

# DEBT MANAGEMENT PERFORMANCE ASSESSMENT (DEMPA) METHODOLOGY

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# Abbreviations

DeM	debt management
DeMPA	Debt Management Performance Assessment (tool)
DMO	debt management office
DPI	Debt Management Performance Indicator
DRP	disaster recovery plan
DSA	debt sustainability analysis
FABDM	Financial Advisory and Banking – Debt Management Department (World Bank Treasury)
IT	information technology
MFEM GP	Macroeconomics and Fiscal Management Global Practice
MTDS	Medium-Term Debt Strategy
N/A	not applicable
N/R	not rated or assessed
PEFA	Public Expenditure and Financial Accountability (Program)
PI	Performance Indicator
SAI	supreme audit institution
T-bill	Treasury bill
T-bond	Treasury bond

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# 1 Introduction

THE WORLD BANK HAS DEVELOPED A PROGRAM, in collaboration with other partners, to assist developing countries in improving debt management.<sup>1</sup> The objective of the program is to help strengthen capacity and institutions in developing countries so that they can manage government debt in an effective and sustainable manner in the medium to long term. A cornerstone of the program is the Debt Management Performance Assessment (DeMPA) tool, a methodology for assessing performance through a comprehensive set of performance indicators spanning the full range of government debt management (DeM) functions. The indicator set is intended to be an internationally recognized standard in the government DeM field and may be applied in all developing countries.

The DeMPA highlights strengths and weaknesses in government DeM practices in each country. Performance assessment facilitates the design of plans to build and augment capacity and institutions in ways tailored to country-specific needs. The DeM performance report will not, however, contain specific recommendations or make assumptions as to the potential effect of ongoing reforms on government DeM performance. The DeMPA also facilitates the monitoring of progress over time in achieving government DeM objectives in a manner consistent with international sound practice.

The DeMPA is modeled after the Public Expenditure and Financial Accountability (PEFA) indicators. It can be considered a more detailed and comprehensive assessment of government DeM than is currently reflected in the PEFA indicators. The two frameworks are complementary: The DeMPA can be used to undertake a detailed assessment of the underlying factors leading to poor PEFA ratings in the DeM area. Alternatively, if the DeMPA exercise precedes a PEFA assessment, the latter can use the DeMPA results to inform its assessment of the relevant indicators.

The DeMPA has been designed as a user-friendly tool for assessing the strengths and weaknesses in government DeM practices. This document provides additional background and supporting information so that a non-specialist in DeM may undertake a country assessment effectively. Assessors can use the document in preparing for and undertaking an assessment.

The main body of the document is organized by Debt Management Performance Indicators (DPI). For each indicator, it contains detailed background information and rationale (“Rationale and background”), which is particularly useful for

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<sup>1</sup> The Debt Management Performance Assessment (DeMPA) tool has been developed through a broad collaborative effort involving consultation with international and regional agencies and donors involved in debt management (DeM) capacity building, as well as government authorities during country-level field-testing.

understanding the rationale for the inclusion of the indicators. That discussion is followed by “Dimension(s) to be assessed” and the scoring criteria for each dimension. “Supportive documentation” lists the documents and other evidence required for assessment. Finally “Indicative questions to ask” suggests the questions that an assessor should raise (the list is not exhaustive and should not be used as a template).<sup>2</sup>

The revised version of DeMPA methodology replaces the earlier version of December 2009. The changes of the DeMPA methodology make the ratings of particular scores not comparable for the assessments based on the different versions of the tool. Thus, it would be misleading to evaluate a country’s DeM progress only by comparing DeMPA scores. To facilitate the comparison and monitoring of progress, a follow-up DeMPA report should include a section on the reform measures implemented leading to improvement in government DeM performance as well as any deterioration. In the first year of the implementation of the current methodology, the assessment is preferably undertaken under dual systems. Annex 1 provides a table that compares the current and previous versions of the tool.

## 2 Assessment Methodology

### 2.1 Scope and Coverage of the Framework

THE SCOPE OF THE DEMPA is central government DeM activities and closely related functions such as issuance of loan guarantees, on-lending, and cash flow forecasting and cash balance management. Thus, the DeMPA does not assess the ability to manage the wider public debt, including debts of state-owned enterprises that are not guaranteed by the central government. However, given the central government’s normal obligation to monitor public and publicly guaranteed debt, these liabilities are included in the Debt Management Performance Indicator (DPI) titled “Coordination with Fiscal Policy” (DPI-6) as it relates to debt sustainability analysis.

### 2.2 Debt Management Performance Indicators

THE DEMPA PERFORMANCE INDICATORS AIM to measure government DeM performance and capture the elements recognized as being indispensable to achieving sound DeM practices. Each indicator comprises dimensions for assessment

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<sup>2</sup> In addition, annex 2 provides a bibliography of key references.

that reflect established sound practice. The objective is to have a set of performance indicators that cover the full range of central government DeM activities, including all critical activities. The DeMPA performance indicators encompass the complete spectrum of government DeM operations and the overall environment in which these operations are conducted. A set of 14 DPIs aim to measure government DeM performance and capture the elements that are critical to achieving sound DeM practices (table 1). Each indicator in turn comprises dimensions for assessment that reflect established sound practice. The assessment is incorporated into a Debt Management Performance Report.

The performance indicators encompass the complete spectrum of government DeM operations, as well as the overall environment in which these operations are conducted. Although the DeMPA does not specify recommendations for reforms or capacity and institution-building needs, the performance indicators do stipulate a minimum level that should be met under all conditions. Consequently, an assessment showing that the DeMPA minimum requirements are not met clearly indicates an area requiring reform or capacity building or both.

