STUDY ON MANAGING SOVEREIGN DEBT IN TIMES OF CRISIS:

Insights from the Covid-19 pandemic and lessons for the future

CHAPTER

4

Governance and Operational Risk Management Frameworks for Public Debt

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Macroeconomic and Financial Management Institute of Eastern and Southern Africa

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FOREWORD

The dark clouds of the COVID-19 pandemic that suddenly descended upon the global economy spared nobody and triggered one of the most devastating global health and economic crises in modern history. The pandemic placed severe strain on the public finances of all types of economies. For developing countries in particular, debt levels that were already high before the pandemic increased further, exacerbating existing debt vulnerabilities at a time when pressure to spend on health and social services became unavoidable.

The IMF noted that the impact of COVID-19 was historic and unusual in its severity as the debt stress it induced exceeded past experiences across a number of dimensions, including the dramatic increase in government borrowing needs, sharp downturn in economic activity, strain in market conditions, and disruption in operations (IMF, 2020).

The pandemic also resulted in the materialisation of a number of operational risks as governments were required to adjust. One of the main challenges of the pandemic to the environment was how to meet increased government borrowing requirements against a backdrop of volatile market conditions, both locally and globally. In addition, the adoption of remote working arrangements changed the overall control environment in which staff performed their roles, thus exacerbating the vulnerability of the Debt Management Offices to operational risks.

As part of efforts to harness a range of lessons and insights emerging from the pandemic, MEFMI, with the support of FSD Africa, commissioned a study to document debt and related policies and practices that countries adopted to manage public debt and support debt markets during the crisis. The study covered four themes: (a) macroeconomic policy interventions, (b) external financing operations, (c) local currency bond markets and (d) governance and operational risk management frameworks for public debt.

In December 2022, MEFMI and FSD Africa organised a seminar to validate the findings and recommendations from the study. The content of the study has now been finalised and has been released as separate chapters, while a study summary has also been produced.

This is Chapter Four of the study. It focuses on governance and operational risk management frameworks for public debt while the pandemic was unfolding, together with the main lessons learnt.

We hope that the findings and lessons from this study will be useful in informing policy makers and debt practitioners of pertinent actions needed in both normal times and in times of crisis. Readers can access the Study Summary and the other chapters here.

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ACRONYMS

AfDB	-	African Development Bank
BCP	-	Business continuity plan
CCRT	-	Catastrophe Containment Relief Trust
COVID-19	-	Corona Virus Disease 2019
DeMPA	-	World Bank Debt Management Performance Assessment
DMO	-	Debt management office
DRS	-	World Bank Debtor Reporting System
DSSI	-	Debt Service Suspension Initiative
EAC	-	East Africa Community
FSD	-	Financial Sector Deepening
G20	-	Group of Twenty
GDDS	-	General Data Dissemination System
GFS	-	Government Finance Statistics
IMF	-	International Monetary Fund
MEFMI	-	Macroeconomic & Financial Management Institute of Eastern and Southern Africa
OECD	-	Organization for Economic Cooperation Development
QEDS	-	Quarterly External Debt Statistics
RCF	-	Rapid Credit Facility
RFI	-	Rapid Financial Instrument
SADC	-	Southern African Development Community
SAI	-	Supreme Audit Institutions
SDR	-	Special drawing rights
SGP	-	Stability and Growth Pact
UNCTAD	-	United Nations Conference on Trade and Development
UNWTO	-	United Nations World Tourism Organization

1. INTRODUCTION

The COVID-19 pandemic has caused devastating economic and social disruption across the world. It has especially affected developing countries, which were not fully prepared and had limited leeway to take the required preventive measures.

As seen in previous chapters of this study, not only was the impact of COVID-19 historic and unusual in its severity for developing countries, it caused immense debt stresses and put fiscal pressure on governments' economic and financial fortunes. Faced with increasing requirements to spend on health and other essential services at a time when economic activity had all but stalled and revenue streams dried up, the need to resort to additional government borrowing became inevitable. That pushed the average general government gross debt-to-GDP ratio to 57.8 per cent at the end of 2020 for the 45 countries in the sub-Saharan Africa region, from 51.5 per cent in 2019. This was the highest level in almost 20 years, and an increase of more than six percentage points in just one year (IMF, 2021).

The fact that developing economies were already facing different vulnerabilities before the pandemic made it more difficult for them to manage the level of sovereign debt. Pressures particularly came from issues such as fast-growing interest expenses as a share of revenue, rollover risks due to shorter debt maturities, a narrowing of the differential between the real interest rate and growth, expanding contingent liabilities and, in some countries, debt collateralisation with limited transparency (AfDB, 2021). As seen in Chapter One of this study, the region entered the crisis with significantly less fiscal space than it had at the onset of the global financial crisis of 2008/09, with 16 countries either at high risk of debt distress or already in distress in 2019. At the same time, the funding conditions of these countries were vulnerable to global risk sentiment and therefore historically more volatile than in advanced economies (OECD, 2020).

1.1 Operational risk management under the spotlight

Operational risk management in developing countries came under the spotlight when challenges emerged in the wake of the sudden rise in debt levels and the uncertainties being faced to optimally manage portfolios. This inevitably raised questions on whether operational risk management in public debt management was ready to a face crisis like the pandemic. There was also a question as to whether debt management offices were ready to embrace operational risk management principles or whether they needed strong reforms on that front. One of the key practices that exacerbated DMOs' vulnerability to operational risks was official instructions to embrace remote working. That invariably changed the overall control environment in which staff performed their roles and brought into play genuine risk pressures.

