

## **Interests over Institutions: Political-Economic Constraints on Public Debt Management in Developing Countries**

Ben Cormier  
IPE Fellow  
London School of Economics  
b.v.cormier@lse.ac.uk

Accepted at *Governance*

### Abstract:

Some use the model of independent central banks to posit that independent Debt Management Offices (DMOs) can enhance public debt sustainability. This study argues this is unlikely in developing countries. Developing country DMOs have limited space to apolitically manage (1) debt levels and (2) borrowing strategies. A comparison of South Africa and Botswana, using in-depth interviews and primary sources, traces public debt processes to argue DMOs are unlikely to significantly affect the link between political interests and these two key public debt outcomes over time. This argument has three implications. First, it gives rise to questions about the role of institutions in the governance of public debt. Second, it adds to recent literature on developing country external borrowing preferences by highlighting ideological effects. Third, it reinforces the idea that political economy theories of the relationship between interests, institutions, and policy outcomes should vary by policy area and national income level.

Words: 8,955 w/o references

### Acknowledgements:

Thanks to Vincent Arel-Bundock, Antoinette Handley, Mark Manger, Scott McKnight, Layna Mosley, Natalya Naqvi, Lou Pauly, and Wil Prichard for comments on the topic and earlier drafts. Thanks also to the anonymous reviewers for their very helpful comments.

## Introduction

Given rising public debt in developing countries (Mustapha and Prizzon 2018) and following movement toward depoliticized fiscal policies generally (Fernández-Albertos 2015, 231; Wren-Lewis 2013), some have applied the logic of independent central banks (ICBs) to suggest independent public Debt Management Offices (DMOs) could enhance public debt sustainability. The idea is that independent DMOs should moderate both debt levels and borrowing decisions in the way ICBs moderate monetary policy. On debt levels, a “truly non-partisan and independent” DMO with long-tenured technocrats could minimize the amount of debt accumulated over time (Bertelsmann 2013, 90–91), possibly by imposing debt limits (von Hagen 2013, 32–36). On borrowing, the World Bank suggests DMOs should be “delegated” borrowing decisions to insulate them from politics (World Bank 2015, 6–8, 13–14; 2007, 49–50). At the least, independent DMOs might advocate for debt sustainability to be prioritized vis-a-vis other priorities politicians prefer (Blommestein and Turner 2012; Ülgentürk 2017). Such ideas have reached popular commentary, with *The Economist* (2020, 7) positing that effective public debt management “may involve delegating fiscal [management] to technocrats.”

While one recent study shows DMO independence can affect maturities in developed democracies (Sadeh and Porath 2019), public debt management cannot be easily compared across developed and developing contexts. Developing countries have different relationships with markets (Copelovitch, Gandrud, and Hallerberg 2018; Brooks, Cunha, and Mosley 2015), have access to official development finance alongside markets (Wheeler 2004; Bunte 2019), and have different structural constraints including limited domestic market depth, monetary policy influence, and possibly technical or professional limitations (Williams 2013, 667). Together,

these factors suggest the political economy of public debt management, and thus the relevance of DMO autonomy, is different in developing and developed countries.

Can a DMO's institutional independence affect public debt outcomes in developing countries? The political economy of developing country DMOs is an under-researched topic (Das et al. 2011, 357–58; Blommestein and Turner 2012, 5–9), but some recent work finds DMO autonomy improves credit ratings in developing democracies (Sadeh and Rubinson 2018). Such effects align with assumptions implicit in the literature (von Hagen 2013, 32–36; Bertelsmann 2013, 90–91) and best practices advocated by the World Bank which suggest DMO autonomy should ultimately make developing country public debt more sustainable (World Bank 2015, 6–8, 13–14; 2007, 49).

This study counters these claims, or specifies their limitations, by arguing DMOs are severely constrained by domestic political interests in developing countries. DMO autonomy is unlikely to have a significant effect on two key aspects of developing countries' public debt structure: (1) the amount of public debt accumulated each year and (2) the sources of finance, and thus the terms and conditions, developing countries borrow from each year. Instead, partisan political interests are the primary determinants of debt levels and borrowing choices, limiting the effect an ostensibly independent DMO can have on these key areas of public debt over time. At most, developing country DMOs optimize public debt within the first-order parameters of the amount and terms of finance that political interests set each year.

This argument is made through a comparative case study of DMOs in South Africa and Botswana. Using in-depth interviews and primary sources, these cases are a useful comparison because both have professional DMOs with formal mandates in reputedly independent economic ministries that use their influence to implement preferred orthodox macroeconomic policies

(Bond 2014; Handley 2008; Leith 2005; Lewin 2011). If DMO characteristics significantly shape public debt, both South Africa and Botswana would exhibit broadly similar debt levels and borrowing strategies over time. But South Africa and Botswana have had divergent outcomes in both areas since the 1990s.

Why this variation despite similar institutional conditions? The cases show how partisan differences between each country's dominant party are key. By tracing the DMO's role in each country's fiscal policy process, and showing the inevitable effect partisan politics have on debt accumulation and borrowing strategies through that process, it becomes clear how and why a DMO's institutional independence is unlikely to shape whether a DMO will moderate the link between partisan politics and these two major areas of public debt composition. Moreover, the cases show partisanship more significantly affects these areas than debt laws or credit ratings.

This political economy of developing country DMOs has a number of implications. First, it shows we should expect core elements of public debt (un)sustainability in developing countries to depend on domestic politics more than institutional characteristics. This contrasts with literature on central bank independence and inflation expectations, as well as some recent work on DMOs in developed democracies. Second and relatedly, the study signals that the power relationship between interests and institutions varies by economic policy area as well as national income level. This makes the study relevant to the political economy of state institutions broadly-speaking. Third, the study adds to a related literature on developing country borrowing preferences. The conclusion details these implications.

Ultimately, the argument is that even the most politically independent developing country DMOs are constrained by the politics of fiscal policy and borrowing preferences, limiting their ability to shape (1) total overall debt and (2) borrowing costs. All else equal, any institutional

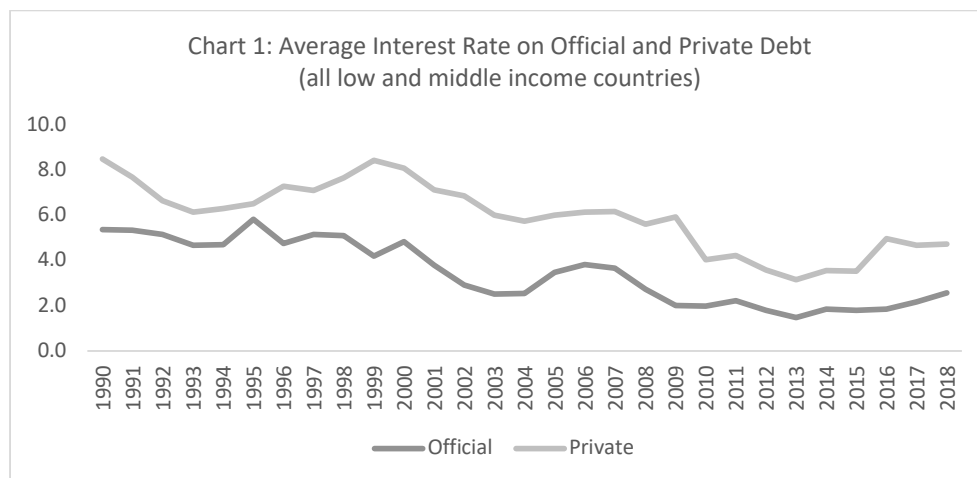
effect DMOs may have on public debt should be expected in other areas of public debt structure. Indeed, showing debt accumulation and borrowing strategies cannot be independent from politics does leave open the question of the ways in which DMOs might have an institutional effect on public debt. But this theory-building and causal process tracing study clarifies the political constraints DMOs face, the components of public debt structure that are primarily shaped by interests rather than DMO institutional characteristics, and is thus an important step toward better understanding the political economy of public debt in developing countries.

### **Developing Countries and Debt Management**

It is important to distinguish between high-income and developing countries when analyzing public debt. This is because developing countries face different financial risks and borrowing options. In terms of risk, developing countries are particularly susceptible to sudden capital flows and boom-bust cycles (Frieden 1991). Volatility exacerbates the fact that developing countries have lower sustainable-debt thresholds (Reinhart and Rogoff 2009) and the fact that foreign debt is particularly risky for countries without benchmark currencies (Eichengreen, Hausmann, and Panizza 2007). Still, though, many developing countries have market access at some price (Gelos, Sahay, and Sandleris 2011; Hostland 2009).

In terms of borrowing options, developing countries also have access to non-market multilaterals and bilaterals (Bunte 2019). These official lenders can counter pro-cyclical market finance (Griffith-Jones, Griffith-Jones, and Hertova 2008; Loser 2004), providing developing countries with financing alternatives and thus a policy choice not available to high-income countries. The key differences are that official creditors offer lower interest rates (Chart 1) and longer maturities (Gurria and Volcker 2001, 14, 50). This means most developing countries have

a choice: whether and how to mix and borrow from official and market financial options, taking on different costs and maturities (Wheeler 2004, 18).



Source: *International Debt Statistics*

Effectively managing financial risks and options is crucial for developing country governments because they do not have the same resources and policy options as developed countries when navigating shocks or crises (Wibbels 2006). And it is not as if prudent lending ensures financial flows and subsequent debt levels are sustainable. Market access often remains available beyond what in retrospect proves to be an excessively risky level of debt (Reinhart and Rogoff 2009). This puts a premium on forward-looking, sustainable management of public debt by developing country governments themselves.

### **Debt Accumulation and Borrowing Strategies: Keys to Debt Management**

Many factors shape public debt sustainability, but two key elements are (1) maintaining manageable levels of total outstanding debt over time and (2) borrowing at optimal interest rates. The first may be referred to as *accumulation*. For debt to be sustainable, the amount government borrows each year must not rapidly or unceasingly increase total debt to unmanageable levels. The second may be referred to as *borrowing*. The terms and conditions of that new debt also

affects sustainability, with lower interest rates typically reflecting more sustainable debt.

Together, the amount of debt government accumulates each year, as well as the terms on which it borrows to finance that new debt, are central to shaping debt sustainability over time.