**Table 1. Debt Management Performance Indicators**

<b>Number</b>	<b>Title</b>
<i>Governance and Strategy Development</i>	
DPI-1	Legal Framework
DPI-2	Managerial Structure
DPI-3	Debt Management Strategy
DPI-4	Debt Reporting and Evaluation
DPI-5	Audit
<i>Coordination with Macroeconomic Policies</i>	
DPI-6	Coordination with Fiscal Policy
DPI-7	Coordination with Monetary Policy
<i>Borrowing and Related Financing Activities</i>	
DPI-8	Domestic Borrowing
DPI-9	External Borrowing
DPI-10	Loan Guarantees, On-lending and Derivatives
<i>Cash Flow Forecasting and Cash Balance Management</i>	
DPI-11	Cash Flow Forecasting and Cash Balance Management
<i>Debt Recording and Operational Risk Management</i>	
DPI-12	Debt Administration and Data Security
DPI-13	Segregation of Duties, Staff Capacity, and Business Continuity
DPI-14	Debt and Debt-Related Records

## 2.3 Link between DeMPA and PEFA

THE DEMPA IS MODELED AFTER the PEFA Performance Indicators (PIs). While the PEFA indicators cover critical aspects across public financial management, the DeMPA focuses on government DeM only. It is important that the assessor be aware of the links between the two indicators, because a PEFA assessment of a country will aid in a DeMPA assessment of that country and vice versa.

The direct link between the two tools is the recording and management of cash balances, debt, and guarantees indicators in PEFA. A number of indicators in the DeMPA are essentially a more detailed drill-down from this PEFA indicator. Strong links are found between PEFA indicators on audit and fiscal planning and DeMPA indicators on audit and coordination with macroeconomic policies.

## 2.4 Scoring Methodology

THE SCORING METHODOLOGY WILL ASSESS each dimension and assign a score of A, B, or C, depending on the criteria listed. If the minimum requirements set out in C are not met, then a score of D should be assigned.

Special attention was given to the consideration of the C scores. A score of C indicates that a minimum requirement for that dimension has been met. A minimum requirement is considered the necessary condition for effective performance under the particular dimension being measured.

A score of D, which indicates that the minimum requirement has not been achieved, signals a deficiency in performance, normally requiring priority corrective action.

The A score reflects sound practice for that particular dimension of the indicator. The B score lies between the minimum requirements and sound practice for that aspect.

There are also situations in which a dimension cannot be assessed. These could be because (a) the dimension is not applicable (for example, there are no derivatives), in which case the term N/A (not applicable) should be assigned;<sup>3</sup> or (b) due to insufficient information, the dimension is difficult or impossible to assess, in which case a designation of N/R (not rated or assessed) should be assigned.

When criteria for a specific score require that certain legislation and procedures manuals be in place, they must be followed. If that is not the case, these laws, manuals, or instructions should be considered nonexistent for the purpose of the scoring. The same principle applies to the requirement of a DeM strategy to

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<sup>3</sup> N/A is used when an activity is not performed: for example, derivatives are not used, or loan guarantees are not issued.

steer daily borrowings and other DeM activities. When the strategy document in practice has lost its meaning and is not respected, the strategy should be considered nonexistent.

## 2.5 Debt Management Performance Report

THE OBJECTIVE OF THE Debt Management Performance Report is to provide an assessment of government DeM performance based on the indicator-led analysis in a concise and standardized manner.

The report is a concise document (20–30 pages) that has the following structure and content:

- An introductory section that sets out the process for undertaking the assessment and preparing the report
- A summary assessment that provides the performance assessment of all dimensions for each DPI
- If a follow-up DeMPA, a section on the government DeM reform process that briefly summarizes reform measures implemented by the government since the last assessment as well as any deterioration in the assessed areas
- Assessment of options available (including financing) to arrange a follow-up mission to assist the country in preparing a detailed and sequenced reform plan based on the results of the DeMPA
- A section that provides country background information that is necessary to understand the overall assessment of DeM performance
- The main body of the report, which assesses the current performance of government DeM on the basis of the DPIs

As mentioned earlier, the report is a statement of current government DeM performance and does not include recommendations for reforms or action plans. If the views of the assessment team and the government on the findings of the report differ, all opinions will be reflected in the report.

# 3 Debt Management Performance Indicators

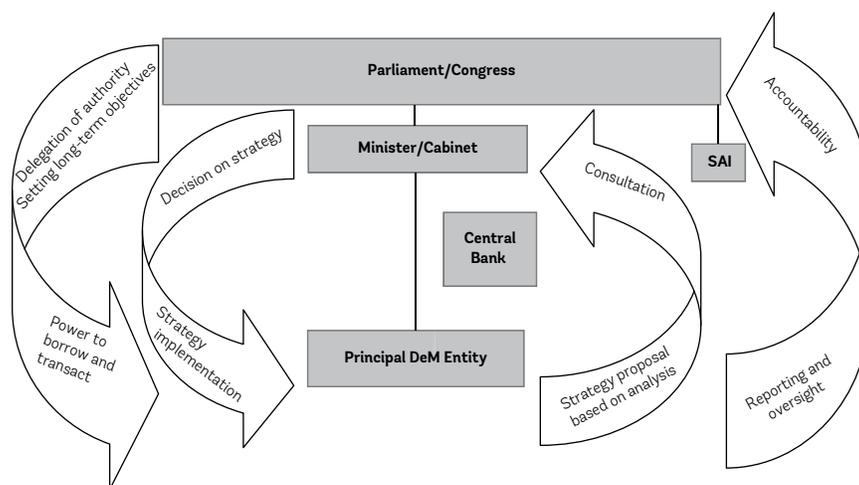
## 3.1 Governance and Strategy Development

IN THE CONTEXT OF GOVERNMENT DeM, the term “governance” refers to the legal and managerial structure that shapes and directs the operations of government debt managers (figure 1). It includes the broad legal apparatus (statutory legislation, ministerial decrees, and so forth) that defines goals, authorities, and accountabilities. It also embodies the management framework, covering issues such as the formulation and implementation of strategy, operational procedures, quality assurance practices, and reporting responsibilities (Wheeler 2004, 49).