1.2 Debt governance during COVID-19

Similar to other businesses, the pandemic affected operations of sovereign DMOs in terms of disrupting smooth operations as well as the health and safety of their workers. At the same time, fiscal responses to the pandemic weighed on borrowing needs, which in turn increased the financing operations and other activities of DMOs, and elevated execution risk while putting the debt management function under severe operational strain. Against this background, ensuring the continuity of the funding and cash management activities of DMOs became critical for the continuity of governments' efforts to mitigate the effects of the pandemic. Sovereign DMOs activated their business continuity plans (BCPs) by adopting work-from-home arrangements on a large scale and at unprecedented speed to ensure critical functions (government financing and debt repayments) remained operational. The adoption of remote working changed the overall control environment in which staff perform their roles. Generally, it is more challenging to manage operational risks effectively in a dispersed remote working situation than in an office environment, especially with inadequate working equipment and weak internet connectivity, which do not only impact timely execution of duties, but also compromise segregation of duties and controlled access to debt records.

Globally, the magnitude of the fiscal response and the type of instruments used differed significantly by country groupings (World Bank, 2021). Responses included adoption of fiscal consolidation within the existing legal and policy frameworks and revisions of the existing legislation and policies. Other measures were fiscal policy measures to provide financial support to businesses and households, and to improve the capacity of the health sector to respond to the pandemic. The introduced measures in most developed countries have been revisions of or additions to existing legislation and policies. However, developing countries had limited room to manoeuvre their legal reforms, given both human and financial resource constraints.

1.3 Objective and methodology

Evaluation of the impacts of the COVID-19 pandemic on debt management in the MEFMI countries was based on the World Bank Debt Management Performance Assessment (DeMPA). The focus has been on a number of pertinent areas in debt management operations and institutional setup, namely: the prevailing legal framework; managerial structure; debt management strategy; debt management evaluation and reporting; and auditing of public debt management operations.

The main objective of the exercise was to evaluate the situation prior to the pandemic relative to sound practices, assess the impact of the pandemic, and identify mechanisms adopted by governments to minimise the impact. Responses were received from 12 MEFMI member countries: Botswana, Eswatini, Kenya, Lesotho, Malawi, Mozambique, Namibia, Rwanda, Tanzania, Uganda, Zambia and Zimbabwe.

2.
PUBLIC DEBT MANAGEMENT LEGAL FRAMEWORKS

The outbreak of COVID-19 caught countries unprepared. Most countries, including in the MEFMI region, experienced shrinking economies, decline in domestic revenue and grants, deteriorating external sectors, changing financing landscapes (decline in concessional loans) and increasing expenditure in health and priority social sectors. In most jurisdictions, these developments happened despite the legal constraint on annual borrowing and accumulated debt limits. This section aims at evaluating responses by governments in the area of legal frameworks governing public debt management.

Among the 12 MEFMI member countries, only Tanzania has an explicit annual borrowing limit in the Government Loans, Guarantees and Grants Act, CAP 134. Other countries, in particular Botswana, Mozambique and Rwanda, have annual borrowing limits fixed annually as part of budget preparation and approval by their parliaments.

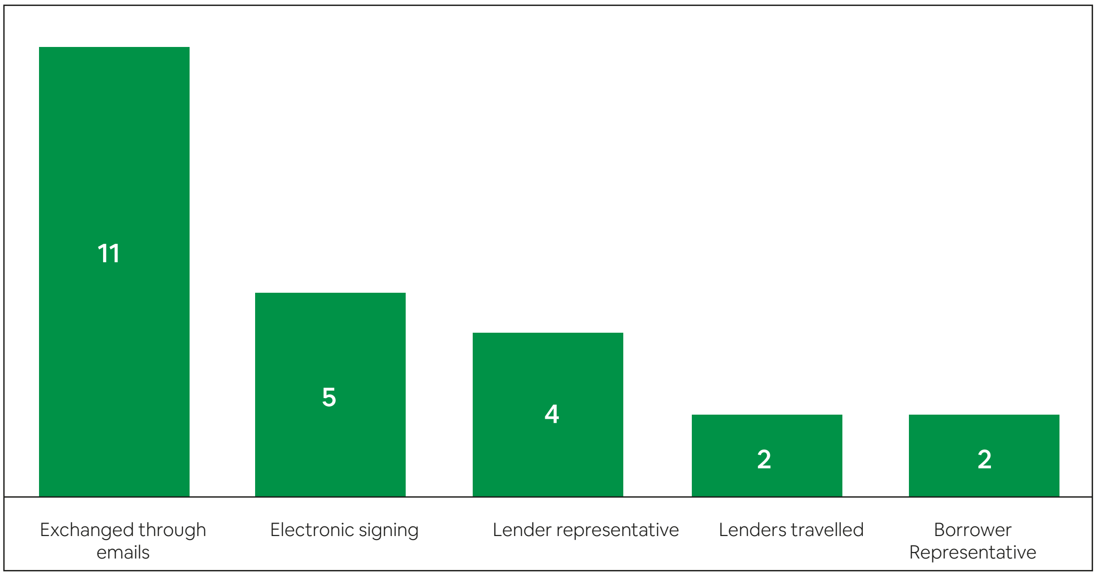
In response to a fall in revenue and increasing fiscal expenditure to lessen the effects of the pandemic, Botswana had to increase its Bond Issuance Programme limit for 2020/21 by 100 per cent to BWP30 billion from the plan of BWP15 billion. The Government of Botswana also indicated a possibility of increasing the financing for 2021/22 due to the emergence of the Omicron variant. Uganda reported to have been breaching both domestic (1 per cent of GDP) and external (3.3 per cent of GDP) borrowing limits for the last five years due to the mismatch of revenue and expenditure. Thus, there is no evidence that deviations from the borrowing limits is associated with the pandemic.

Most of the countries have legal limits on the magnitudes of debt, mostly pegged with GDP, save for Kenya that changed its limit in 2019 from 50 per cent of GDP to a nominal value of KSh9 trillion. The findings have not depicted changes or breaching of debt limits in the region in response to the effects of the pandemic. The results may be explained by the fact that most of the countries are members of the Southern Africa Development Community (SADC) and East African Community (EAC), and are hence bound with debt-to-GDP convergence criteria of 50 per cent and 60 per cent, respectively.[1] Unlike the European Union, the SADC and EAC protocols have no leeway to accommodate deviations from the convergence criteria. The European Union's General Escape Clause allowed member states to deviate from the preventive or the corrective arm of the Stability and Growth Pact[2] through budgetary measures under exceptional circumstances. These were defined as circumsstances that have major impacts on the financial position of the general government, the euro area or the EU economy, and that are outside the control of one or more member states (European Union, 2020).