The state ministries responsible for keeping public debt sustainable are DMOs. DMOs are typically in finance ministries. In some developing countries debt management functions may be spread across the finance ministry and the central bank, but even if scattered, debt managers have the same tasks (Ülgentürk 2017, n. 1). Most DMOs are organized according to these tasks. The front office is the DMO's portfolio management group, maintaining relationships with creditors. The middle office devises medium-and-long-term debt strategies to minimize risk. The back office serves an accounting role. Even if not formally cohered as such in a country, these functions are the essence of debt management (Williams 2013, 668). These operations serve the aims of ensuring “the government's borrowing needs are met efficiently and that the stock of government debt... [is] managed” in a way that minimizes cost and risk (Wheeler 2004, 4). In other words, DMOs aim to ensure debt accumulation and borrowing choices, the two key components of public debt discussed above, remain sustainable.

### **The Political Economy of Interests, Institutions, and Policy Outcomes**

But the political economy of the degree to which DMOs can technocratically manage debt accumulation and borrowing strategies in developing countries is not well-understood. Some argue *de jure* DMO independence is likely to have an effect (Sadeh and Porath 2019) while others are skeptical of fiscal-related agencies generally (Wren-Lewis 2013). Helpfully, these views are rooted in different political economy theories of the relationship between political interests, state institutions, and policy outcomes that provide competing expectations.

Such theories that emphasize the effect of either interests or institutions in shaping outcomes are reviewed here then applied to DMOs.

### **Interests, Institutions, and Autonomy**

Interest-based political economy models have been used to explain various economic policy outcomes by emphasizing production factors, sectors, classes, coalitions, and electoral cycles or political survival (Rogowski 2009; Frieden 1991; Walter 2008; Pinto 2013; Franzese and Jusko 2009). In this view, policy outcomes mostly depend on the preferences of the most powerful interests. Others emphasize the intervening effect institutions may have in altering the link between interests and policy outcomes, using rational and historical frameworks (Hallerberg and Yläoutinen 2010; Brooks and Kurtz 2012; Mosley 2010). A strand of this research considers institutional independence or autonomy. Rooted in principal-agent theory, this work uncovers how independent state ministries might intervene in policy-making processes in ways that lead to different policy outcomes than political interests would lead to on their own. Such models of the relationship between interests, institutions, and outcomes are common in governance and public administration research (Dasandi and Esteve 2017; Holt and Manning 2014).

In political economy, this framing is most common in studies of central banks and monetary policy. Many argue that independent central banks (ICBs) have a moderating effect on the interest politicians have in pursuing inflationary policy at the expense of long-term stability (Rogoff 1985). Despite complexities and limitations (Bodea and Hicks 2015), common wisdom holds that ICBs, all else equal, have more credibility and are expected to lower inflation over time (see discussion in Fernández-Albertos 2015). Even if ostensibly ICBs are simply captured by the financial sector or economists, the same policy outcome emerges because those capturing



the central bank use the institution to pursue monetary stability over other priorities (Carré and Gauvin 2018).

### **Institutional Independence & DMOs**

Recently, “authors have used the apparent success of [ICBs] to argue a similar idea can be applied to fiscal policy” (Wren-Lewis 2013, 54), part of a post-crisis move to depoliticize fiscal policy with “greater reliance on independent fiscal agencies” (Fernández-Albertos 2015, 231). DMOs are part of annual fiscal processes since taxing and spending necessarily shapes public debt operations each year. This means that if one posits independent DMOs significantly affect public debt, one is implicitly or explicitly making the theoretical claim that DMOs can intervene in the link between political interests and debt outcomes shaped during the fiscal policy process, similar to the way ICBs intervene between political interests and monetary outcomes. All else equal, independent DMOs should make key public debt outcomes more sustainable.

For example, the logic is explicit in Sadeh and Porath’s study showing that autonomous developed democracy DMOs can affect maturities by credibly signaling primary markets: “a DMO can enjoy more trust... if it is politically autonomous... because it would potentially be less focused on the short term compared to politicians” (2019, 5). Similarly, DMOs with *de jure* autonomy in democracies are correlated to better credit ratings because “DMO autonomy increases credibility” (Sadeh and Rubinson 2018, 42). The logic also implicitly underpins studies which emphasize DMO-investor interactions in explaining debt issuance (Ballard-Rosa, Mosley, and Wellhausen 2019, 4–5).

Professionalization is also important to consider in developing country contexts. Professionalization goes beyond whether or not DMO staff has the technical capacity to, for example, devise a forward-looking debt management strategy, since technical assistance is

available from development institutions (see International Monetary Fund 2018a). More fundamentally, professionalization implies DMO staff can rely on formal structures that grant “sufficient freedom” to devise such strategies or seek help in making them (Wheeler 2004, 71–72). Such formal structures include legal delegation of borrowing authority to the DMO, permanent DMO jobs with clear descriptions, centralized operations in the DMO rather than various parts of government, mandates requiring debt strategies, and transparent reporting (World Bank 2007, chap. 5; 2015). In theory, professionalized DMOs should be more centralized, streamlined, strategic, transparent, and thus more able to optimize public debt portfolios according to medium-term risk rather than react to short-term political incentives (Sadeh and Rubinson 2018, 2). In this sense, professionalization may be seen as a necessary condition for institutional autonomy (see Evans and Rauch 1999, n. 7).

But the DMO studies above, and guidelines that imply professionalization will yield independence-like effects, do not empirically test whether these characteristics affect public debt levels or costs in developing countries. There are two key reasons why such an analysis is an important step for this emerging literature:

- (1) First, it is crucial to explicitly account for the unique menu of official and market financing options developing countries face. How a developing country uses these options has significant cost implications because official finance is cheaper than market-based finance (Chart 1). Moreover, market costs and creditworthiness vary significantly across developing countries. If autonomous and professional DMOs in developing countries have a significant effect on debt, then all else equal DMOs with similar characteristics would use official and market options in the same way, including only using market finance when it is relatively cheap. But previous studies

ask different questions and leave this unaddressed. Autonomy's effect on maturities (Sadeh and Porath 2019) and credit ratings (Sadeh and Rubinson 2018) do not consider whether DMO autonomy affects the specific creditors developing countries use each year.

- (2) Second, studies do not trace how annual DMO operations are part of annual fiscal policy making processes. Given the inevitable politics of fiscal policy processes, tracing DMOs' role in this process can shed light on the political constraints that even the most professional developing country DMO would face. Studying the effects of DMO autonomy in some countries (Sadeh and Porath 2019; Sadeh and Rubinson 2018) does not clarify the ways in which even an ideal-type DMO faces prior constraints due to the politics of fiscal policy processes in developing countries.

Accordingly, the remainder of this study considers these two points. Are developing country DMO operations significantly affected by fiscal processes? Do DMOs control borrowing choices in developing countries? Put together: can politically independent DMOs affect the key outcomes of debt accumulation and borrowing strategies in developing countries?

### **The Politics of Debt Accumulation and Borrowing in Developing Countries**

This section details the study's theoretical argument, summarized as follows. Alongside other constraints, developing country DMOs face significant and unavoidable partisan political constraints on technocratic management of public debt. As a function of their location in the annual budget process, a developing country DMO cannot significantly alter the direct link between partisan interests and (a) annual public debt accumulation or (b) borrowing strategies. The location of DMOs in the fiscal policy process and these constraints are summarized at the end in Figure 1.

To be sure, technical DMO operations are important. But this study argues their effects are secondary to the effect partisan interests have in determining the amount of new debt and the sources from which a developing country borrows each year. This is because restructuring, swapping into local currency, extending or spreading maturities, and expanding the investor base must take place within parameters implicitly or explicitly set by partisan politicians through the fiscal process. In short, if debt accumulation rapidly or inexorably increases and borrowing strategies are repeatedly suboptimal, public debt will become unsustainable despite efforts of the best DMO technocrats. This means DMOs have limited space to have an apolitical institutional effect on core aspects of public debt. At best, DMOs may affect accumulation and borrowing on the margins, but partisans would have to grant that space.

### **Partisanship**

Clarifying partisanship is helpful before continuing. Partisanship underpins this study's thesis because developing country public debt is shaped by more than only distributive interest-group politics. In particular, the borrowing side of developing country public debt is also affected by a government's economic ideology and related perceptions about the international institutions that promote global economic integration. Left-right partisanship accounts for how both interests and ideologies shape government responses to global flows (Garrett 1998). Though developing country parties do not typically reflect an American-style dichotomy, the core economic interests and ideologies underpinning a party's economic policies are still usefully reflected by partisan shorthand (Noel and Therien 2008). For example, left-leaning parties have success in developing countries not only by spending but by resisting international institutions and integration (Rodrik 2017). In contrast, right-leaning parties reflect capital's preferences (Kohli 2004, 416–17),

implementing “good” policies that align ideologically with international institutions promoting macroeconomic conservatism and global, regional, or bilateral integration (Putnam 1988, 457).

This is highlighted not only to clarify this study’s use of partisanship, but because this class-based partisan argument is different from Open Economy Politics (OEP) arguments about borrowing preferences which are based on sectors’ material interests and explicitly scope out ideology (Bunte 2019, 163, 201). Instead, it aligns with work showing that ideology shapes a country’s relationship with official creditors like the IMF (Vreeland 2003; Woods 2006; Nelson 2017). This study, then, has implications for an adjacent literature about borrowing preferences, which are considered in the conclusion.

### **Debt Accumulation**

Three constraints limit a DMO’s ability to independently manage debt accumulation. DMOs cannot control the amount of debt government accumulates each year. Annual financing needs are a direct function of budgets and the gap between revenues and expenditures cannot be easily affected by DMOs. In developing countries, this is all the more true given minimal or flexible fiscal and debt laws which typically have little constraining effect on budgets. Moreover, explicit and implicit guarantees bring obligations that a DMO did not approve or negotiate onto the government’s balance sheet.

First, DMOs are recipients of, rather than shapers of, fiscal policy given their role in the fiscal process. This means the size of the deficit and thus the amount that needs to be borrowed each year is not easily affected by DMOs. DMOs must fund whatever borrowing requirement emerges from politicians’ budgets, which makes the annual increase in total debt a “political decision” (World Bank 2015, 8). By extension, this means the level of outstanding debt over time is a “consequence of past...fiscal policies... not under the control of debt managers” (Das et

al. 2011, 365). DMOs may advise during budget deliberations and projecting how fiscal policy will affect debt sustainability may alter fiscal policymakers' choices (Wheeler 2004, 31). But the degree to which debt sustainability is considered during budget deliberations is a political choice that DMOs cannot force onto policymakers.