Stemming from its constitutional power to approve central government tax and spending measures, the parliament or congress has, as a rule, the ultimate power to borrow on behalf of the central government. The first level of delegation of the borrowing power therefore comes from the parliament or congress down to the executive branch (for example, to the president, to the cabinet or council of ministers, or directly to the minister of finance). In turn, the president or minister of finance will delegate the DeM responsibilities, including the mandate to borrow, to the principal DeM entity (commonly called the DeM office).

The principal DeM entity is the dedicated government entity whose primary responsibility is to execute the DeM strategy through borrowing, derivatives,

**Figure 1.** Simplified DeM Governance Structure



and other debt-related transactions. Within this structure, it is acceptable for other entities to conduct some DeM activities as agents for the principal DeM entity (for example, a central bank to undertake government securities auctions in the domestic market, or a saving directorate to issue government saving certificates in the domestic retail sector). In these cases, the rights and obligations of the parties should be clarified, preferably in a formalized agency agreement, in the secondary legislation, or in both. The principal DeM entity is also responsible for undertaking analysis and providing advice to decision makers on potential DeM strategies and the cost-risk trade-offs associated with alternative approaches.

It is common, though, to find a fragmented managerial structure, particularly in developing countries. In some countries, one entity is responsible for external concessionary borrowing, a second entity for external borrowing on commercial terms, a third entity for domestic borrowing from institutional investors, a fourth entity for borrowing from the domestic retail sector, and so forth. This organizational model can work reasonably well when the main DeM objective is to raise the needed funds with little priority assigned to managing the risks in the overall debt portfolio. However, when the focus on government DeM is more on cost and risk trade-offs in the debt portfolio, promotion of domestic debt market development, strategy development, accountability, and coordination with fiscal and monetary policies, this fragmented managerial structure becomes increasingly difficult and inefficient.

Realizing that many countries lack a principal DeM entity, the DeMPA is neutral regarding the structure of DeM entities at the lower scores. If a country has multiple DeM entities, however, it is essential that these entities closely coordinate their DeM activities through regular and formal mechanisms, which also is reflected in the governance indicators. It is recognized that coordination is unlikely to be a perfect substitute for consolidation of DeM activities into one entity, as evidenced by the number of countries that have undertaken this process in recent decades.

In many countries where the daily DeM activities have been delegated to a principal DeM entity (or to various DeM entities)—and particularly when the entity (or entities) is located within a ministry (normally the ministry of finance)—the minister or the deputy minister will commonly retain the power to approve formally any borrowing and to sign the loan agreements.<sup>4</sup> This approach is acceptable within the structure described earlier, provided no undue political interference exists.

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<sup>4</sup> The alternative structure is to set up the principal DeM entity outside the ministry of finance as a separate agency or corporate body. In such a structure, all the operational decisions are made within the agency.

The managerial structure should ensure that there is a clear division between the political level (the parliament or congress, the cabinet or council of ministers, and the minister of finance) that sets the overall long-term DeM objectives and strategy and the entity or entities responsible for implementing the strategy. The advantages of this approach are that it leaves major decisions as to the overall volume of indebtedness and the acceptable risks in the debt portfolio—in terms of their effect on the budget, taxes, government spending programs, or other such fiscal indicators—with political decision makers while allowing technical professionals to seek the optimum risk-adjusted outcome within those parameters.

### *DPI-1 Legal Framework*

#### Rationale and background

*Dimension.* The existence, coverage, and content of the legal framework on authorization to borrow and undertake other DeM activities and to issue loan guarantees

The rationale is to ensure that the legal framework clearly sets out the authority to borrow (in both domestic and foreign markets), undertake debt-related transactions (such as debt exchanges and currency and interest rate swaps, where applicable), issue loan guarantees.

The legal framework for government DeM comprises both primary legislation (laws enacted with approval of the parliament or congress) and secondary or delegated legislation (executive orders, decrees, ordinances, and so forth) determined by the executive branch of government.

The legal framework should preferably include the following:

- Primary legislation: clear authorization by the parliament or congress to the executive branch of government (to the president, cabinet or council of ministers, or directly to the minister of finance) to approve borrowings and loan guarantees on behalf of the central government<sup>5</sup>
- Secondary legislation: clear authorization within the executive branch of government to one or more DeM entities to borrow and, where applicable, undertake debt-related transactions (for example, debt exchanges and currency and interest rate swaps)
- Secondary legislation: clear authorization within the executive branch of government to one or more guarantee entities to issue loan guarantees after the

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<sup>5</sup> After delegation by the parliament or congress to the executive branch to approve single borrowings, it is acceptable for the parliament or congress to ratify certain borrowings in accordance with the law of the country. Preferably, however, this ratification procedure should be limited to loan agreements that are classified as treaties and are governed by international law (for example, international agreements between sovereign governments or agreements between a sovereign government and another subject of international law, such as the World Bank).

political decision to support a certain activity by the use of loan guarantees has been made<sup>6</sup>

- Primary legislation: specified borrowing purposes
- Primary legislation: clear DeM objectives
- Primary legislation: requirement to develop a DeM strategy
- Primary legislation: mandatory annual reporting to the parliament or congress of DeM activities covering evaluation of outcomes against stated objectives and the determined strategy

The requirement to include certain key provisions in the primary legislation is guided by constitutional principles, by the desired role of parliament or congress in central government DeM, and by the mere fact that including provisions in the primary legislation gives those provisions particular prominence and prevents ad hoc and frequent changes.