The pandemic has impacted significantly the gatherings necessary for effective public debt management, hence the adoption of alternative mechanisms. For instance, while ministers responsible for finance are legally empowered to sign loan agreements on behalf of governments, often associated with ceremonies and press statements, almost all countries in the region adopted different mechanisms during the pandemic which have necessitated, in some instances, delegation of signing loan agreements by the ministers responsible for finance and adoption of alternative means. The findings show that 11 countries in the region – all except Eswatini – used email services to deliver documents for signatures by the relevant parties. OEelectronic signatures were another preferred method (five countries), and four countries reported that lenders delegated the responsibility to their representatives in the borrowing countries. Figure 4.1 provides the options employed by countries in signing loan contracts during the pandemic.

[1] Angola, Botswana, Eswatini, Lesotho, Malawi, Mozambique, Namibia, Tanzania, Zambia and Zimbabwe are members of SADC while Kenya, Rwanda, Tanzania and Uganda are members of EAC.
[2] The Stability and Growth Pact (SGP) is a set of rules designed to ensure that countries in the European Union pursue sound public finances and coordinate their fiscal policies. For details, see: https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact_en.

Figure 4.1: Loan Agreement Signing Mechanisms during Crises



Source: Survey feedback.

Literature shows that crises normally affect contractual obligations. For instance, Julia Zagonek and Pavel Boulatov (2020) suggest three legal principles to apply in special circumstances that affect performance of contractual obligations. These are: impossibility of performance of an obligation; force majeure; and material change of circumstances. In the context of this study, most of the adopted measures fall under material change of circumstances, whereas both borrowers and lenders changed their methodology of performing their roles without disrupting borrowing processes.

3.
MANAGERIAL STRUCTURE IN PUBLIC DEBT MANAGEMENT

The outbreak of COVID-19 has affected coordination of public debt management in different ways. Equally, countries responded in different ways, including reforming institutional arrangements for public debt management. This section explores different measures implemented by countries in the area of institutional arrangement and coordination to mitigate the effects of the pandemic on public debt management operations.

3.1 Debt management committees/teams

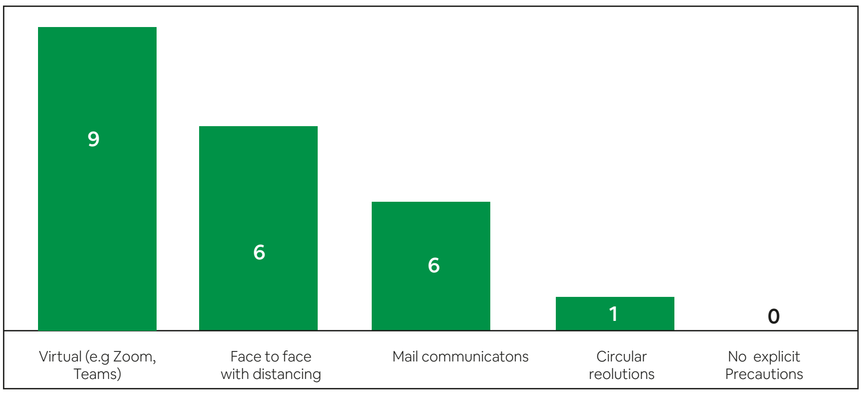
In addition to the formal debt management committees found in most countries in the region, except for Eswatini, Mozambique and Zambia, all countries have instituted new co mmittees and/or special dedicated teams to advise their governments on financing fiscal operations during crises. These include the COVID Fund Committee in Botswana, Taskforce on COVID-19 Financing in Kenya, Financing Fiscal Operations Team in Lesotho and COVID Crisis Committee in Namibia. Members of the newly formed teams were drawn from the ministries responsible for finance and from central banks. In Namibia, the COVID Crisis Committee included the private sector in addition to Ministry of Finance and Bank of Namibia. A key role of the committees/teams was the determination of the size and nature of the economic stimulus required in the economy.

To ensure operation of the debt and crisis management teams continues to be coordinated, countries adopted diverse mechanisms including virtual meetings in nine countries (75 per cent of the countries), physical distancing during the meetings and exchange of emails in each six countries (50 per cent each), and circular resolutions, where deliberations were circulated for concurrence and signatures by the parties (Figure 4.2). The findings support the remarks by Lewing (2020) as quoted below.

"COVID-19 is showing employees and management alike that daily in-person meetings can be substituted by a few emails."

"Employees will want to forego the traditional commute and the 8am-5pm workday, as remote work becomes a reality. The general public will want to forego standing in line at city hall to pay a water bill, when a few clicks on the entity's website will accomplish the same task. Council meetings will be held online via web media such as Zoom or GO TO meeting. All actions in the minutes will be recorded in real-time with extreme transparency. That annual conference in Florida that everyone looks forward to will be replaced by virtual technology that will allow hundreds of participants nationwide to interact from the safety of their homes."

Figure 4.2: Debt Management Committee Coordination Mechanisms



Source: Survey feedback.

3.2 Coordination of debt management offices

Coordination among debt, fiscal and monetary policies is often important in minimising their conflicting objectives. In the same vein, the IMF (2020) advocates that the significance of communication and coordination between authorities responsible for such policies increases during crises periods, particularly in respect to policies and specific measures or interventions. The IMF further suggests the possibility of creating new formal and informal coordination mechanisms during crises.

The findings from the region show that coordination through formal debt management committees existed in most countries prior to the pandemic, though coordination mechanisms changed during the pandemic. To contain the spread of COVID-19 without major disruption to debt management operations, governments adopted diverse mechanisms, most of them based on health personnel advisories. About 92 per cent of the countries in the region adopted social distancing, compulsory wearing of masks and work shifts to reduce congestion in shared rooms, and vaccination of employees and the general population. Other popular measures during the pandemic were distribution of masks and sanitiser, compulsory temperature testing at entry points to workplaces and rollout of vaccinations. Worth noting was the recruitment of additional staff during the pandemic by the Government of Zimbabwe to facilitate work shifts and lessen the economic and social impact to the population through a reduction of unemployment. Table 4.1 summarises the mitigation measures implemented by MEFMI governments, including in debt management offices.

