reflecting good governance practices.

Swaziland

As a first step for transparency and accountability, it is commendable that Section 204 (2) of the Constitution of the Kingdom of Swaziland Act, 2005 (Act No: 001 of 2005) clearly stipulates that

- *“The Minister shall not borrow, guarantee or raise a loan on behalf of Government or any other public institution, authority or person except as authorized by or under an Act of Parliament.*
 - It further states that *an Act of Parliament made in line of the above shall provide, among other things, that -*
 - (a) *The terms and conditions of the loan shall be laid before Parliament and shall not come into operation unless they have been approved by a resolution of Parliament*
 - (b) *Any moneys received in respect of the loan referred to above shall be paid into the Consolidated Fund and form part of that Fund or into some other public fund existing or created for the purpose of the loan.*
- 199(3) Monies shall not be withdrawn from the Consolidated Fund except in the manner prescribed by an Act of Parliament.*

Regardless of such clear provisions, there are some instances where the Parliament has been overlooked in some loan negotiations. For instance, even though this loan has not yet materialized, there were concerns by the Finance Committee that Parliament approval had not been sought on the E2.4 billion that the Central Bank of Swaziland, with the guarantee of the Government, sourced from the Reserve Bank of South Africa in 2011.¹¹ This loan was envisaged to bail out the government from its cash flow crisis. Furthermore, there are concerns that in the instances when the loan bills are presented before parliament for approval, the MPs do not subject these bills to their constituencies for their views and

11 <http://www.times.co.sz/News/67821.html>; <http://www.times.co.sz/News/67355.html>

considerations respectively. This is highlighted as a major concern on the basis that most MPs only visit their constituencies when campaigning and rarely do so thereafter, which weakens the possibility of MPs being aware of the needs of the people on the ground which should also inform and guide the loans they approve respectively.¹²

It is acknowledged that the Public Accounts Committee (PAC) reviews all public finance reports and related issues presented before it on time. However, it is noted that there is still need for member training and technical expertise in the secretariat so as to further improve the quality of its report analysis and recommendation respectively.

Furthermore, the level of compliance by the Executive to implement PAC recommendations is low; and the PAC also has no legal recourse to impose penalties on non-complying officials.

The scope of the audit work of the Auditor General (AG) (which also plays a key oversight role on public finances) is limited by capacity constraints, both in terms of the number of staff, budget and technical expertise available to the AG. This is also compounded further by the lack of accounting records by some Ministries and Departments when they are requested for auditing purposes.

Namibia

Though the Namibian Constitution does not explicitly refer to loan contraction and debt management processes, public borrowing in the country generally follows some well-defined mechanistic, predictable rules and procedures within a coordinated and coherent institutional framework as spelt by various acts and laws. Primary and secondary legislation also clearly defines each stakeholder's roles and functions. The country introduced a Sovereign Debt Management Strategy in 2005 which it has been adhering to very well. However, critical analysis of the loan contraction and debt management processes in the country shows that there is no effective oversight of these processes. For instance though Parliament has official oversight over public finances on paper, legally the Executive can finalize a loan transaction before Parliament's approval. In addition to this, the Parliament lacks a specialized portfolio committee to evaluate prospective loans. The committees in the lower and upper houses assigned to deal with public accounts are not authorized to deal with loan contraction.¹³

¹² *Swaziland Loan Contraction and Debt Management Study Validation Meeting discussions on the 24th of October 2014 in Manzini, Swaziland.*

¹³ AFRODAD. 2013. *Loan Contraction and Debt Management in Namibia.* Page 13

Zambia

There mainly three pieces of legislation that currently provide guidelines for contracting and managing public debt in Zambia, namely:

- (1.) the Loans and Guarantees (Authorization) Act under CAP 366 of the Laws of Zambia;
- (2.) the Bank of Zambia Act of 1996 under CAP 360 of the Laws of Zambia; and
- (3.) the Public Finance Act No. 15 of 2004 of the Laws of Zambia

The Public Finance Act through the Appropriation Bill does provide the annual ceiling of how much the Minister of Finance should contract to finance the budget deficit. However the law does not provide for oversight functions by Parliament when it comes to borrowing decisions that relates to the financing terms and what projects should be financed through debt. There is no legal framework that provides for parliamentary oversight in the contraction and management of debt on behalf of the Republic. This implies the current weak role of Parliament in ensuring transparency and accountability in the overall loan contraction and debt management process.