Second, the direct relationship between fiscal policy and debt accumulation is often reinforced by the flexible nature of fiscal and debt laws in developing countries. It is possible that laws minimize the latitude politicians have when making budgets, placing a check on fiscal policy in the name of debt sustainability. But in many developing countries fiscal and debt laws are either non-existent, constantly altered, or unenforceable (Kopits 2001; Lledó and Poplawski-Ribeiro 2013), meaning these laws often have a procyclical rather than constraining effect on fiscal policy (Bova, Carcenac, and Guergil 2014). Flexible laws ultimately reinforce rather than limit the partisan fiscal effects on debt accumulation over time.

While DMOs may set internal benchmarks for sustainable debt, many DMOs do not do so, many benchmarks are imprecise, and they are not enforceable so DMOs cannot point to benchmarks with any surety that they will alter politicians' fiscal preferences (Cabral 2015, 25). DMOs can hope benchmarks encourage governments to take debt risks into consideration during budget processes, but again, whether or not DMO benchmarks alter fiscal policy and debt accumulation remains up to policymakers themselves.

Third, guarantees granted by politicians to public or private sectors put further pressure on debt accumulation. At best, guarantees are explicit and increase debt with the DMO's knowledge. But often guarantees are implicit and DMOs may not be informed of them until after the debt is incurred. Even where guarantee processes are formal and transparent, it is difficult for a DMO to do more than rely on politicians' accountability in keeping use of guarantees minimal

(see Ülgentürk 2017). While the effect of guarantees on debt accumulation is not necessarily a function of partisanship, they are important for painting a full picture of political constraints on DMOs.

### **Borrowing Strategies**

Three additional constraints limit a DMO's ability to independently manage borrowing choices. Without pre-existing political support, developing country DMOs cannot simply borrow from the most risk-optimal sources. This is true in both foreign and domestic borrowing.

First, much research shows global markets constrain developing country market access in different ways (Mosley 2003). Others show international political interests shape developing countries' access to official multilateral and bilateral creditors (see, among many, Dreher, Sturm, and Vreeland 2015). Outside of ensuring technical management is sound, DMOs have little effect on the price, conditions, and availability of the external finance these private markets and official creditors do or do not make available. But, insofar as both of these options are available, developing country DMOs do have to decide "whether to borrow from official sources (i.e. bilateral sources or international financial institutions) or from commercial creditors" (Wheeler 2004, 18).

It is in this choice that the second constraint on developing country DMOs' role in borrowing emerges: domestic political interests significantly affect which external borrowing options are preferred. Despite uncertainty about precisely which interests shape borrowing (Bunte 2019; Vreeland 2003), some constellation of domestic interests shape which option developing country DMOs must prioritize when borrowing externally (as discussed above and in the conclusion, this study suggests a class-based partisan explanation has merit). In practice this is because ministers and legislators retain ratification power over borrowing decisions (World

Bank 2015, 7). Since official loan conditions have policy implications, some politicization of official loans is appropriate (World Bank 2015, 13–14), reinforcing how the politics of borrowing is inescapable and DMOs cannot borrow independently of political interests. This has implications for debt sustainability in developing countries because, as Chart 1 above shows, official loans are cheaper than market finance. The politics of using official creditors can thus push DMOs to use more expensive and short-term market finance.

Political interests may also shape use of market finance. For example, politicians may only ratify borrowing at long-term maturities to avoid repayment, which markets may demand be floating rather than fixed rate bonds (Wheeler 2004, 149, 173). Politicians may alternatively force DMOs to borrow in the short-end of the curve or to use a certain currency, affecting the nature of risks that emerge from borrowing strategies over time (World Bank 2015, 13–14).

Third, borrowing may be constrained by the operations of other state institutions that do not prioritize debt sustainability. For example, central banks prioritizing monetary stability may advocate for issuing more foreign-denominated debt or more variable-rate debt because bearing this repayment risk would signal that the government is committed to low inflation. DMOs would prefer to avoid this borrowing strategy (Blommestein and Turner 2012, 21–22). Such competing priorities between economic ministries are increasingly relevant as monetary policy tools reach their limits following the global financial crisis. While this is not necessarily a partisan issue and not the focus of this study, it is important to note this final constraint on DMO control over borrowing operations.

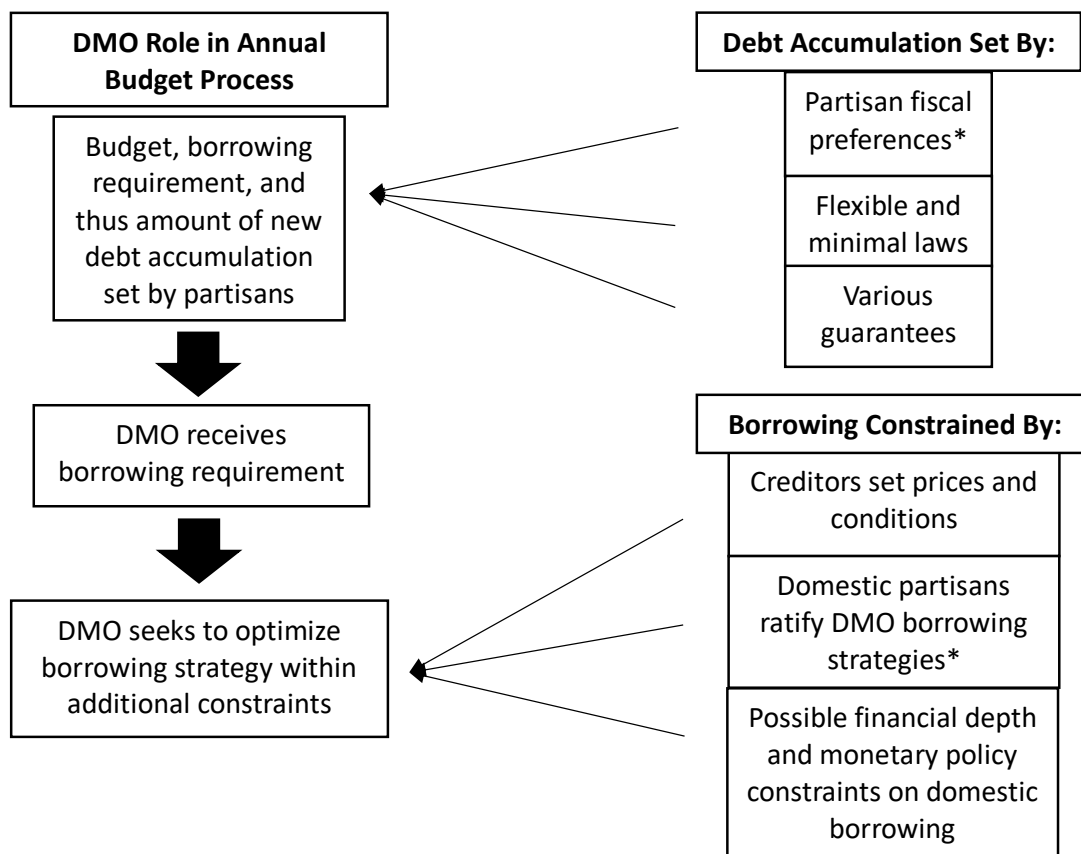
## **Summary**

These constraints underpin why developing country DMOs cannot independently manage debt accumulation and borrowing strategies over time. While technical tasks noted at the outset



are necessary for debt sustainability, they are not sufficient. Figure 1 summarizes the annual public debt process and constraints DMOs face throughout that process. It illustrates how a focus on DMO independence underplays inevitable political-economic constraints on DMOs. To trace this in practice, the next section compares these processes in South Africa and Botswana.

*Fig 1: Constraints on DMO management of debt accumulation and borrowing  
(\* denotes focus of this political economy study)*



## South Africa and Botswana

### Case Selection

This section traces and compares the public debt process in South Africa and Botswana. Cases are useful here because they allow for tracing of the causal process underpinning claims about partisanship's effect on public debt. Both countries exhibit the process stylized in Figure 1. The empirical material is primarily comprised of elite interviews and primary sources obtained during 2017 fieldwork. Interviewees in each country include current and former DMO staff, non-DMO finance ministry staff, central bank staff, domestic bankers, foreign investors, multilateral and bilateral staff, labor leaders, and politicians (see appendix for more, following Bleich and Pekkanen 2013). Primary sources include debt management and budget documents, which are public but rarely accessible from outside the country.

South Africa and Botswana are useful cases for two reasons. First is variation in the two dependent variables of interest: debt accumulation and borrowing strategies. Charts 3 and 4 below show South Africa and Botswana diverged in both from 1990-2017, leading South Africa to public debt sustainability problems but not Botswana. Second is that this variation occurs despite similar institutional conditions. Both countries' DMO has a clear mandate and long-tenured staff, located in similarly influential and ideological ministries in one-party democracies over the same period of time. If accumulation and borrowing primarily reflected a DMO's institutional characteristics and ability independently manage debt according to its preferences, we would see relatively similar debt accumulation levels and borrowing strategies in both countries over time. But divergence in the amount of debt accumulated *and* the options used to finance that debt is striking, meaning accumulation and borrowing cannot be explained by each DMO's autonomy.

Why, then, do debt accumulation and borrowing strategies vary? The case studies trace how variation is largely explained by differences in the partisan interests of South Africa's left-leaning African National Congress (ANC) and Botswana's right-leaning Botswana Democratic Party (BDP). Despite the South African Treasury's reputation for apolitical policy control, its DMO cannot autonomously intervene in the effect ANC partisan interests have on accumulation and borrowing. Meanwhile, the BDP's conservatism allows Botswana's DMO to oversee less accumulation and alternative borrowing strategies over time.

Alternative explanations are also addressed. On the accumulation side, it might be that debt laws shape debt levels over time. But if this were the case South Africa would have less debt as it reached legal limits while Botswana would borrow more given the legal room to do so. This is not the case. On the borrowing side, credit ratings may dictate borrowing choices, namely by shaping the use of markets rather than official creditors. But if this were the case South Africa junk-grade ratings would lead it to use more official credit and Botswana's investment-grade ratings would mean they tap markets. But this is not the case. Moreover, similar levels of DMO autonomy and professionalization did not emerge from common political roots: the left-leaning ANC used its DMO's reputation to calm markets after Apartheid, while Botswana's DMO emerged during decades of conservative BDP rule when market perceptions were not a concern.