Relative to large and higher-income economies that adopted more policies, including fiscal rebates supported by adequate resources, technologies and economic sophistication, most developing countries, including in the MEFMI region, were constrained by resources and technology. This may reflect, inter alia, the requirement for more complex responses. The World Bank (2021), however, estimates that Eswatini's relief fund for laid-off workers cost 0.04 per cent of GDP, or about 1.5 per cent of the total cost of its fiscal policy response at 2.8 per cent of GDP.

Table 4.1: COVID-19 Mitigation Mechanisms in Debt Management Offices

NO.	MEASURES	BWA	SWZ	KEN	LSO	MWI	MOZ	NAM	RWA	TZA	UGA	ZMB	ZWE	Total	%
1	Social distancing	1	1	1	1	1	1	1	1	1	0	1	1	11	91.7
2	Compulsory wearing of masks	1	1	1	1	1	1	1	1	1	0	1	1	11	91.7
3	Work shifts hours/days/weeks/months	1	1	1	1	1	1	1	1	1	0	1	1	11	91.7
4	Distribution of masks and sanitizers	1	1	1	1	1	0	1	1	1	0	1	1	10	83.3
5	Compulsory temperature testing at entry points	1	1	1	0	1	1	1	1	1	0	1	1	10	83.3
6	Vaccination	1	0	1	1	1	1	1	1	1	0	1	1	10	83.3
7	Awareness campaigns	1	1	1	0	1	1	0	1	1	0	1	1	9	75.0
8	Adoption of remote working environment	1	1	1	1	1	0	1	1	0	0	1	1	9	75.0
9	Banning/restricting all face-to-face activities	1	0	1	1	1	1	1	1	0	0	0	1	8	66.7
10	Clean running water for hands washing at entry	1	0	1	1	1	0	0	1	0	0	1	1	7	58.3
11	Recruitment of additional staff to facilitate shifts	0	0	0	0	0	0	0	0	0	0	0	1	1	8.3
	TOTAL	10	7	10	8	10	7	8	10	7	0	9	11	97	73.5

Source: Survey feedback.

Note: Uganda did not respond to the question.

In the effort to enforce containment measures, most countries in the region stationed security/health personnel at entry points of office buildings to ensure staff and visitors adhered to the prescribed measures, particularly wearing of masks and washing hands with running water. All offices in the region supplied running water at entry points. In addition, Tanzania and Zimbabwe installed automated machines for temperature testing and proper wearing of masks to all entrants to the ministry of finance office buildings. DMOs also implemented measures to control the spread of the pandemic by minimising physical interactions with clients and among employees. The adopted measures were not much different from those adopted by the debt management committees in executing their roles. Virtual meetings and mail correspondences were the common mechanisms across all countries.

The pandemic also altered the duties of debt managers, partly due to work shifts and the need for monitoring the risks inherent with the pandemic.

Botswana, for instance, reported increased duties for the middle office of its DMO, to carry out frequent calculation of portfolio exposures and preparation of monitoring reports, as well as increased duties for the back office to carry out frequent debt service forecasts and payments.

3.3 Capacity building activities

Though literature in this area is still limited, Oyier and Gitau (2021) argue that capacity building is of interest during pandemics as a way to create an enabling environment for economic recovery and to provide skills to cushion against economic shocks. They elaborate that enhanced access of digital platforms to undertake training has reduced the cost and eliminated the need for travel.

Prior to the pandemic, some capacity building institutions across the globe, including MEFMI, the IMF, the Commonwealth Secretariat and UNCTAD, had already introduced online capacity building events. Thus, the outbreak of the pandemic accelerated to the use of technology as a mode of delivery by most institutions.

Findings from the region showed that the delivery method had both advantages and disadvantages. On the positive side, all countries reported flexibility and an increased number of participants at low cost relative to face-to-face events. MEFMI (2020) has also reported that greater use of technology increased the number of activities implemented using virtual tools in 2020, in addition to allowing timely responses to the capacity building needs of member countries, especially during crisis situations.

However, all countries reported less enthusiasm by participants and less concentration, partly due to unstable internet connections, inadequate working equipment (e.g. outdated computers), being preoccupied with office work, and the overlapping of capacity building events.

4.
DEBT MANAGEMENT STRATEGY

The socio-economic effects of the pandemic have impacted the formulation and implementation of debt management strategies and borrowing plans in most countries. While it was expected that governments would revise the regularity of updating debt management strategies in response to the pandemic, findings in the region show that most countries continued with their regular formulation as planned, except for Botswana and Zambia who postponed the updating of their debt strategies in 2020 due to the pandemic. It has, however, been noted that only four countries have the legal requirement to update their debt strategies annually as per sound practice while one has a legal requirement to update its debt strategy every two years. The remaining countries have not updated their debt strategies and some of them are older than four years.

The structure of financing and implementation of debt management strategies have, however, changed in response to the pandemic. The responses were not much different across the countries in the region (Table 4.2). The findings show that six countries, equivalent to 50 per cent, revised their fiscal assumptions by reducing revenue projections and increasing expenditure to cushion the population through increased health spending. This change increased fiscal deficits, leading to increased borrowing particularly from the domestic markets, whereas five countries (41.7 per cent) scaled up domestic borrowing during the crisis. In the same vein, three countries (Botswana, Eswatini and Namibia) increased external borrowing. Equally, four (33.3 per cent) countries revised downward their economic growth projections in response to the global and domestic economic slowdown. Other actions related to debt management strategy implemented by countries were drawdown of cash buffers/reserves in response to declining domestic revenue and increase of expenditure.