The following sequence is recommended to assess whether the minimum requirements have been met:

1. Check the legal decision-making process for borrowing in the domestic and external markets, such as issuing debt securities (where applicable), by concluding common loan agreements and debt-related transactions. Borrowing authorities often are vested in the parliament or congress, the executive council, or the minister of finance.
2. Once the approval process has been clarified, and assuming this process is adhered to, check the signing of the necessary documentation related to a particular borrowing. Commonly, some official (or officials) has received the authority to sign these documents on behalf of the government. The minister of finance (or his or her equivalent) often has this power, either through expressed authority in law or in his or her capacity as head of the ministry or unit that is responsible for borrowing and other DeM activities.

A similar approach is recommended for checking the decision-making process for undertaking debt-related transactions and for issuing loan guarantees.<sup>7</sup>

All relevant laws should be referred to in the DeMPA report.

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<sup>6</sup> As explained in the introductory remarks in this section, it is acceptable within this delegated structure for the minister of finance to formally approve the single borrowing transactions and to sign the final loan agreements and guarantees. The decision on terms and conditions of single transactions, however, as well as the risk assessment in the case of loan guarantees, should preferably be delegated to the relevant DeM or guarantee entity.

<sup>7</sup> If financial swaps are used, it must be clarified whether the central government has the authority to enter into such transactions. In a famous 1988 case, the auditors discovered that the London Borough of Hammersmith and Fulham had a massive exposure to interest rate swaps. When legal opinions were obtained, it was concluded that the borough did not have any legal authority to enter into these transactions, and consequently the courts declared the contracts illegal (referring to the principle of *ultra vires*—that the contracts were beyond the scope of the borough's legal power or authority). The banks involved in these swap transactions lost millions of pounds.

The delegation from congress or parliament to the executive is found in the primary legislation, normally in a separate law on public debt or similar law; in the budget system law, together with the annual budget act; or in a fiscal responsibility act. In most cases, the delegation of the borrowing power is restricted by a statement of the purposes for which the executive can borrow (for example, to finance the budget deficit or to refinance maturing loans) or by a limit on the annual net borrowing or the outstanding debt.

To meet the minimum requirements, the legislation also must specify the purposes for which the government can borrow. The main reason to include borrowing purposes in the primary legislation is to safeguard against borrowing for speculative investments or to finance expenditures that have neither been included in the annual budget nor approved by the parliament or congress in some other fashion. If the latter were allowed, the budget process would lose its meaning and could eventually force the parliament or congress to raise taxes or cut expenditures to service the debt contracted to finance such expenditures.

Examples of borrowing purposes found in legislation are:

- to finance budget and cash balance deficits;
- to finance investment projects approved by the parliament or congress outside the budget process;
- to refinance and prefinance outstanding debt;
- to finance honoring of triggered guarantees;
- to fulfill requirements by the central bank to replenish foreign currency reserves;
- to fulfill requirements by the central bank to issue Treasury bills (T-bills) and Treasury bonds (T-bonds) to support monetary policy objectives (for example, to drain excess liquidity from the domestic market); and
- to eliminate the effects caused by natural or environmental disasters.

Another common constraint to borrowing by the executive is the retention by the parliament or congress of the power to ratify certain loan agreements, particularly loans raised abroad. This ratification procedure should be limited preferably to loan agreements that are classified as treaties (for example, international agreements concluded between sovereign governments [that is, bilateral debt] or agreements between a sovereign government and another subject of international law, such as the World Bank [that is, multilateral debt]).

For practical reasons, however, the executive commonly delegates the borrowing power to implementing entities (that is, the DeM entity or entities), which contract on behalf of the central government. This delegation is found in secondary legislation, such as executive orders, decrees, ordinances, and so forth.

A clear line of delegation is important, both for internal control and for due diligence. All creditors and lenders require a legally binding and enforceable contract with the central government in its capacity as the borrower.

The same parameters apply to the issue of loan guarantees, The executive normally cannot issue without parliamentary or congressional approval. In the rare cases when the executive can issue these guarantees constitutionally without any delegation from the parliament or congress, it would be sufficient to check that the issuing entity is properly authorized through the secondary legislation.

Debt-related transactions such as swaps normally do not require the approval of the parliament or congress. If debt-related transactions are allowed in the legislation, they are often delegated to the executive branch.

The second rationale for DPI-1 is to ensure that the legal framework, at least for the higher scores, also includes (a) clear DeM objectives; (b) a requirement to develop a medium-term DeM strategy; and (c) a reporting requirement to the parliament or congress on DeM activities and loan guarantees.

Common DeM objectives are

- to meet the government's borrowing requirements;
- to minimize the medium- to long-term expected cost, while keeping the risks in the debt portfolio at acceptable levels; and
- to promote the development of the domestic debt market.

These goals should have a certain robustness to anchor the DeM strategies. It is preferable and increasingly common to specify the central government's DeM objectives in the primary legislation. This gives them particular prominence and prevents ad hoc and frequent changes. A comparison can be made with the regulatory framework for monetary policy, in which the primary goal of monetary policy (for example, price stability) is by rule specified in the primary legislation (the central bank act).