For both dependent variables, partisanship stands up to plausible but insufficient alternative explanations. To be sure, as outlined earlier, not all DMO constraints are partisan. Guarantees, global or domestic market factors, and monetary policy are also important (Figure 1). But these are elaborated on elsewhere (see earlier citations) so only noted in passing below. The aim here is to trace and isolate how partisan politics inevitably constrain DMO management of public debt accumulation and borrowing strategies in developing countries.

## **Partisanship**

South Africa and Botswana are one-party democracies. South African politics has been dominated by the ANC since Apartheid ended in 1994. By this time the ANC had come to represent a “tripartite alliance” of nationalist, labor, and communist groups, signaling the party’s redistributive roots and policy preferences. Despite recent fractures, these interests still underpin ANC policies of deficit spending, labor and union protections, and wage protections that reflect the country’s large public sector and large extractive sector (Alm and Embaye 2010; Handley 2008, 81–83; Thompson 2001, chap. 9). To be sure, some ANC monetary and trade policies have been pro-finance and business, reflected in reputedly independent economic ministries (Bond 2014; Handley 2008, chap. 2). But many core elements of the ANC platform remain pro-labor and pro-spending and these are the policy areas that directly affect debt accumulation and borrowing strategies, as detailed below.

Botswana politics has been dominated by the BDP since independence in 1966. After discovery of unparalleled diamond deposits in the 1970s, the BDP used diamond revenues to shore up support among elites across sectors (Good 2005; Leith 2005). Prioritizing elites means “the majority of the population... only constitute a limited source of political pressure” on the BDP (Danevad 1995, 395). Even those who laud Botswana’s economic development concede the BDP’s policies are designed “in the interests of the dominant class” (Leith 2005, 40). These policies take the form of annual surpluses, high reserve levels, open trade, and “good” orthodox macroeconomic policies (Lewin 2011).

## **DMOs**

South Africa’s DMO is the Treasury’s Asset and Liabilities Management unit (ALM). Treasury has long been reputed as independent, stemming from the post-Apartheid efforts of

Presidents Nelson Mandela and Thabo Mbeki to calm markets about the ANC's communist, left-leaning reputation (Handley 2008, chap. 2). In fact many ALM staff from the Apartheid era still remained in the 2010s (Interviews 41, 48), signaling the permanent and professional nature of ALM employment. This underpins criticism that Treasury generally implements policies that counter citizen preferences (Bond 2014). Such independence persisted after Mandela and Mbeki: in 2017 when President Jacob Zuma removed Finance Minister Pravin Gordhan for pursuing fiscal consolidation counter to ANC preferences, the move was widely criticized as an ANC attempt to capture a traditionally independent ministry (du Toit 2018). In terms of a formal mandate, the ALM was established in the early 1990s to explicitly separate debt from monetary policy and ensure debt is managed "only by cost factors" (Interview 58). Transparent medium-term debt strategies have since been produced regularly (see primary source material below).

Botswana's DMO is the Ministry of Finance and Economic Development's (MFED) Office of Budget Analysis and Debt Management. Like South Africa, these ministries have significant independent effects on policy, as "healthy public finances" persist because "policy-making [is] dominated by senior civil servants" (Danevad 1995, 381–82; Lewin 2011). Such institutional influence leads some to question Botswana's democratic credentials (Taylor 2003), reinforcing the idea that Botswana's DMO works through an independent MFED. Moreover, MFED debt staff interviewees have been in their roles for decades. In terms of a formal mandate, debt operations are explicitly centralized in the DMO since it has the sole authority to borrow on behalf of government, leading external auditors to say Botswana's debt management processes and medium-term strategies reflect "top-down discipline" (European Commission 2009, 9, 48).

## **DV #1: Divergent Debt Accumulation**

Although both countries have DMOs with formal mandates in relatively independent finance ministries, Chart 3 shows debt levels varied from 1990-2017. This is because different partisan governments led to different fiscal policies (Chart 2) and thus different levels of debt accumulation over time. Moreover, each country's fiscal and debt rules do not have the effect that may be expected because their effect depends on political willingness to follow them. Botswana's minimal debt laws allow space for more spending and debt, but the BDP chooses not to use this space. Meanwhile, South Africa's fiscal benchmarks have not curtailed spending and debt levels have only increased since their adoption.

### South Africa

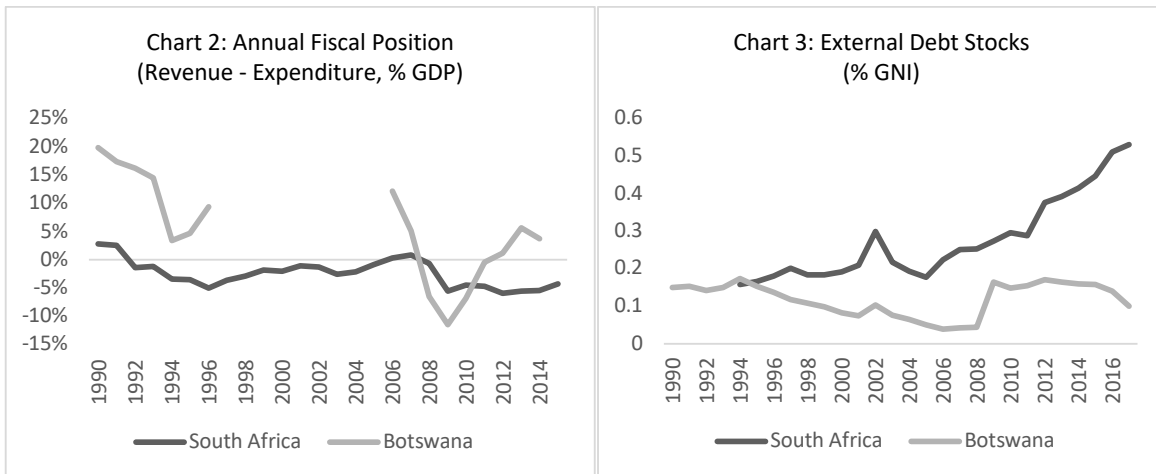
South Africa's Public Financial Management Act does not include any formal-legal limit on annual debt increases or total debt levels. An ostensible constraint on debt accumulation is an expenditure ceiling introduced by Treasury in 2012, implemented to moderate deficit spending and address rapidly increasing debt levels (Republic of South Africa National Treasury 2014b, 33). The ALM hopes the "spending limit acts as a debt limit" (Interview 47) but the ceiling is not binding on policymakers. It is a "flexible" or "soft" reference point the ALM can merely reference in an advisory role (Calitz, Siebrits, and Stuart 2016, 339). In fact, Charts 2 and 3 show spending and debt levels have increased since the benchmark was introduced in 2012. Moreover, the ceiling has increased each year since 2012, reflecting how the ceiling is a response to, not a constraint on, ANC fiscal policy (see Republic of South Africa National Treasury 2017a, iv and Chapters 3 and 4 of annual Budget Reviews since 2012 to compare ceilings). While "the goal is always to stay within the ceiling," that depends on the willingness of ANC policymakers (Interview 46). Some interviewees express concern that public debt is becoming unmanageable

because Treasury has not pushed for more formal legislation, but they also highlight that the political will for such legislation does not exist (Interviews 48, 51).

Minimal legal constraints ensure ANC fiscal preferences remain the main determinant of fiscal policy, deficit sizes, borrowing requirements, and thus debt accumulation. ANC politicians compete for resources during the budget process, making the South African budget a political process where it is hard to decrease spending (Republic of South Africa Parliament 2011, 19–27; Interview 46). Chart 2 shows that, while spending increased most under President Zuma after 2009, the ANC typically oversees deficits and hands the ALM large borrowing requirements. This explains the persistently increasing public debt accumulation in South Africa in Chart 3.

Guarantees also constrain the ALM. State-owned enterprises (SOEs) have their own treasuries that can simply “borrow with the approval of their Board of Directors” (Republic of South Africa National Treasury 2015, 39). Since SOEs can borrow without ALM approval, the ALM again at most serves an advisory role in processes that determine debt levels. Treasury has tried to gain influence in this process to “enhance [government’s] creditworthiness” (Republic of South Africa National Treasury 2013, 2), but guarantees “remain a major risk to the fiscus” because SOEs retain more control over guarantees than the ALM (Republic of South Africa National Treasury 2017b, 91). While the effect of SOE guarantees is not necessarily a function of partisanship across countries, it has been in South Africa because guarantees help the ANC protect large public sector companies, employees, and unions (Interviews 47, 48, 49).

Overall, the ANC pursues large deficits despite fiscal benchmarks, handing the ALM large annual borrowing requirements. This has led to significant debt accumulation over time (Charts 2 and 3). ANC support for powerful SOEs accentuates this. The ALM cannot easily have a significant independent effect on the link between ANC interests and debt accumulation.



Notes: Data from IMF (Chart 2), World Development Indicators (Chart 3), and author's calculations. External Debt Stock data more complete than Total Central Government Debt, so reported here. Foreign embargo during Apartheid means no foreign debt until 1994 in South Africa. Gap in IMF Botswana budget data from 1997-2005. Chart 2 IMF data unavailable after 2015.

## Botswana

Chart 2 shows the BDP typically runs surpluses. Proponents suggest BDP prioritizing saving is “prudent fiscal policy” ensuring “macroeconomic stability” (Lewin 2011, 85–86). Surpluses given diamond revenues has led to uncommon reserve levels, reaching 25 months of import cover in the 1990s and, while half that level by the 2010s, BDP-led economic ministries see nine months of import cover as the lowest acceptable reserve level. These high thresholds give Botswana a financial cushion that is “exceptional in the developing world” (Danevad 1995, 387).

Such fiscal conservatism despite unparalleled diamond resources has led to criticism that the BDP oversees “growth without structural change and development” (Hillbom 2008, 193). Even those who see Botswana as a developmental success concede the BDP misses opportunities to diversify from diamonds, address unemployment, improve education, and minimize inequality (Lewin 2011, 87–88). BDP officials and private sector bankers acknowledge government is



“accused of being conservative” because sitting on reserves with “no hard budget constraint” means government could spend more (Interviews 81 and 72, respectively).