The findings further show that four countries (33.3 per cent) revised their domestic interest rates. Among the countries, Namibia, Botswana and Tanzania lowered interest rates to boost domestic lending while Zimbabwe increased its borrowing interest rate to induce supply of loans to the government. It has also been observed that two countries (Zimbabwe and Botswana) revised upwards domestic currency depreciation assumptions in response to declining exports.

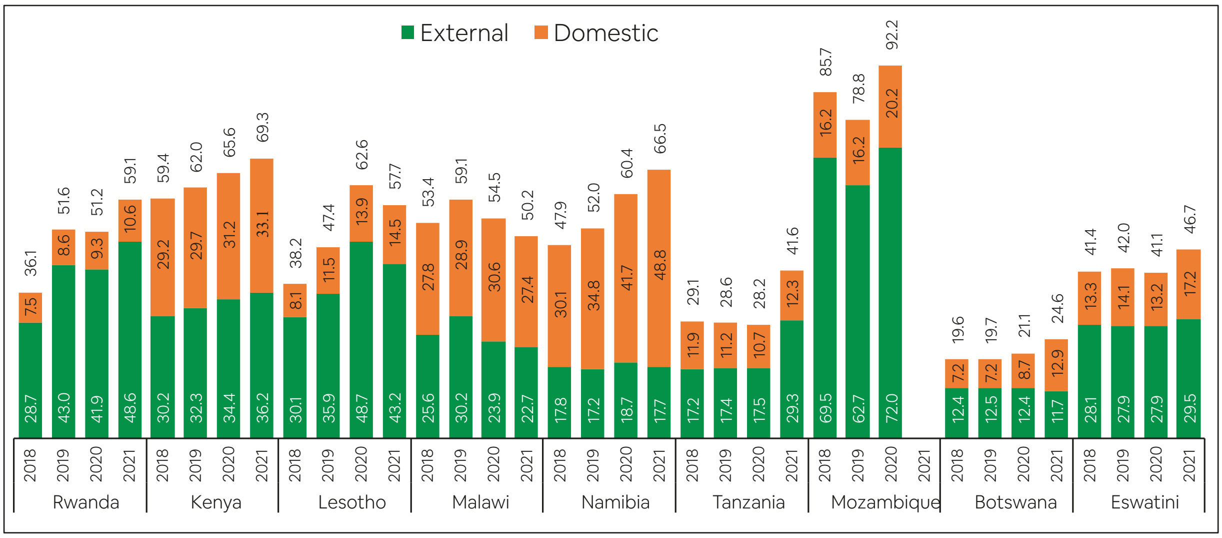
Table 4.2 : Debt Management Strategy Measures during the COVID-19 Crisis

NO.	ACTIONS	BWA	SWZ	KEN	LSO	MWI	MOZ	NAM	RWA	TZA	UGA	ZMB	ZWE	Total	%
1	Revised fiscal balance projections	1	0	1	0	0	0	1	0	1	1	0	1	6	50.0
2	Increased financing from domestic sources	1	1	0	0	0	0	1	0	0	1	0	1	5	41.7
3	Revised economic growth projections	1	0	1	0	0	0	1	0	0	0	0	1	4	33.3
4	Revised interest rates projections	1	0	0	0	0	0	1	0	1	0	0	1	4	33.3
5	Increased financing from external sources	1	0	0	0	0	0	1	0	0	0	0	0	2	16.7
6	Decreased financing from external sources	0	1	0	0	0	0	0	0	0	0	0	1	2	16.7
7	Revised exchange rate projections	1	0	0	0	0	0	0	0	0	0	0	1	2	16.7
8	Revised level of foreign exchange reserves	1	0	0	0	0	0	1	0	0	0	0	0	2	16.7
9	Drawing down cash reserves/buffers	1	0	0	0	0	0	1	0	0	0	0	0	2	16.7
10	Restructured composition of domestic financing	1	0	0	0	0	0	0	0	0	0	0	0	1	8.3
11	Advances from the central/reserve bank	0	0	0	0	0	0	0	0	0	0	0	1	1	8.3
12	Decreased financing from domestic sources	0	0	0	0	0	0	0	0	0	0	0	0	0	-
13	Restructured composition of external financing	0	0	0	0	0	0	0	0	0	0	0	0	0	-
14	Available liquidity with state owned entities	0	0	0	0	0	0	0	0	0	0	0	0	0	-
	TOTAL	9	2	2	0	0	0	7	0	2	2	0	7	31	18.5

Source: Survey feedback.

Apart from the governments' discretionary revisions of debt management strategies, the debt portfolios exhibited increases in costs and exposures to market risks. In almost all countries in the region, nominal debt to GDP increased[3] during the pandemic (Figure 4.3). This evolution is partly attributable to low GDP growth amid increased borrowing to cushion the socio-economic effects of the pandemic.

Figure 4.3: Evolution of Nominal Debt to GDP in Selected Countries



Source: Survey feedback.

In addition to revisions of debt management strategies and characteristic reactions of debt portfolios, there were other developments that had direct and indirect impact on government debt operations. The findings show that 80 per cent of the surveyed countries experienced wide fiscal deficits due to increased expenditure to address the effects of the pandemic. Likewise, 70 per cent and 60 per cent of the countries experienced an increase in borrowing by central governments and state-owned entities/local governments, respectively, to cover the shortfall caused by the decline in domestic revenue and grants.

Some countries reported that decline in domestic revenue emanated mainly from the collapse of mineral prices in the international markets, declining earnings of the hospitality industry following travel bans by most countries, and decline in demand for industrial raw materials in developed countries. The external borrowing included about SDR2.1 billion, accessed by nine MEFMI member countries,[4] from the IMF under the Rapid Credit Facility (RCF) and Rapid Financial Instrument (RFI). The period also witnessed the materialisation of contingent liabilities and a rise in domestic interest rates within half of the MEFMI member states. Table 4.3 summarises findings on the impact of the pandemic on public debt management operations.