Once the DeM objectives are set, they must be translated into an operational strategy that sets out the medium-term framework for how the government will achieve its DeM objectives. In accordance with sound international practice, a requirement in the primary legislation to develop a DeM strategy has also been included in this indicator for the highest score.

Reporting to the parliament or congress increases transparency and strengthens accountability. This reporting requirement is commonly found in any policy-based legislation that includes longer-term objectives (such as price stability for monetary policy, as mentioned above).

The key requirement for the evaluation of DPI-1 is to review the legislation to see whether it meets the requirements of the dimensions to be assessed. It is also important to determine the extent of adherence to the legislation because, in some countries, the legislation may be sufficient but may not be fully enforced. If the legislation is not followed, the following indicator should be read as if the legislation were not in place.

Dimension to be assessed

The existence, coverage, and content of the legal framework for authorization to borrow, undertake other DeM activities, and issue loan guarantees (table 2)

**Table 2. Assessment and Scoring of Legal Framework**

Score	Requirements
A	The requirements for score B are met. In addition, the primary legislation requires development of a medium-term DeM strategy and mandatory annual reporting to the parliament or congress covering evaluation of outcomes against the approved DeM strategy.
B	The minimum requirement for score C is met. In addition, the primary legislation includes clear DeM objectives and requires annual reporting to the parliament or congress covering the DeM activities and issued loan guarantees.
C	The legislation (primary and secondary) provides clear authorization to borrow and to issue new debt, to undertake debt-related transactions (where applicable), and to issue loan guarantees (where applicable), all on behalf of the central government. In addition, the primary legislation specifies the purposes for which the executive branch of government can borrow.
D	The minimum requirement for score C is not met.

Supporting documentation

- A copy of all primary legislation, which should be available on the web sites of the government, ministry of finance, principal DeM entity, or central bank
- A copy of all secondary legislation, which should be available on the websites of the government, ministry of finance, principal and other DeM entities, or central bank
- If the list of primary legislation is extensive (for example, more than 20 different documents in some countries), it may be sufficient to obtain a copy of the most significant or relevant laws, together with a list of all secondary legislation.

Indicative questions to ask

- Is there clear authorization in primary legislation to approve borrowings and loan guarantees on behalf of the central government assigned to the president, the cabinet or council of ministers, or directly to the minister of finance? If so, which legislation provides authorization, and what are the relevant sections or clauses?
- Who signs the loan documents and other necessary documents related to a particular borrowing? Which legislation provides this authorization, and what are the relevant sections or clauses?
- Is there clear authorization in secondary legislation to undertake debt-related transactions and to issue loan guarantees on behalf of the central government? If so, which legislation provides authorization, and what are the relevant sections or clauses?
- Which sections or clauses in the legislation cover
  - specified borrowing purposes;
  - clear DeM objectives;

- requirement to develop a medium-term DeM strategy; and
- annual mandatory reporting to the parliament and congress covering DeM activities and, where applicable, issued loan guarantees
- Has there been any instance in the past five years in which the laws have not been followed? If so, what were the instances, why were the laws not followed, and what were the consequences?

## DPI-2 Managerial Structure

### Rationale and background

*Dimension 1.* The managerial structure for central government borrowings and debt-related transactions

The rationale is to ensure that the managerial structure for borrowing and debt-related transactions<sup>8</sup> is effective and that it includes a clear division between

- *the political level*, namely the parliament or congress, the president, the cabinet or council of ministers, and the minister of finance, that sets the overall central government DeM objectives and decides on the risk level that the government is willing to tolerate by approving the medium-term DeM strategy; and
- *the execution level*, which includes the entities responsible for implementing policy decisions and DeM strategy, and therefore includes an efficient organization at the execution level of DeM policy within the government.

The advantage of this division is that major decisions about the overall volume of indebtedness and the acceptable risks in the debt portfolio—in terms of their effect on the budget, taxes, government spending programs, or other such fiscal indicators—are assigned to political decision makers while allowing technical professionals to seek the optimum risk-adjusted outcome within those parameters. This separation helps diminish the risk of fiscal or budgetary policy dominance over prudent debt management—for example, by lowering the debt interest cost in times of budgetary constraint at the expense of higher risk in the debt portfolio.

The evaluation of this dimension also includes assessment of “undue political interference.” An example of such interference is when the minister of finance (or equivalent) presses the debt manager to borrow in the short end of the yield curve or in a low-coupon currency to reduce the short-term debt service cost at the expense of an increased risk in the debt portfolio that goes against an approved strategy. Other types of behavior that should be avoided at the political level are (a) involvement in the discussions of any cutoff price after the

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<sup>8</sup> Debt-related transactions are transactions in the market such as swaps to change the risk profile of the debt portfolio, and debt buybacks of illiquid debt securities.

bids have been received in an auction of government securities; (b) selection of borrowing currencies in single loan transactions; and (c) selection of the lead manager and banks for syndicated securities issuance in the international or domestic capital markets, or through loans from select commercial banks.

However, undertaking a concessional loan from a multilateral creditor that includes a range of policy implications clearly has political implications and may well be subject to political scrutiny without being qualified as undue interference. Similarly, large public bond issues, borrowing from new sources, or borrowing through new structures may not be delegated to the same level as routine domestic T-bond and T-bill auctions.