It is thus important to emphasize how, despite its diamond wealth, Botswana’s surpluses, reserve levels, and low debt levels are not preordained. Prioritizing surpluses (Chart 2) is a policy choice central to minimal debt accumulation (Chart 3) and the BDP makes this priority explicit: for example, should revenue challenges emerge as diamonds are depleted, the BDP’s plan is to “cut government expenditure by postponing projects or downsizing the public service, or to enhance the revenue base by eliminating tax expenditures” (Republic of Botswana Ministry of Finance and Economic Development 2016, vii, paragraph 7). In other words, despite low debt levels and large reserves, the BDP would cut spending before borrowing or using reserves. Botswana’s surpluses are a BDP policy preference, not an inevitable effect of diamonds.

Moreover, the BDP prefers not to borrow and spend despite having legal room to do so. Botswana’s only debt law is that outstanding public debt is limited to 40% of GDP, half of which can be external (Republic of Botswana Ministry of Finance and Economic Development 2016, 23, paragraph 55; Part IV of the 2005 Stock, Bonds, and Treasury Bills Act). Chart 3 shows this limit is above real levels. Indeed, government explains the law was only written to conform with “international best practice” and “given the modest level of debt in Botswana, the need for public debt law is not considered necessary” (Republic of Botswana Ministry of Finance and Economic Development 2016, 23–24). There is legal room for more spending and debt, but the BDP prefers not to use it.

The party’s self-imposed fiscal rules and reaction to them further reinforce the idea that surpluses and low debt levels are a BDP policy priority. For example, the BDP caps its spending at a relatively low 30% of GDP (Republic of Botswana Ministry of Finance and Economic

Development 2016, v) and only 30% of debt can go to new rather than recurrent expenditure (Interviews 77, 78, 80). These numbers are constraining enough that the IMF has asked in multiple Article IV meetings why the 30% limit on new-investment debt is not higher (Interview 80). While the IMF and critics advocate for a large-scale investment program, the BDP resists this out of concern for the medium-and-long-term risks of subsequent debt. In all, BDP policy preferences are central to Botswana's surpluses and low debt levels in Charts 2 and 3.

### **DV #2: Divergent Borrowing**

The level of debt accumulated over time is not the only major area of public debt affected by partisanship. Variation in borrowing strategies, namely the use of external market or official financial options, is also shaped by the implications of borrowing options for ANC and BDP partisans (Chart 4). This matters because these choices have different costs. First, markets are more expensive than official creditors (Chart 1). However, these cheaper options are conditional, which gives rise to other "costs" insofar as they constrain policy autonomy and negatively affect government's reputation (Bunte 2019; Dreher 2009). Second, many developing countries have sub-investment grade credit ratings and have to pay a premium to tap markets. In such cases, using markets brings riskier debt onto the government's books. Third and relatedly, if a country has low credit ratings, rollover risk is heightened and official credit options can provide a more flexible financing option with longer maturities (Gurria and Volcker 2001; Griffith-Jones, Griffith-Jones, and Hertova 2008).

But, as seen below, borrowing strategies in South Africa and Botswana do not simply reflect these market prices or credit ratings. Chart 5 shows Botswana had investment-grade credit ratings in this period but avoided markets and used official creditors. In contrast South Africa often had junk ratings but still used markets. This means the countries did not borrow according

to cost. If they did, borrowing patterns would be the inverse of Chart 4. Instead, South African and Batswana borrowing over time can only be explained by variation in the ANC's and BDP's partisan views of external borrowing options.

### South Africa

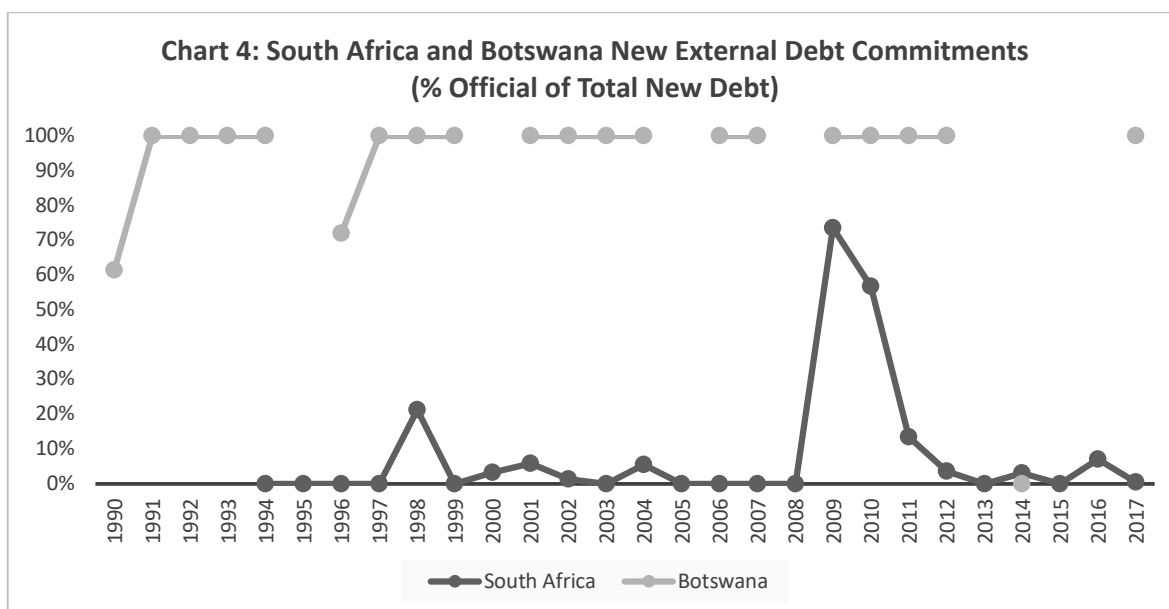
To fund annual deficits, the ALM uses as much domestic finance as it can but monetary aims take priority (Interview 43). Reserves may be used but eventually the ALM “get[s] down to an amount we need to get offshore,” which the ALM funds with market finance instead of official credit (Interview 46). Use of markets is mainly due to ANC partisanship. While official creditors like the World Bank are eager to lend and offer cheaper interest rates as well as longer maturities than markets, the ALM finds the “price benefit [of official creditors] is more trouble than it is worth” due to the political transaction costs that would come during ratification of new loans with conditions that would force adjustment on ANC constituents (Interview 41).

Official lenders corroborate the ANC effect on borrowing. World Bank staff claim ANC views of conditionality remain shaped by 1990s Structural Adjustment programs. While this may be outdated, the perception keeps the ALM from using the Bank despite the Bank's eagerness to lend (Interviews 42, 65). Anticipation of such ANC resistance is why the African Development Bank (AfDB) has never had serious discussion with the ALM about loans (Interview 68). All ALM interviewees agree Western bilaterals are not considered beyond health grants while Chinese loans are avoided since they are as expensive as markets and more intrusive than Western lenders.

ANC resistance to official creditor conditions keeps the ALM in more expensive foreign bonds when the country does turn abroad for finance. This is true despite high interest rates and often medium-grade or junk credit ratings (Chart 5). For example, most foreign bonds over USD

\$1 billion from 2007-2017 were issued at interest rates between 5-9% and constantly shortening maturities (Interviews 43, 50, 51). Despite worsening costs, and persistent downgrades leading to junk status in two agencies by 2017 (Chart 5), the ALM continued to use markets because the priority was avoiding the political transaction costs that would come with trying to use cheaper but conditional official credit under the ANC.

In fact any South African official credit in Chart 4 comes from SOE guarantees, not ALM borrowings. While many SOEs affect the ALM's portfolio, 72% of all guarantees are from utility SOE Eskom (Republic of South Africa National Treasury 2014a, 40). By the mid 2000s Eskom had junk credit ratings and was forced to use official credit (Republic of South Africa National Treasury 2014a, 39, 42; 2015, 41), borrowing US\$2.5b from the AfDB in 2009 and US\$3.75b from the World Bank in 2010 (Republic of South Africa National Treasury 2010, 97; 2009). This means that the spike in official credit in South Africa in Chart 4 is an effect of SOE guarantees, not on-budget ALM borrowings.



Notes: International Debt Statistics and author's calculations.  
 Embargo until end of Apartheid means no foreign borrowing until 1994 in S. Africa.

**Chart 5: South Africa and Botswana Year-End Sovereign Credit Ratings**

| <i>Botswana</i> |              |                |                | <i>South Africa</i> |              |                |                |
|-----------------|--------------|----------------|----------------|---------------------|--------------|----------------|----------------|
| <i>Year</i>     | <i>Fitch</i> | <i>Moody's</i> | <i>S&amp;P</i> | <i>Year</i>         | <i>Fitch</i> | <i>Moody's</i> | <i>S&amp;P</i> |
| 1990            | /            | /              | /              | 1990                | /            | /              | /              |
| 1991            | /            | /              | /              | 1991                | /            | /              | /              |
| 1992            | /            | /              | /              | 1992                | /            | /              | /              |
| 1993            | /            | /              | /              | 1993                | /            | /              | /              |
| 1994            | /            | /              | /              | 1994                | BB           | Baa3           | BB             |
| 1995            | /            | /              | /              | 1995                | BB           | Baa3           | BB+            |
| 1996            | /            | /              | /              | 1996                | BB           | Baa3           | BB+            |
| 1997            | /            | /              | /              | 1997                | BB           | Baa3           | BB+            |
| 1998            | /            | /              | /              | 1998                | BB           | Baa3           | BB+            |
| 1999            | /            | /              | /              | 1999                | BB           | Baa3           | BB+            |
| 2000            | /            | /              | /              | 2000                | BBB-         | Baa3           | BBB-           |
| 2001            | /            | A2             | A              | 2001                | BBB-         | Baa2           | BBB-           |
| 2002            | /            | A2             | A              | 2002                | BBB-         | Baa2           | BBB-           |
| 2003            | /            | A2             | A              | 2003                | BBB          | Baa2           | BBB            |
| 2004            | /            | A2             | A              | 2004                | BBB          | Baa2           | BBB            |
| 2005            | /            | A2             | A              | 2005                | BBB+         | Baa1           | BBB+           |
| 2006            | /            | A2             | A              | 2006                | BBB+         | Baa1           | BBB+           |
| 2007            | /            | A2             | A              | 2007                | BBB+         | Baa1           | BBB+           |
| 2008            | /            | A2             | A              | 2008                | BBB+         | Baa1           | BBB+           |
| 2009            | /            | A2             | A              | 2009                | BBB+         | A3             | BBB+           |
| 2010            | /            | A2             | A-             | 2010                | BBB+         | A3             | BBB+           |
| 2011            | /            | A2             | A-             | 2011                | BBB+         | A3             | BBB+           |
| 2012            | /            | A2             | A-             | 2012                | BBB+         | Baa1           | BBB            |
| 2013            | /            | A2             | A-             | 2013                | BBB          | Baa1           | BBB            |
| 2014            | /            | A2             | A-             | 2014                | BBB          | Baa2           | BBB-           |
| 2015            | /            | A2             | A-             | 2015                | BBB-         | Baa2           | BBB-           |
| 2016            | /            | A2             | A-             | 2016                | BBB-         | Baa2           | BBB-           |
| 2017            | /            | A2             | A-             | 2017                | BB+          | Baa3           | BB             |

Notes: / = No Rating.  
Foreign Long-Term Sovereign Credit Ratings from Bloomberg.