Table 4.3 : Major Impacts of the Pandemic on Public Debt Management Operations

NO.	IMPACTS	BWA	SWZ	KEN	LSO	MWI	MOZ	NAM	RWA	TZA	UGA*	ZMB	ZWE	Total	%
1	Increased government financing needs due to decline in revenue and grants	1	1	0	1	1	0	1	0	1	0	1	1	8	66.7
2	Increased financing needs due to higher expenditure to address effects of the pandemic	1	1	0	1	1	0	1	1	1	0	1	1	9	75.0
3	Declined foreign exchange reserves reduced ability to meet external debt obligations	0	0	0	1	1	0	0	0	0	0	1	1	4	33.3
4	Increased financing needs from the state owned entities and sub-national level	0	0	0	0	1	0	1	1	1	0	1	1	6	50.0
5	Materialized contingent liabilities of state owned entities' operations/balance sheets	1	0	0	0	1	0	1	1	0	0	1	0	5	41.7
6	Increase/decrease of external loans interest rates	1	1	0	0	0	0	0	0	0	0	1	0	3	25.0
7	Increase of domestic borrowing interest rates	1	0	0	0	1	1	0	0	0	0	1	1	5	41.7
8	Decrease of liquidity in the international capital markets	0	0	0	0	0	0	0	1	0	0	1	1	3	25.0
9	Decrease of liquidity in the domestic debt markets	0	1	0	0	1	0	0	1	0	0	1	0	4	33.3
	TOTAL	5	4	0	3	7	1	4	5	3	0	9	6	47	43.5

Source: Survey feedback.

*Note: *Uganda did not respond to the question.*

[3] In Tanzania the increase was also exacerbated by the issuance of non-cash bonds to securitise long outstanding pension fund obligations.
[4] Eswatini (SDR78.5 million), Kenya (SDR542.8 million), Lesotho (SDR34.9 million), Malawi (SDR138.8 million), Mozambique (SDR227.2 million), Namibia (SDR191.1 million), Rwanda (SDR160.2 million), Tanzania (SDR397.8 million) and Uganda (SDR361.0 million).

5.

DEBT REPORTING AND EVALUATION

5.1 Debt reports and publications

Transparency in debt management, including debt reporting and publishing, has been advocated globally as key in minimising the effects of the pandemic. In particular, transparency was one the key conditions of the Debt Service Suspension Initiative (DSSI) and the RCF. Some countries, therefore, enhanced their reporting of debt management operations and statistics not only to the oversight pillars of the government but also to the domestic and international community.

The findings from the region show that all countries produce annual debt reports that are either standalone or are part of other macroeconomic and financial reports. It has also been reported that about 64 per cent and 55 per cent of the respondent countries have been producing and publishing annual debt bulletins and quarterly debt reports/bulletins, respectively (Table 4.4). Four countries reported that they have been producing monthly debt reports.

Contrary to expectations, only one country reported a change in the regularity and content of publications to ad hoc reporting in response to demand and inclusion of guarantees issued to hedge the private sector against the adverse effects of the pandemic, respectively. Likewise, only two countries reported changes in the targeted audience of the publications to include the office of the president, parliament and the press. Furthermore, the findings show that, with the exception of one country that produced debt monitoring reports, there were no specific reports published by the member countries during the pandemic.

Table 4.4: Public Debt Reports by Countries in the MEFMI Region

NO.	PUBLICATIONS	BWA	SWZ	KEN	LSO	MWI	MOZ	NAM	RWA	TZA	UGA	ZMB	ZWE	Total	%
1	Annual debt reports	0	1	1	1	1	1	1	1	1	1	1	1	11	100.0
2	Annual debt bulletin	0	1	1	1	0	0	0	1	0	1	1	1	7	63.6
3	Quarterly debt report/bulletin	0	0	1	0	0	1	1	0	1	1	1	0	6	54.5
4	Monthly debt reports	0	0	1	0	0	1	0	0	1	0	1	0	4	36.4
5	Budget Monitoring Report	1	0	0	0	0	0	0	0	0	0	0	0	1	9.1
6	Mid Year Report	0	0	0	0	1	0	0	0	0	0	0	0	1	9.1
	TOTAL	1	2	4	2	2	3	2	2	3	3	4	2	30	41.7

Source: Survey feedback.

5.2 Reporting to the World Bank and IMF

Most of the countries have been reporting to the Bretton Woods Institutions, particularly through the Debtor Reporting System (DRS), although 73 per cent of the countries are reporting with a time lag of up to six months. About half of the countries have also been reporting Government Finance Statistics (GFS), General Debt Data Statistics (GDDS) and Quarterly External Debt Statistics (QEDS). Table 4.5 summarises countries reporting to the Bretton Woods Institutions.

The findings, however, show that with the exception of two countries, there have been no changes in the regularity of reporting due to the pandemic. The changes in the two countries, that mainly involved reducing the time lag for DRS to three months, were necessitated by the conditions embedded in the IMF's debt service cancellation under Catastrophic Containment and Relief Trust (CCRT) and RCF/RFI rescue packages, as well as the G20 Debt Service Suspension Initiative.

Table 4.5: Debt Reporting to Breton Woods Institutions

NO.	TYPE OF REPORT	BWA	SWZ	KEN	LSO	MWI	MOZ	NAM	RWA	TZA	UGA	ZMB	ZWE	Total	%
1	DRS	1	0	1	1	1	1	0	1	1	0	1	0	8	73
2	GDDS	1	0	1	0	0	0	1	1	0	1	1	0	6	55
3	QEDS	1	0	1	1	0	0	0	1	1	1	1	0	7	64
4	GFS	1	0	1	0	1	0	1	1	0	1	1	0	7	64
5	SDDS	0	0	1	0	0	0	0	0	0	0	1	0	2	18
6	EGDDS	1	0	0	0	0	0	0	0	0	0	0	0	1	9
7	QPSDS	0	0	0	0	1	0	0	0	0	0	0	0	1	9
	TOTAL	5	0	5	2	3	1	2	4	2	3	5	0	32	38

Source: Survey feedback.