Also introduced at the B level is a requirement that “the borrowings and debt-related transactions be steered by a formalized medium-term DeM strategy.” The criteria for evaluating whether such a strategy exists are described in DPI-3 (“Debt Management Strategy”) and apply at the C level. This implies that a C is required in DPI-3 to qualify for a B in this dimension.

Although recommended, the DeMPA tool at the C and B levels does not require establishment of a principal DeM entity or a debt management office (DMO) to be in charge of the DeM activities at the execution level. If the government has multiple DeM entities, however, it is essential that they regularly share information and periodically coordinate their DeM activities through formal mechanisms. To facilitate coordination, one of these entities can be selected to take the lead, or a coordination committee can be set up to share information at regular meetings. Coordination is essential to avoid overborrowing and to keep track of the debt portfolio risks. This aspect is particularly important when the DeM activities are steered by a medium-term DeM strategy and an annual borrowing plan.

For the highest score, there is a requirement to have a principal DeM entity that is responsible for undertaking all borrowings and debt-related transactions. With this structure, it is acceptable if some DeM activities are conducted by other entities as “agents” for the principal DeM entity. (For example, a central bank may undertake government securities auctions in the domestic market, or a saving directorate may issue government saving certificates in the domestic retail sector.) In these cases, the rights and obligations of the parties should be clarified, preferably in a formalized agency agreement, in secondary legislation, or both.

*Dimension 2. The managerial structure for preparation and issuance of central government loan guarantees*

The rationale is to ensure that the managerial structure for preparation and issuance of central government loan guarantees is effective. Loan guarantees extended to third parties are explicit contingent liabilities that typically are issued to financially support a certain beneficiary or project or a specific sector of the economy. Because this is a political decision, the use of the guarantees should be decided at

the political level. However, as with debt transactions, it is desirable to leave overall responsibility for the preparation and the actual issuance of the loan guarantees to one entity, that is, a principal guarantee entity responsible for

- independently assessing and pricing the credit risk;
- mitigating the financial effects of a default or trigger event;
- monitoring the risk during the term of the loan guarantee;
- coordinating the borrowings of the guarantee beneficiaries with central government borrowing; and
- recording and reporting these guarantees properly.

With this structure, it is acceptable if certain loan guarantees are issued by other entities as “agents” for the principal guarantee entity (for example, a designated guarantee entity to issue individual loan guarantees to support farmers under a certain guarantee scheme). In these cases, the rights and obligations of the parties should be clarified, preferably in a formalized agency agreement, in the secondary legislation, or both.

It is also desirable that decisions on individual guarantees be steered by a formal government policy or framework document. The rationale for this is to provide transparency as to which sectors of the economy or types of projects are to be supported by guarantees, in order to reduce the risk of ad hoc decisions or political favoritism. The policy or framework document could also provide criteria for assessing eligibility, including thresholds for credit risk. Often the designated procedures manual is developed and includes the processes to be followed (such as those listed earlier as responsibilities of the principal guarantee entity).

Coordination between the central government borrowings and the guarantee beneficiary is particularly important when both undertake market borrowings. From the creditors’ or investors’ point of view, whether the central government borrows directly or whether it supports borrowing by another entity through a sovereign loan guarantee makes little difference when assessing credit risk. In both cases, the credit risk is the same, and consequently the credit risk premium would be similar. However, differences in pricing may arise because of the expected liquidity of securities as well as the efficiency of the process to call the guarantee in the case of nonperformance. Nevertheless, if the underlying loan is substantially more expensive than the central government would have negotiated because of the inexperience of the guaranteed beneficiary, this factor can adversely affect the future pricing of the central government’s own market borrowing. Similarly, if both the central government and the guaranteed beneficiary enter the same market because of lack of prior consultation whenever a favorable market opportunity arises, it likely will lead to more-expensive loans for both and create an impression of disorganization rather than orderly coordination of their market operations.

Some countries mandate that the principal DeM entity also prepare and issue the loan guarantees once the political decision to support a certain beneficiary

or project by guarantees has been made. Apart from the technical skill normally found at the principal DeM entity, this approach also ensures effective coordination with central government borrowing operations. In countries with few staff members adequately trained in finance, this managerial structure is particularly relevant for better coordination and beneficial use of scarce technical skills.

In the case of a more fragmented managerial structure, it is important that the entities in charge of preparation and issuance of loan guarantees regularly exchange information and closely coordinate their respective activities both between themselves and with the DeM entity or entities. This should be done through a formalized institutional arrangement whereby information flows are regularly shared.

In some countries, the legal framework provides the authorization to issue loan guarantees, but no guarantees have been issued for an extended period of time (more than five years). In such cases, the score N/A should be applied.

In the DeMPA tool, “loan guarantees” do not include export credit guarantees or other explicit or implicit contingent liabilities.

Dimensions to be assessed

The following dimensions should be assessed (table 3):

1. The managerial structure for central government borrowings and debt-related transactions
2. The managerial structure for preparation and issuance of central government loan guarantees

**Table 3. Assessment and Scoring of Managerial Structure**

Score	Requirements
A	<ol style="list-style-type: none"> <li>1. The requirements for score B are met. In addition, borrowings and debt-related transactions are undertaken only by the principal DeM entity.</li> <li>2. The requirements for score B are met. In addition, loan guarantees are prepared and issued by a single guarantee entity, which may be the principal DeM entity.</li> </ol>
B	<ol style="list-style-type: none"> <li>1. The minimum requirement for score C is met. In addition, the borrowings and debt-related transactions are steered by a formalized medium-term DeM strategy and undertaken without undue political interference.</li> <li>2. The minimum requirement for score C is met. In addition, the decisions are steered by a formalized guarantee framework or government policy.</li> </ol>
C	<ol style="list-style-type: none"> <li>1. Borrowings and debt-related transactions are undertaken either by the principal DeM entity or, if there is no principal DeM entity, by DeM entities that regularly exchange debt information and closely coordinate their respective activities through formal institutional mechanisms.</li> <li>2. If applicable, loan guarantees are prepared and issued by one or more government entities that regularly exchange information and closely coordinate their respective activities through formal mechanisms, both between themselves and with the DeM entity or entities.</li> </ol>
D	<ol style="list-style-type: none"> <li>1. The minimum requirement for score C is not met.</li> <li>2. The minimum requirement for score C is not met.</li> </ol>