The ALM had little to do with these loans, other than providing guarantees. Since “[Eskom has] their own strategy... if going to [official creditors] is what they feel they need to do, that is what they will do” (Interview 46). But even in the SOE context, partisan interests and ideologies affected the loans. During negotiations, unions publicized concern about the World Bank’s “neoliberal agenda and demand [for] privatization,” demanding there be “no conditions which could lead to any form of privatization... should there prove to be any such strings, [we] will oppose the loan” (COSATU 2010). Such partisan pressure helped ensure that privatization was not a condition in any official loan to Eskom. Even official loans to SOEs are subject to the same partisan constraints as government.

From 1990-2017, the ALM strictly used private bond markets when it turned outside for finance, despite cheaper official alternatives and junk credit ratings that led to high interest rates and short maturities. That borrowing strategy is largely determined by ANC partisanship. While SOE guarantees bring some official credit onto the balance sheet, negotiations of those loans further highlight the effect of ANC partisanship on borrowing.

### Botswana

In contrast, Botswana avoids markets when borrowing abroad (Chart 4) despite having some of the best credit ratings in the developing world. The MFED “is always told to issue,” foreign bankers “knock on [MFED’s] door all the time,” and there “is all sorts of demand” for bonds (Interviews 81, 73, and 77 respectively). Botswana’s investment-grade credit ratings in Chart 5 corroborate this. If Botswana has market access, why does the country almost strictly use official credit? BDP partisanship explains this.

Indeed, from 1990-2017 officials had “no interest at all” in private finance due to “macro policy and government priorities” (Interviews 77 and 72 respectively). Tellingly, the MFED saw no need to obtain credit ratings in the 1990s despite pressure from investors and the central bank. Once the MFED did get ratings, investors encouraged bond issuance but the MFED resisted (Interviews 80, 82) and this resistance continued through the post-global financial crisis context of historically-low interest rates. Through 2017 the MFED itself never used foreign commercial finance. Any such debt in Chart 4 is a guarantee of SOE financing from commercial banks (International Monetary Fund 2018b).

Botswana uses official credit because of price and maturity benefits as well as the fact that conditions reinforce BDP policy preferences. First, DMO staff value cheap official loans that ensure Botswana can “borrow sustainably” compared to markets (Interview 81). Various

DMO interviewees further point out that they find benefits in shopping among official lenders for long maturities, repaying early if loans prove unnecessary, and restructuring if exchange rate or revenue problems arise. This is why DMO officials note “stories about the benefits of issuing [bonds but we] just don’t buy it” (Interview 80).

Second, the DMO has the space to act on its preference for official creditor price benefits because BDP policy preferences align with official creditor conditions. If South Africa’s ALM attempted to use official credit it would face ANC resistance. But elite BDP constituents do not resist official conditionalities, allowing the DMO to use their cheaper official credit (Interviews 65, 73, 74, 79). Ideological alignment also leads to smooth negotiations. Since official creditors believe the BDP will pursue “good” policy, the DMO typically negotiates conditions to the point that they do not alter pre-existing BDP policy (Interviews 82 and 79). This gives the DMO “more power over [official creditors] than markets,” leading one official to say borrowing from them is “easy” (Interviews 81 and 77, respectively). Given BDP preferences, political ratification of official loans is easy. After the DMO chooses an official creditor, parliamentary approval is required but there is “very little debate” and MPs “just want to see a presentation,” signaling the degree of alignment between the DMO and the party (Interviews 77 and 78 respectively).

The difference between South African and Botswana external borrowing from 1990-2017 is largely explained by different partisan interests and ideologies represented by each country’s dominant party. BDP partisanship creates the space for the MFED to use official creditors when borrowing externally. ANC partisanship means the ALM is incentivized and even forced to use market finance. Despite similar DMO institutional characteristics in each country, partisan politics explains their different borrowing strategies over time.

## Conclusion

Debt accumulation and borrowing choices are central to the structure of developing country public debt over time. Treating them as two related but distinct dependent variables, this study argues they are primarily determined by partisan politics rather than DMO characteristics (or other factors such as debt laws or credit ratings). This has a few implications.

First, studies of developing country public debt must account for how the fiscal policy process gives rise to political constraints on DMO operations. This does not mean technocratic management has no effect or that professionalization cannot improve credibility. But partisan politics inherently limits these effects. If the aim is to understand variation in key parts of public debt composition, it is essential to account for how partisan politics shape accumulation (amount) and borrowing (terms and conditions). South Africa and Botswana show partisanship can lead developing countries to significantly different public debt positions over time, despite similarly independent and professional DMOs.

Second, the argument has implications for studies of developing country borrowing preferences, with interviews signaling how ideology informs borrowing preferences (cf Bunte 2019, 163, 201). Indeed, ANC fiscal and public-sector preferences reflect left-leaning economic ideology, and the perception that official creditor conditions threaten their implementation significantly constrains ALM borrowing operations. In contrast, conservative BDP budget items and ideology mean official creditor conditions are politically agreeable, allowing the MFED space to use official credit.

This distinction appears to matter. For example, the South Africa case counters studies arguing labor prefers to avoid markets (Bunte 2019). Since the ANC's labor constituency actually incentivizes the ALM to use markets and avoid official creditor conditions, labor and



other left-leaning groups may perceive the cost of conditionality to outweigh the cost of expensive markets (cf Bunte 2019). More generally, since the interviews suggest that the reputational costs of using official creditors informs South Africa's preference for markets despite higher costs, there is reason to question whether ideology can useful be eschewed in studies of developing country foreign borrowing preferences (cf Bunte 2019, 163, 201). On one level, this isn't a crucial issue here. The precise interests that shape borrowing are less important here than tracing the ways in which some set of domestic interests constrain DMO operations through the fiscal process. But, the evidence does add to the literature on developing country borrowing preferences.

Third, the study shows the power relationship between interests and institutions, and thus the effect institutions have on policy outcomes, varies by policy area and national income level. While an ICB may moderate the link between politics and monetary policy, DMO autonomy is less likely to moderate the link between politics and public debt. In this sense, DMOs have less in common with ICBs than central banks which meet politically-set targets (McDermott and Williams 2018, 7–8).<sup>1</sup> This point is not entirely novel (Wren-Lewis 2013) but one not previously elucidated in the public debt context. Moreover, within the same policy area, there may be significant differences in the relationship between interests and institutions across levels of development. For example, how can this study be squared with Sadeh and Porath's argument (2019) about DMOs in developed democracies? Such work would have policy implications by informing a literature that, as of now, may explicitly or implicitly overstate possible effects of institutional autonomy on public debt outcomes in developing countries.

---

<sup>1</sup> Thanks to an anonymous reviewer for this comparison.

## References

- Alm, James, and Abel Embaye. 2010. 'Explaining the Growth of Spending in South Africa'. *South African Journal of Economics* 78 (2): 152–69. <https://doi.org/10.1111/j.1813-6982.2010.01242.x>.
- Ballard-Rosa, Cameron, Layna Mosley, and Rachel L Wellhausen. 2019. 'Contingent Advantage? Sovereign Borrowing, Democratic Institutions and Global Capital Cycles'. *British Journal of Political Science*, December, 1–21. <https://doi.org/10.1017/S0007123418000455>.
- Bertelsmann, Julia I. 2013. 'Independent Fiscal Institutions in the Face of Rising Public Indebtedness'. In *Restoring Public Debt Sustainability*, edited by George Kopits, 75–95. Oxford University Press. <https://doi.org/10.1093/acprof:oso/9780199644476.003.0005>.
- Bleich, Erik, and Erik Pekkanen. 2013. 'How to Report Interview Data'. In *Interview Research in Political Science*, edited by Layna Mosley, 84–105. Ithaca: Cornell University Press.
- Blommestein, Hans J., and Philip Turner. 2012. 'Interactions Between Sovereign Debt Management and Monetary Policy Under Fiscal Dominance and Financial Instability'. 3. OECD Working Papers on Sovereign Borrowing and Public Debt Management. OECD.
- Bodea, Cristina, and Raymond Hicks. 2015. 'Price Stability and Central Bank Independence: Discipline, Credibility, and Democratic Institutions'. *International Organization* 69 (1): 35–61. <https://doi.org/10.1017/S0020818314000277>.
- Bond, Patrick. 2014. *Elite Transition: From Apartheid to Neoliberalism in South Africa*. Revised&Expanded Edition. London: Pluto Press.
- Bova, Eva, Nathalie Carcenac, and Martine Guergil. 2014. 'Fiscal Rules and the Procyclicality of Fiscal Policy in the Developing World'. IMF Working Paper WP/14/122. International Monetary Fund.
- Brooks, Sarah M., Raphael Cunha, and Layna Mosley. 2015. 'Categories, Creditworthiness, and Contagion: How Investors' Shortcuts Affect Sovereign Debt Markets'. *International Studies Quarterly* 59 (3): 587–601. <https://doi.org/10.1111/isqu.12173>.
- Brooks, Sarah M., and Marcus J. Kurtz. 2012. 'Paths to Financial Policy Diffusion: Statist Legacies in Latin America's Globalization'. *International Organization* 66 (1): 95–128. <https://doi.org/10.1017/S0020818311000385>.
- Bunte, Jonas B. 2019. *Raise the Debt: How Developing Countries Choose Their Creditors*. New York: Oxford University Press.
- Cabral, Rodrigo. 2015. 'How Strategically Is Public Debt Being Managed Around the Globe?' World Bank Report. World Bank.
- Calitz, Estian, Krige Siebrits, and Ian Stuart. 2016. 'Enhancing the Accuracy of Fiscal Projections in South Africa'. *South African Journal of Economic Management Sciences* 19 (3): 330–43.
- Carré, Emmanuel, and Marie-Sophie Gauvin. 2018. 'Financial Crisis: The Capture of Central Banks by the Financial Sector?' *International Journal of Political Economy* 47 (2): 151–77. <https://doi.org/10.1080/08911916.2018.1497576>.
- Copelovitch, Mark, Christopher Gandrud, and Mark Hallerberg. 2018. 'Financial Data Transparency, International Institutions, and Sovereign Borrowing Costs'. *International Studies Quarterly* 62 (1): 23–41. <https://doi.org/10.1093/isq/sqx082>.
- COSATU. 2010. 'COSATU Demands to See Conditions to Eskom's World Bank Loan'. <http://www.cosatu.org.za/show.php?ID=3164>.