6.
DEBT MANAGEMENT AUDIT

Conventionally, the business response to crises has both pro-cyclical and countercyclical operational effects. Measures that cause pro-cyclical effects often divert attention of debt managers away from principles and sound guidelines of public debt management. As a consequence, exposure of public debt management to operational risks increases. In responses that cause counter-cyclical effects, crises heighten operations of debt management in the form of controls to minimise deviations from principles. Irrespective of the operational direction, there is, therefore, a need for regular financial, compliance and performance audits to safeguard resources and operations. Thus, the role of Supreme Audit Institutions (SAIs) is important in supporting government response mechanisms through maintaining public financial management discipline and ensuring transparency and accountability without becoming a bottleneck (World Bank, 2020).

Responses from countries in the MEFMI region show that prior to the crisis, all countries have been undertaking public debt financial audits on an annual basis and the situation has not changed during the crisis. It has also been reported that nine countries undertake compliance audits while eight countries undertake performance audits annually, in addition to the financial audits (Table 4.6). None of the reporting countries indicated changes in the frequency of these audits. Likewise, none of the countries reported undertaking any special audit during the pandemic period. The findings imply that the region has been implementing safeguard measures in public debt management operations.

Table 4.6: Public Debt Management Audit in MEFMI Countries

NO.	TYPE OF AUDIT	BWA	SWZ	KEN	LSO	MWI	MOZ	NAM	RWA	TZA	UGA	ZMB	ZWE	Total	%
1	Financial Audit	1	1	1	1	1	1	1	1	1	1	1	1	12	100.0
2	Compliance Audit	1	1	0	0	1	1	1	1	1	0	1	1	9	75.0
3	Performance Audit	1	1	0	0	1	1	0	1	1	0	1	1	8	66.7
	TOTAL	3	3	1	1	3	3	2	3	3	1	3	3	29	80.6

Source: Survey feedback.

Despite the pandemic mitigation measures, which included limited gatherings, most SAIs continued with audits without undue disruptions, including holding the entry and exit meetings physically. Findings also show that apart from the key meetings, most countries resorted to electronic submission of documents and subsequent virtual meetings for clarification. Nonetheless, there is no evidence of delays in conducting and releasing audit reports.

7.
DEBT MANAGEMENT STRATEGY

Crises often expose weaknesses in business continuity plans and the practicability of putting these into effect for public debt operations. One of the tools used to support business continuity plans is the presence of a sound and accessible operational risk management framework for public debt management that is tested and updated on a regular basis. The framework is often operationalised by the presence of quality and up-to-date procedure manuals that document all key business processes of public debt management.

The COVID-19 pandemic exposed the weaknesses of the existing BCPs, which are largely focused on protecting businesses from system failures and data losses and less focused on personnel and non-system-related business activities. Also, the pandemic has highlighted the shortfall of existing business continuity planning, which is geared towards shorter disruptions and does not cover the challenges of prolonged work from home (Balibek et al, 2021).

This section, therefore, presents findings on the impact of the pandemic on operational risk management frameworks of public debt management. Emphasis was placed on the tools of operational risk management, particularly the presence of up-to-date and readily accessible procedure manuals guiding the key processes of public debt management. The main objective was to evaluate the situation prior to the pandemic relative to sound practice and any changes or measures necessitated by the pandemic.

The evaluation in the region considered key processes that require procedure manuals, namely: domestic and external borrowing; recording and validation of debt transactions and storage of records; debt service payments; issuance of government guarantees; approval and issuance of on-lending; access controls to debt records/documents and audit trails; and debt reporting. Furthermore, probing was carried out on the presence and regular testing of approved business continuity plans in the MEFMI countries and whether present BCPs have been revised in response to the pandemic.

Responses from the MEFMI region show weak average performance in terms of the presence and quality of procedure manuals guiding public debt management. Only two countries have such manuals, while five countries do not have procedures on any of the debt management processes (Table 4.7). Out of the two countries with procedure manuals, one country reported that its manuals have been in use since 2017, and hence require updating.

Despite such weaknesses in the region, none of the countries said they intended to develop new manuals or review existing ones, even during the pandemic period. The findings, therefore, show great exposure of the debt management process to operational risks, which requires immediate intervention.

As with business continuity, only Namibia and Mozambique reported to have BCPs covering public debt management, developed in 2010 and 2017 respectively. Namibia reported regular and random testing of their BCPs and said they reviewed their plans during the pandemic to accommodate remote working. The governments of Mozambique and Rwanda both drafted BCPs in 2021 in response to the effects of the pandemic. These findings coincide with a DeMPA report that suggests that low-income and developing countries have not yet developed comprehensive BCPs that cover critical processes in cash and debt management functions (World Bank 2020).

Other challenges that have been identified include gaps in identification and documentation of critical processes, execution of business impact analysis, resource planning and coordination with partners that support the processes (such as central banks). Development and/or review of the procedure manual will among other things need to incorporate the adopted mechanisms and responses, particularly remote working, delegations and work shifts, as well as leveraging technology such as virtual meeting platforms and electronic signature applications.

Table 4.7: Procedure Manuals on Public Debt Management Processes

NO.	ACTIONS	BWA	SWZ	KEN	LSO	MWI	MOZ	NAM	RWA	TZA	UGA	ZMB	ZWE	Total	%
1	Domestic and external debt borrowing	0	0	0	0	1	0	1	1	1	0	0	1	5	45
2	Recording and validating domestic and external debt transactions and storage of agreements and debt administration records	0	0	1	0	0	0	1	1	0	0	0	1	4	36
3	Processing domestic and external debt service payments	0	0	1	0	1	0	1	1	1	0	0	1	6	55
4	Approval and issuance of government guarantees	0	0	1	0	1	0	1	1	0	1	0	1	6	55
5	Approval and issuance of government on-lending	0	0	0	0	0	0	0	1	0	1	0	1	3	27
6	Controlling access to the central government's debt data recording and management system and audit trail	0	0	1	0	1	0	0	1	0	0	0	1	4	36
7	TOTAL	0	0	4	0	4	0	4	6	2	2	0	6	28	38.9

Source: Survey feedback.