### Supporting documentation

- The organizational chart and secondary legislation setting out the entities involved in DeM and the preparation and issuance of loan guarantees and their respective roles and responsibilities
- A copy of the agency agreement between the principal DeM entity and the central bank (if such an agreement exists)
- A copy of the documented and approved guarantee framework or government policy

### Indicative questions to ask

- Which entities have responsibility for DeM activities? What are their respective roles and responsibilities?
- What is the process, and who is responsible, for negotiating and contracting new loans (concessional, multilateral, bilateral, commercial, domestic, and so forth)?
- What role does the parliament or congress, the cabinet or council of ministers, and minister of finance play in any new borrowing, particularly with regard to the authorization to borrow and during the contract negotiation and transacting process?
- If there are two or more DeM entities, what debt and other information are exchanged between them? How frequently is this information exchanged? Do the entities closely coordinate their respective activities to avoid overborrowing and keep track of the portfolio risks, and what mechanism is used for this coordination?
- Is there a documented and approved policy or framework document that specifies criteria for deciding whether guarantees are to be granted and the processes to be followed?
- Who is responsible for preparation and issuance of loan guarantees? How are these loan guarantees prepared?
- If there are two or more guarantee entities, what information is exchanged between them? How frequently is this information exchanged? Do the entities regularly coordinate their respective activities to avoid inconsistencies in approach (for example, thresholds for credit risk)? What mechanisms are used for coordination purposes?
- Are guaranteed borrowings by the beneficiary of loan guarantees coordinated with central government borrowing, and if so, how?

## *DPI-3 Debt Management Strategy*

### Rationale and background

#### *Dimension 1. The quality of the DeM strategy document*

The rationale is to ensure that the government has prepared and approved a medium-term DeM strategy that is based on the longer-term DeM objectives

and set within the context of the government's macroeconomic assumptions and budget framework.

Design of a DeM strategy should be separated from a debt sustainability analysis (DSA), although the information from each is complementary and provides essential information to the debt managers. The DSA is a key fiscal and budgetary policy tool to assess the long-term sustainability of the future debt path under certain macroeconomic assumptions, while the DeM strategy is a plan that the government intends to implement over the medium term to achieve a desired composition of its debt portfolio, which captures its preferences regarding the cost-risk trade-offs. It operationalizes the DeM objectives and has a strong focus on managing the risk exposure embedded in the debt portfolio—specifically, potential variations in the cost of debt servicing and its impact on the budget. A DeM strategy should cover all central government existing debt and projected borrowing, including from the central bank, with a minimum of three years' scope (thus it needs to be updated annually). In particular, a DeM strategy identifies how cost and risk characteristics vary with the changes of composition of the debt portfolio.

The content of the strategy and risk indicators will vary from country to country, depending on the stage of economic development, the sources of funding, the breadth and depth of the domestic debt market, and the transactions used to manage central government debt. The DeM strategy document preferably includes the following:

- Description of the market risks being managed (currency, interest rate, and refinancing or rollover risks) and historical context for the debt portfolio
- Description of the future environment for DeM, including fiscal and debt projections; assumptions about interest and exchange rates; and constraints on portfolio choice, including those relating to market development and the implementation of monetary policy
- Description of the analysis undertaken to support the recommended DeM strategy, clarifying the assumptions used and limitations of the analysis
- Recommended strategy and its rationale

Specifically, the following indicators are most likely to be assessed:

- Total debt service under different scenarios, particularly sensitivity to interest rate and exchange rates
- Maturity profile of the debt under different scenarios
- Strategic benchmarks such as
  - ratio of foreign currency debt to domestic debt
  - currency composition of foreign currency debt;

- minimum average maturity of the debt;
- maximum share of debt that is allowed to fall due during one and two budget years;
- maximum ratio of short-term (up to one year) to long-term debt;
- maximum ratio of floating rate to fixed rate debt; and
- minimum average time to interest rate refixing.

For countries that have limited access to market-based debt instruments and rely mainly on external official concessional finance, all of these risk-based parameters may not be equally relevant. In such cases, the most relevant parameters for containing the risks to the debt portfolio will probably be currency composition, interest rate composition, and amount of debt that must be refinanced over a particular time.

The recommendations should specify targets and ranges for key risk indicators of the portfolio and the financing program over the projected horizon. As an interim step, it would be sufficient to express the strategy as guidelines to indicate the direction in which certain key indicators are expected to evolve (for example, a statement that “the amount of local currency debt maturing within 12 months shall be reduced”). In addition, if one of the DeM objectives is to promote the development of the domestic debt market, the strategy should include measures to support such development.

For higher scores (A or B), the target ranges for the risk indicators should be based on an analysis of costs and risks. This analysis should provide an understanding of the evolution of debt service flows and borrowing alternatives under the expected values of future interest and exchange rates. In addition, analysis of less favorable environments in the domestic and external debt market is required, including interest rate and exchange rate shocks. Such an undertaking should assist debt managers in selecting “realistic” ranges for the chosen risk indicators. A further refinement in the cost-risk analysis could be achieved through improved selection of relevant future interest- and exchange-rate scenarios, including shocks that may have occurred in the past.