- Danevad, Andreas. 1995. 'Responsiveness in Botswana Politics: Do Elections Matter?' *Journal of Modern African Studies* 33 (3): 381–402.
- Das, Udaibir S., Michael G. Papaioannou, Guilherme Pedras, Jay Surti, and Faisal Ahmed. 2011. 'Managing Public Debt and Its Financial Stability Implications'. In *Sovereign Debt and the Financial Crisis: Will This Time Be Different?*, edited by Carlos A. Primo Braga and Gallina A. Vincelette, 357–81. Washington, D.C.: World Bank.
- Dasandi, Niheer, and Marc Esteve. 2017. 'The Politics-Bureaucracy Interface in Developing Countries'. *Public Administration and Development* 37 (4): 231–45. <https://doi.org/10.1002/pad.1793>.
- Dreher, Axel. 2009. 'IMF Conditionality: Theory and Evidence'. *Public Choice* 141 (1–2): 233–67. <https://doi.org/10.1007/s11127-009-9486-z>.
- Dreher, Axel, Jan-Egbert Sturm, and James R. Vreeland. 2015. 'Politics and IMF Conditionality'. *Journal of Conflict Resolution* 59 (1): 120–48. <https://doi.org/10.1177/0022002713499723>.
- Eichengreen, Barry, Ricardo Hausmann, and Ugo Panizza. 2007. 'Currency Mismatches, Debt Intolerance, and Original Sin: Why They Are Not the Same and Why It Matters'. In *Capital Controls and Capital Flows in Emerging Economies: Policies, Practices, and Consequences*, edited by Sebastian Edwards. Chicago: University of Chicago Press.
- European Commission. 2009. 'Republic of Botswana Public Expenditure and Financial Accountability'. Public Financial Management Performance Assessment Report Final Report. European Commission.
- Evans, Peter, and James E. Rauch. 1999. 'Bureaucracy and Growth: A Cross-National Analysis of the Effects of "Weberian" State Structures on Economic Growth'. *American Sociological Review* 64 (5): 748. <https://doi.org/10.2307/2657374>.
- Fernández-Albertos, José. 2015. 'The Politics of Central Bank Independence'. *Annual Review of Political Science* 18 (1): 217–37. <https://doi.org/10.1146/annurev-polisci-071112-221121>.
- Franzese, Robert J., and Karen Long Jusko. 2009. 'Political-Economic Cycles'. In *The Oxford Handbook of Political Economy*, edited by Donald A. Wittman and Barry R. Weingast, 545–61. Oxford University Press.
- Frieden, Jeffrey. 1991. *Debt, Development, and Democracy*. Princeton, N. J.: Princeton University Press.
- Garrett, Geoffrey. 1998. *Partisan Politics in the Global Economy*. New York: Cambridge University Press.
- Gelos, R. Gaston, Ratna Sahay, and Guido Sandleris. 2011. 'Sovereign Borrowing by Developing Countries: What Determines Market Access?' *Journal of International Economics* 83 (2): 243–54. <https://doi.org/10.1016/j.jinteco.2010.11.007>.
- Good, Kenneth. 2005. 'Resource Dependency and Its Consequences: The Costs of Botswana's Shining Gems'. *Journal of Contemporary African Studies* 23 (1): 27–50. <https://doi.org/10.1080/0258900042000329448>.
- Griffith-Jones, Stephany, David Griffith-Jones, and Dagmar Hertova. 2008. 'Enhancing the Role of Regional Development Banks'. 50. G-24 Discussion Paper Series. UN. <http://stephanygj.net/papers/Enhancing-Role-RDBs.pdf>.
- Gurria, Jose Angel, and Paul Volcker. 2001. 'The Role of Multilateral Development Banks in Emerging Market Economies'. Findings of the Commission on the Role of the MDBs in

- Emerging Markets. Carnegie Endowment for International Peace.  
<https://carnegieendowment.org/pdf/files/mdbreport.pdf>.
- Hagen, Jürgen von. 2013. 'Scope and Limits of Independent Fiscal Institutions'. In *Restoring Public Debt Sustainability*, edited by George Kopits, 32–53. Oxford University Press.  
<https://doi.org/10.1093/acprof:oso/9780199644476.003.0003>.
- Hallerberg, Mark, and Sami Yläoutinen. 2010. 'Political Power, Fiscal Institutions and Budgetary Outcomes in Central and Eastern Europe'. *Journal of Public Policy* 30 (1): 45–62. <https://doi.org/10.1017/S0143814X09990213>.
- Handley, Antoinette. 2008. *Business and the State in Africa: Economic Policy-Making in the Neo-Liberal Era*. Cambridge: Cambridge University Press.
- Hillbom, Ellen. 2008. 'Diamonds or Development? A Structural Assessment of Botswana's Forty Years of Success'. *The Journal of Modern African Studies* 46 (02).  
<https://doi.org/10.1017/S0022278X08003194>.
- Holt, Jordan, and Nick Manning. 2014. 'Fukuyama Is Right about Measuring State Quality: Now What?' *Governance* 27 (4): 717–28. <https://doi.org/10.1111/gove.12109>.
- Hostland, Doug. 2009. *Low-Income Countries' Access to Private Debt Markets*. Policy Research Working Papers 4829. World Bank.  
[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1344714](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1344714).
- International Monetary Fund. 2018a. 'Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries'. IMF Staff Paper. Washington, D. C.: International Monetary Fund.
- . 2018b. 'Botswana 2018 Article IV Consultation'. Washington, D.C.: International Monetary Fund.
- Kohli, Atul. 2004. *State-Directed Development: Political Power and Industrialization in the Global Periphery*. Cambridge University Press.
- Kopits, George. 2001. 'Fiscal Rules: Useful Policy Framework or Unnecessary Ornament'. IMF Working Paper WP/01/145. International Monetary Fund.
- Leith, J. Clark. 2005. *Why Botswana Prospered*. Quebec City: McGill-Queen's University Press.
- Lewin, Michael. 2011. 'Botswana's Success: Good Governance, Good Policies, and Good Luck'. In *Yes Africa Can - Success Stories from a Dynamic Continent*. Washington, D. C.: World Bank.
- Lledó, Victor, and Marcos Poplawski-Ribeiro. 2013. 'Fiscal Policy Implementation in Sub-Saharan Africa'. *World Development* 46 (June): 79–91.  
<https://doi.org/10.1016/j.worlddev.2013.01.030>.
- Loser, Claudio M. 2004. 'External Debt Sustainability: Guidelines for Low- and Middle- Income Countries'. 26. G-24 Discussion Paper Series. New York and Geneva: United Nations.
- McDermott, John, and Rebecca Williams. 2018. 'Inflation Targeting in New Zealand: An Experience in Evolution'. Conference Presentation presented at the Reserve Bank of Australia conference on central bank frameworks, Sydney, April 12.  
<https://www.rbnz.govt.nz/-/media/ReserveBank/Files/Publications/Speeches/2018/Speech-Inflation-Targeting-in-New-Zealand.pdf?revision=37a53693-5fe3-41f8-abe0-a9ddd3ef0ff9>.
- Mosley, Layna. 2003. *Global Capital and National Governments*. Cambridge Studies in Comparative Politics. New York: Cambridge University Press.

- . 2010. ‘Regulating Globally, Implementing Locally: The Financial Codes and Standards Effort’. *Review of International Political Economy* 17 (4): 724–61.  
<https://doi.org/10.1080/09692290903529817>.
- Mustapha, Shakira, and Annalisa Prizzon. 2018. ‘Africa’s Rising Debt: How to Avoid a New Crisis’. Briefing Note. Overseas Development Institute.  
<https://www.odi.org/sites/odi.org.uk/files/resource-documents/12491.pdf>.
- Nelson, Stephen C. 2017. *The Currency of Confidence: How Economic Beliefs Shape the IMF’s Relationship with Its Borrowers*. Ithaca, N.Y.: Cornell University Press.
- Noel, Alain, and Jean-Philippe Therien. 2008. *Left and Right in Global Politics*. New York: Cambridge University Press.
- Pinto, Pablo M. 2013. *Partisan Investment in the Global Economy: Why the Left Loves Foreign Direct Investment and FDI Loves the Left*. New York: Cambridge University Press.
- Putnam, Robert D. 1988. ‘Diplomacy and Domestic Politics: The Logic of Two-Level Games’. *International Organization* 42 (3): 427–60.
- Reinhart, Carmen M., and Kenneth S. Rogoff. 2009. *This Time Is Different: Eight Centuries of Financial Folly*. Princeton, N. J.: Princeton University Press.
- Republic of Botswana Ministry of Finance and Economic Development. 2016. ‘Medium-Term Debt Management Strategy: 2016/17-2018/19’.
- Republic of South Africa National Treasury. 2009. ‘Budget Review 2009’. National Treasury.
- . 2010. ‘Budget Review 2010’. National Treasury.
- . 2013. ‘Debt Management Report 2013/14’. Republic of South Africa National Treasury.
- . 2014a. ‘Debt Management Report 2014/15’. Republic of South Africa National Treasury.
- . 2014b. ‘Budget Review 2014’. Republic of South Africa National Treasury.  
<http://www.treasury.gov.za/documents/national%20budget/2014/review/FullReview.pdf>.
- . 2015. ‘Debt Management Report 2015/16’. Republic of South Africa National Treasury.
- . 2017a. ‘2017 Estimates of National Expenditure (Abridged Version)’. National Treasury.  
<http://www.treasury.gov.za/documents/national%20budget/2017/ene/FullENE.pdf>.
- . 2017b. ‘Budget Review 2017’. Republic of South Africa National Treasury.  
<http://www.treasury.gov.za/documents/national%20budget/2014/review/FullReview.pdf>.
- Republic of South Africa Parliament. 2011. ‘Budget Analysis Manual’. Parliament of South Africa.  
<https://www.parliament.gov.za/storage/app/media/BusinessPubs/BudgetAnalysisManual.pdf>.
- Rodrik, Dani. 2017. ‘Populism and the Economics of Globalization’. NBER Working Paper 23559. Cambridge, MA: National Bureau of Economic Research.  
<https://www.nber.org/papers/w23559.pdf>.
- Rogoff, Kenneth. 1985. ‘The Optimal Degree of Commitment to an Intermediate Monetary Target’. *The Quarterly Journal of Economics*, 1169–89.
- Rogowski, Ronald. 2009. *Trade, Immigration, and Cross-Border Investment*. Edited by Donald A. Wittman and Barry R. Weingast. Vol. 1. Oxford University Press.  
<https://doi.org/10.1093/oxfordhb/9780199548477.003.0045>.
- Sadeh, Tal, and Yehuda Porath. 2019. ‘Autonomous Agencies and Relational Contracts in Government Bond Issues’. *Regulation & Governance*, May, rego.12257.  
<https://doi.org/10.1111/rego.12257>.