South Africa

Subsection 215 (1) of the Constitution of the Republic of South Africa 1996 (Act No.8 of 1996) clearly states that “National, provincial and municipal budgets and budgetary processes must promote transparency, accountability and the effective financial management of the economy, debt and the public sector” and subsection 215 (3) (c) also states that budgets in each sphere of government must contain - an indication of intentions regarding borrowing and other forms of public liability that will increase public debt during the ensuing year. Consequently, the Public Finance Management Act (PFMA) 1999 (Act No 1 of 1999) was developed to give effect to the above constitutional provisions.

However, a critical analysis of the framework for citizen participation in loan contraction shows that unlike the country’s Municipal Finance Management Act (MFMA 2003) which has specific provisions for citizen engagement on municipal borrowing, the PFMA is silent on such engagements. The MFMA clearly stipulates that for long-term debt, the accounting officer has at least 21 days prior to the meeting of the council at which approval for the debt is to be considered, to make public an information statement setting out particulars of the proposed debt, including the amount of the proposed debt, the purposes for which the debt is to be incurred and particulars of any security to be provided. Furthermore, the public, National Treasury and the relevant provincial treasury must be invited to submit written comments or representations to the council in respect of the proposed debt. The PFMA however is silent and has no mention of such public/citizen engagement in the debt management framework at national level.

Tanzania

From the perspective that a country's loan contraction and debt management rules and regulations must be anchored on constitutional provisions and other precise pieces of legislation, a key highlight in relation to Tanzania's legal framework is that only external borrowing is listed as a Union matter¹⁴ under the first supplementary schedule to the supreme document. There is no mention of domestic debt. This should be amended to include domestic debt, particularly given the increasing stock and role of domestic debt in the country.

Similar to some other Southern African countries, the Public Accounts Committee currently lacks capacity in terms of adequate staff that can provide expert advice and analysis of reports laid before them. The result has been no evidence of them acting strongly on any violations of public finance rules in the National Assembly. Furthermore, the PAC is given short time to go through bulk public finance documents for their approval which results in them just rubber stamping in most cases.

Zimbabwe

As a result of the existing huge debt overhang which has raised concern on the transparency and accountability manner in which the outstanding loans were acquired, there were significant improvements and inclusions in the 2013 Constitution which were not previously included in the previous Lancaster House Constitution, which vested all borrowing powers to the Executive with limited mention of the role of the Parliament.

This includes Subsection 300 on Limits of State borrowings, public debt and State guarantees which stipulate that:

- (1) An Act of Parliament must set limits on –
 - (a) borrowings by the State
 - (b) the public debt; and
 - (c) debts and obligations whose payment or repayment is guaranteed by the State and those limits must not be exceeded without the authority of the National Assembly
- (2) An Act of Parliament must prescribe terms and conditions under which the Government may guarantee loans
- (3) Within sixty days after the Government has concluded a loan agreement or guarantee, the Minister responsible for finance must cause its terms to be published in the Gazette.

¹⁴ Union matters are those issues captured in two supplementary schedules which the National Assembly in the union of Tanzania and Zanzibar are authorized to preside over.

- (4) The Minister responsible for finance must-
 - (a) at least twice a year, report to Parliament on the performance of-
 - (i) loans raised by the State; and
 - (ii) loans guaranteed by the State
 - (b) at the same time as the estimates of revenue and expenditure are laid before the National Assembly in terms of section 3005, table in Parliament a comprehensive statement of the public debt of Zimbabwe.