Pandemics often expose businesses to operational risks. This calls for sound operational risk management frameworks. Despite that, only three countries (Zimbabwe, Namibia and Rwanda) have reported having operational risk management frameworks in place for managing public debt. Among the three, Namibia is the only country that has revised its operational risk management framework during the COVID-19 pandemic to provide for remote working. Nonetheless, none of the countries confirmed that their DMOs conduct regular business impact analysis of potential disruptions in business processes, through testing the suitability of operational risk management frameworks. These findings are contrary to a priori expectations that jurisdictions would have revamped their preparedness to mitigate the effects of the pandemic though preparation and regular testing of operational risk management frameworks.

In the course of mitigating operational risks in public debt management, different measures were adopted by different countries. Most countries facilitated their remote working by providing working equipment, particularly laptops and internet access (charging vouchers), to employees. A few countries also put in place mechanisms to secure their operations through signing non-disclosure or confidentiality agreements and provision of secured internet connections.

8.

DEBT MANAGEMENT STRATEGY

8.1 Findings summary

The findings from the region show that most of the governance aspects of public debt management were not affected significantly by the pandemic. Nonetheless, most countries reported contraction in domestic revenue and grants amid increasing expenditure needs to finance the most-hit social economic sectors. Consequently, countries increased borrowing from both domestic and external sources, which raised nominal and debt-to-GDP ratios across all countries.

The main findings from the region are as follows:

i. **Public debt management legal frameworks**: most jurisdictions in the MEFMI region did not breach debt limits in response the pandemic. In addition, countries are confined to regional (SADC/EAC) convergence criteria. In terms of borrowing processes, most countries adopted alternative mechanisms for agreement signing whereby the use of couriers in contract deliveries was common due to travel restrictions.

ii. **Institutional arrangements for public debt management:** in the face of strict measures adopted to contain the spread of COVID-19, changes were required in the way public debt management operations were carried out. Findings from the region show that coordination mechanisms through formal debt management committees changed during the pandemic as virtual meetings (Zoom, MS Teams) and mail correspondence were the most common across all countries. However, adopted measures, particularly work shifts and strict gathering protocols, had an adverse impact on the organisation of DMOs and the segregation of duties that created operational risks. Countries could not adhere to the segregation of duties principally across front, middle and back offices, as they limited the number of officials physically in the office at any given time.

iii. **Capacity building:** during the pandemic, institutions offering capacity building pivoted from in-person to virtual classes. On the positive side, countries reported flexibility and increases in the number of participants, as well as more timely responses to capacity building needs. However, findings show that there was less enthusiasm and concentration by participants, partly due to unstable internet connections, inadequate working tools, preoccupation with office work and overlapping of capacity building events.

iv. **Debt management strategy:** most countries in the region had to revise debt management strategies to cope with increased deficits due to the fall in revenue collections with increasing health expenditure. In view of this, debt portfolios exhibited an increase in costs and exposure to market risk due to changes in structure and assumptions (interest rate, exchange rate, GDP). Nine countries in the MEFMI region accessed the IMF's RCF/RFI, totalling around SDR2.1 billion, in a bid to finance their increasing deficits. The period also witnessed the materialisation of contingent liabilities and a rise in domestic interest rates.

v. **Debt reporting:** debt reporting has been advocated globally as key in enhancing transparency and accountability. In the MEFMI region, there was no change in debt reporting content or regularity in response to the pandemic. Only one country reported changes in report regularity and content publications to ad hoc reporting in response to demand and inclusion of guarantees issued to hedge the private sector against the adverse effects of the pandemic.

vi. **Debt management audit:** findings from the region show that there was no change in the frequency or manner of financial, compliance and performance audits conducted by SAIs during the pandemic. Nonetheless, to ensure audits were undertaken without disruptions, after audit entry meetings were carried out through electronic submissions and subsequent virtual meetings were held for clarifications.

vii. **Operational risk management and business continuity:** responses from the MEFMI region show weak average performance in this area. This is due to the fact that most countries do not have quality procedure manuals guiding public debt management. Further, none of the countries said they intended to develop new manuals or review existing ones, even during the pandemic. Only two countries have BCPs in place with testing and revision conducted in only one country. In addition, none of the countries confirmed that their DMOs conduct regular business impact analysis of potential disruptions in business processes, through testing the suitability of operational risk management frameworks.

8.2 Way forward

The COVID-19 pandemic has exposed governance and operational risk management in debt management offices in the region. The weaknesses and the implemented coping mechanisms form a basis for improvements by governments and regional capacity building institutions. Based on the findings, countries in collaboration with cooperating partners (MEFMI, IMF, World Bank, etc.) need to implement immediate measures, as well as medium- and long-term measures, to address governance gaps and operational risk exposures.

8.2.1 Proposed immediate measures

i. The absence of BCP plans in most countries in the MEFMI region requires intervention with a view to improving preparedness for future crises. MEFMI needs to take a lead through in-country and regional capacity building activities, and where necessary field technical missions to member states. In addition, MEFMI should collaborate with the World Bank to undertake DeMPA missions, as this will help inform the necessary reforms for strengthening debt management operations. MEFMI should consider the possibility of incorporating pandemic impacts and coping mechanisms in the design of regional and in-country capacity building activities, as well as technical assistance to member countries.

8.2.2 Medium- to long-term measures

i. MEFMI needs to recommend revisions to the World Bank's DeMPA methodology to incorporate mechanisms to mitigate the effects of the pandemic as part of operational risk management.

ii. There needs to be more investment in and use of technology in the working environment to allow for the smooth operation of remote working, while making sure that strong safeguards are implemented to minimise vulnerabilities to online operations. Governments in the region, therefore, need to be sensitised to consider investments in soft infrastructure, particularly in sensitive operations (including in DMOs).

iii. Cautious escape clauses in the legislation and policies of the countries and in the regional economic blocks' convergence criteria should be adopted, to provide for unforeseen circumstances. The escape clauses could allow member states to deviate from the preventive limits through budgetary measures under exceptional circumstances that have major impacts on the financial position of the general government.

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