- Sadeh, Tal, and Eyal Rubinson. 2018. 'Do the IMF and World Bank Promote Autonomous Sovereign Debt Management?' Working Paper presented at the 11th Annual Conference on Political Economy of International Organizations, Madison, WI, February 8.
- Taylor, Ian. 2003. 'As Good as It Gets? Botswana's "Democratic Development"'. *Journal of Contemporary African Studies* 21 (2): 215–31.
- The Economist*. 2020. 'Free Money', 25 July 2020, Vol. 436, No. 9204 edition, sec. Leaders.
- Thompson, Leonard Montearth. 2001. *A History of South Africa*. 3rd ed. New Haven: Yale University Press.
- Toit, Pieter du. 2018. 'Gordhan Places Zuma at the Centre of State Capture'. *News24*, 22 November 2018. <https://www.news24.com/Analysis/analysis-gordhan-places-zuma-at-the-centre-of-state-capture-20181121>.
- Ülgentürk, Hans J. 2017. 'The Role of Public Debt Managers in Contingent Liability Management'. 8. OECD Working Papers on Sovereign Borrowing and Public Debt Management. OECD.
- Vreeland, James Raymond. 2003. 'Why Do Governments and the IMF Enter into Agreements? Statistically Selected Cases'. *International Political Science Review* 24 (3): 321–343.
- Walter, Andrew. 2008. *Governing Finance*. Ithaca and London: Cornell University Press.
- Wheeler, Graeme. 2004. *Sound Practice in Government Debt Management*. Washington, D.C.: The World Bank.
- Wibbels, Erik. 2006. 'Dependency Revisited: International Markets, Business Cycles, and Social Spending in the Developing World'. *International Organization* 60 (02). <https://doi.org/10.1017/S0020818306060139>.
- Williams, Mike. 2013. 'Debt and Cash Management'. In *The International Handbook of Public Financial Management*, edited by Richard Allen, Richard Hemming, and Barry H. Potter, 661–84. Palgrave Macmillan.
- Woods, Ngaire. 2006. *The Globalizers*. Ithaca, N.Y.: Cornell University Press.
- World Bank. 2007. *Managing Public Debt: From Diagnostics to Reform Implementation*. Washington, D.C.: World Bank.
- . 2015. *Debt Management Performance Assessment (DeMPA) Methodology*.
- Wren-Lewis, Simon. 2013. 'Comparing the Delegation of Monetary and Fiscal Policy'. In *Restoring Public Debt Sustainability: The Role of Independent Fiscal Institutions*, edited by George Kopits, 28. Oxford: Oxford University Press.

**Appendix (More information available from author; only interviews relevant to South Africa and Botswana cases listed)**

| <b>Interview#</b> | <b>Date</b> | <b>Name?</b> | <b>Type</b>    | <b>Style</b>    | <b>How record</b>  |
|-------------------|-------------|--------------|----------------|-----------------|--------------------|
| 33                | Aug 4 2017  | Anonymous    | Multilateral   | Semi-structured | Live recording     |
| 34                | Aug 7 2017  | Anonymous    | Multilateral   | Semi-structured | Live recording     |
| 35                | Aug 16 2017 | Anonymous    | Domestic       | Structured      | Email              |
| 39                | Aug 2 2017  | Anonymous    | Academic       | Semi-Structured | Simultaneous Notes |
| 40                | Aug 4 2017  | Anonymous    | Academic       | Semi-Structured | Simultaneous Notes |
| 41                | Aug 7 2017  | Anonymous    | Domestic       | Semi-Structured | Simultaneous Notes |
| 42                | Aug 8 2017  | Anonymous    | Multilateral   | Semi-Structured | Simultaneous Notes |
| 43                | Aug 8 2017  | Anonymous    | Domestic       | Semi-Structured | Live recording     |
| 44                | Aug 11 2017 | Anonymous    | Underwriter    | Semi-Structured | Simultaneous Notes |
| 45                | Aug 14 2017 | Anonymous    | Foreign Banker | Semi-Structured | Live recording     |
| 46                | Aug 16 2017 | Anonymous    | Domestic       | Structured      | Live recording     |
| 47                | Aug 17 2017 | Anonymous    | Domestic       | Semi-Structured | Live recording     |
| 48                | Aug 17 2017 | Anonymous    | Domestic       | Semi-Structured | Live recording     |
| 49                | Aug 17 2017 | Anonymous    | Domestic       | Semi-Structured | Live recording     |
| 50                | Aug 18 2017 | Anonymous    | Domestic       | Semi-Structured | Live recording     |
| 51                | Aug 22 2017 | Anonymous    | Domestic       | Semi-Structured | Simultaneous Notes |
| 52                | Aug 23 2017 | Anonymous    | Domestic       | Unstructured    | Simultaneous Notes |
| 53                | Aug 25 2017 | Anonymous    | Domestic       | Unstructured    | Simultaneous Notes |
| 54                | Aug 28 2017 | Anonymous    | Domestic       | Structured      | Email              |
| 55                | Aug 28 2017 | Anonymous    | Multilateral   | Structured      | Live recording     |
| 56                | Aug 29 2017 | Anonymous    | Multilateral   | Semi-Structured | Simultaneous Notes |
| 57                | Aug 29 2017 | Anonymous    | Domestic       | Structured      | Simultaneous Notes |
| 58                | Aug 30 2017 | Anonymous    | Domestic       | Unstructured    | Simultaneous Notes |
| 59                | Sept 4 2017 | Anonymous    | Multilateral   | Semi-Structured | Simultaneous Notes |
| 60                | Sept 4 2017 | Anonymous    | Multilateral   | Structured      | Email              |
| 61                | Sept 4 2017 | Anonymous    | Domestic       | Structured      | Email              |

|    |              |             |                        |                 |                             |
|----|--------------|-------------|------------------------|-----------------|-----------------------------|
| 62 | Oct 17 2017  | Anonymous   | Domestic               | Semi-Structured | Live Recording              |
| 65 | Aug 8 2017   | Anonymous   | Multilateral           | Semi Structured | Simultaneous Notes          |
| 66 | Aug 10 2017  | Anonymous   | Multilateral           | Semi Structured | Live recording              |
| 67 | Aug 22 2017  | Anonymous   | Academic               | Unstructured    | Email                       |
| 68 | Aug 29 2017  | Anonymous   | Multilateral           | Semi-Structured | Simultaneous Notes          |
| 69 | Aug 30 2017  | Anonymous   | Domestic               | Unstructured    | Simultaneous Notes          |
| 70 | Aug 30 2017  | Anonymous   | Domestic               | Unstructured    | Simultaneous Notes          |
| 72 | Sept 11 2017 | Anonymous   | Domestic               | Semi Structured | Simultaneous Notes          |
| 73 | Sept 12 2017 | Anonymous   | Banker                 | Structured      | Simultaneous Notes          |
| 74 | Sept 12 2017 | Anonymous   | Banker                 | Structured      | Simultaneous Notes          |
| 75 | Sept 12 2017 | Anonymous   | Domestic               | Semi Structured | Simultaneous Notes          |
| 76 | Sept 12 2017 | Anonymous   | Domestic               | Structured      | Simultaneous Notes<br>Email |
| 77 | Sept 12 2017 | B. Peter    | Domestic               | Semi Structured | Live recording              |
| 78 | Sept 12 2017 | S. Fologang | Domestic               | Semi Structured | Live recording              |
| 79 | Sept 13 2017 | Anonymous   | Foreign Banker         | Semi Structured | Simultaneous Notes          |
| 80 | Sept 14 2017 | Anonymous   | Multilateral; Domestic | Structured      | Simultaneous Notes          |
| 81 | Sept 15 2017 | Anonymous   | Domestic               | Structured      | Simultaneous Notes          |
| 82 | Sept 15 2017 | Anonymous   | Domestic               | Semi Structured | Simultaneous Notes          |

Notes on Interview Method:

Interviewees were recruited over the course of three months in the region. I first contacted each DMO directly. I was able to speak with the entire DMO staff in each country despite large numbers of staff in South Africa's ALM but fewer staff in Botswana's MFED DMO. I then contacted World Bank, International Monetary Fund, and African Development Bank staff that work on each country's sovereign debt (Botswana field offices in these institutions are located in Johannesburg, facilitating this). The number of people that work on sovereign debt in these institutions is few, so I was able to speak with all current staff and a few former staff in these areas. On the DMO and IFI side, then, I am confident in the representativeness of the interview sample. I then asked for introductions to private bankers that hold each country's sovereign debt. This sample is somewhat less complete but not biased- I was able to speak with half of South Africa's primary dealers and the sovereign debt desk at two of the major banks that operate in Botswana. This discussion and



the above appendix is a truncated version of what Bleich and Pekkanen<sup>2</sup> advocate for in building an interview appendix. A complete sample frame along their guidelines, including interviewees who turned down interviews, is available from the author on request.

---

<sup>2</sup> Erik Bleich and Erik Pekkanen, 'How to Report Interview Data', in *Interview Research in Political Science*, ed. Layna Mosley (Ithaca: Cornell University Press, 2013), 84–105.