Implementation of the above will go a long way in ensuring transparency and accountability in loan contraction and debt management in the country. However, something that is very important but missing is the need for the terms and conditions of new loans to be presented before parliament for approval before their signing and acquisition respectively.

Mauritius

As compared to other SADC countries whose constitutions are clear on the need for parliament approval of loans before their acquisition, the 1968 Constitution of Mauritius is silent on such issues. Mention of public debt in the constitution is only made under Article 109 as follows:

- (1) All debt charges for which Mauritius is liable shall be a charge on the Consolidated Fund.
- (2) For the purposes of this section, “debt charges,” includes interest, sinking fund charges, the repayment or amortization of debt, and all expenditure in connection with the raising of loans on the security of the revenues of Mauritius or the Consolidated Fund and the service and redemption of debt thereby created.

Clear mention of debt issues is made under section 3 of the Public Debt Management Act 2008 which empowers the Minister of Finance raise funds in or outside Mauritius to finance investment projects or other commitments of Government on behalf of the Government. The Minister of Finance can enter into an agreement with a financial or banking institution, an international financial organization or a foreign government in such manner and on such terms as he thinks fit.

A copy of every agreement that the Minister enters into as mentioned above shall be laid before the National Assembly –

- (a) where the Assembly is in session, within 15 working days of the conclusion of the agreement; or
- (b) where the Assembly is not in session, within 7 working days of the next session of the Assembly.

However, it is of concern that laying of agreements before the National Assembly is only done after loan agreements have been signed and there is no mention of seeking parliament approval before loan contraction and/or before agreements are signed.

In regard of the above country examples, there is evidence that internal processes in the various countries still need to be strengthened so to enhance transparency, accountability and oversight roles in loan contraction and debt management.

CONCLUSIONS AND POLICY IMPLICATIONS

This study has examined the domestic debt market in SADC countries. Overall, the use of domestic debt instruments is not a recent phenomenon; 12 out of 15 countries in the SADC had domestic debt in 1980. Domestic debt financing was found to be much more expensive than foreign borrowing. This may be explained by the ongoing financial liberalization, which has resulted in sharply rising real Treasury Bill rates, but also by the fact that most countries borrow externally on high concessional terms. The paper also identified marked differences in the size of domestic debt markets between HIPCs and non-HIPCs. Given the significant reliance on external financing, HIPCs have accumulated less domestic debt, although some still face a significant domestic debt burden in addition to their large stock of foreign debt.

The significant debt problems in SADC countries, both domestic and foreign raise concerns about fiscal sustainability. In the worst case, these debt problems call for reforms. One option would be to pursue debt reduction schemes for domestic debt similar to HIPC Initiative. An outright once-off reduction however might not be feasible as it would increase liquidity in the system and thereby result in macroeconomic instability. Jakob Christensen (2005) suggests adopting the debt reduction scheme similar to Cape Verde, whereby a donor financed trust fund was established. The foreign exchange from this fund was used to retire domestic debt without injecting liquidity into the system, because the foreign exchange transaction essentially absorbed the liquidity.

Another consideration would be to extend the maturity structure of domestic debt, since Africa's debt markets tend to have extremely short durations. This might however entail greater debt-service costs to governments, since bonds with longer terms may carry higher interest rates, but it would lower the significant market and rollover risks that they currently face. In view of these countries' emerging capital markets, broader reforms that promote long-term paper and strengthen and expand the insurance and pension sectors as well as corporate governance and institutions.

Finally, IMF suggests that domestic debt markets would greatly benefit from improved foreign access to holdings of domestic debt. In addition to strengthening competition, which would reduce financing costs, a strong foreign investor presence would contribute to the introduction of financial technology and innovation, thereby leading to higher market efficiency.

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