Countries with significant financial assets should take these into account when conducting the analysis of cost and risk. For instance, the exposure to currency risk could be significantly lower for governments with foreign currency assets that constitute an oil stabilization fund. The manner in which assets can be included in the analysis will depend, among other factors, on the horizon for holding such assets and the government’s ability to use them to hedge the risks of the gross debt portfolio.

In addition to the cost-risk analysis and the asset position, the DeM strategy should be consistent with the macroeconomic framework and the

domestic market development level (see Medium-Term Debt Strategy [MTDS] Guidance Note<sup>9</sup>).

The strategy should reflect the current debt situation of the central government, and the DeM activities should be steered by the strategy. Therefore, an annual update of the DeM strategy is required for the score C. An out-of-date or ineffective strategy is treated as nonexistent.

*Dimension 2.* The decision-making process and publication of the DeM strategy  
The rationale is to ensure that the government has a robust decision-making process for strategy development, and that the strategy is published.

A DeM strategy should be developed in an open and transparent manner. It is important to have a robust process in place for strategy development. The strategy is essentially a decision on the government's preferred risk tolerance that must be updated frequently—preferably yearly—to reflect changed circumstances (an iterative process). On the basis of existing good international practice, the principal DeM entity (or DeM entities together) prepares a feasible strategy proposal; the central bank checks that the strategy will not conflict with monetary policy implementation; and the cabinet, council of ministers, or minister of finance approves the strategy document. For extra quality assurance, some countries have also set up a specialized advisory board to comment on the draft strategy before it is approved.

Although the strategy should be specified for the medium term, it should be reviewed periodically to assess whether the assumptions still hold in light of changed circumstances. Such a review should be undertaken annually, preferably as part of the budget process, and if the existing strategy is viewed as appropriate, the rationale for its continuation should be stated. The DeM strategy should be an integral part of the budget preparation process. The budget document provides the sources of financing, and these should be aligned with the analysis and recommendations expressed in the debt strategy. The annual borrowing plan should thus be in coherence with the medium-term debt strategy.

Once the strategy has been finally approved, the borrowings and other DeM activities must be steered by the strategy; that is, the strategy provides guidance on the current DeM activities. If that does not occur, the following indicators should be read as if the strategy were nonexistent.

Dimensions to be assessed

The following dimensions should be assessed (table 4):

1. The quality of the DeM strategy document
2. The decision-making process and publication of the DeM strategy

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<sup>9</sup> <http://www.worldbank.org/en/topic/debt/brief/mtds>

**Table 4. Assessment and Scoring of DeM Strategy**

Score	Requirements
A	<ol style="list-style-type: none"> <li>1. The requirements for score B are met. In addition, the target ranges for the risk indicators are based on a comprehensive analysis of costs and risks—identifying the vulnerability of the debt portfolio to shocks in market rates—and these analyses are clearly described, clarifying the assumptions used and limitations of the analyses.</li> <li>2. The requirements for score B are met. In addition, the annual plan for the aggregate borrowing position is based on the approved strategy.</li> </ol>
B	<ol style="list-style-type: none"> <li>1. The minimum requirement for score C is met. In addition, the DeM strategy has realistic target ranges for indicators of the interest rate, refinancing, and foreign currency risks, reflecting the specific country environment.</li> <li>2. The minimum requirement for score C is met. In addition, the strategy is well integrated in the budget document and the medium-term expenditure or budget framework.</li> </ol>
C	<ol style="list-style-type: none"> <li>1. A medium-term debt management strategy is in place covering all existing and projected central government debt, based on the DeM objectives. The strategy is expressed at least as guidelines for the preferred direction of evolution of specific indicators for interest rate, refinancing, and foreign currency risks. In addition, if applicable, the strategy document contains a description of measures aimed at supporting domestic debt market development.</li> <li>2. The strategy proposal is prepared by the principal DeM entity or, if there is no principal DeM entity, jointly by the DeM entities. The views of the central bank are obtained; the strategy is formally approved; and the strategy is made publicly available, including through publication on official website(s) and in print media.</li> </ol>
D	<ol style="list-style-type: none"> <li>1. The minimum requirement for score C is not met.</li> <li>2. The minimum requirement for score C is not met.</li> </ol>

Supporting documentation

- A copy of the most recent DeM strategy
- Monitoring reports of DeM strategy implementation
- The defined process of strategy formulation and approval

Indicative questions to ask

- Has the government written and approved a medium-term DeM strategy? If so,
  - How was the strategy produced?
  - Which DeM entities or people were responsible for producing the strategy, and what were their respective roles?
  - Who authorized or approved the strategy?
  - What analysis was undertaken in formulating the strategy?
  - How was the analysis undertaken, who was responsible for setting economic and budget parameters, and who was responsible for debt forecasts? Has the central bank been consulted in formulating the strategy? Is it consistent with monetary policy implementation?
  - Does the strategy cover the items required to meet the minimum requirements?

- Was the strategy made publicly available? If so, when was it published, and in what format?
- How has the strategy been implemented?
- How often has the strategy been updated?

#### *DPI-4 Debt Reporting and Evaluation*

##### Rationale and background

*Dimension 1.* Publication of a statistical bulletin on debt, loan guarantees, and debt-related operations

The rationale is to ensure that the central government periodically prepares and publishes a debt statistical bulletin (or its equivalent).

A debt statistical bulletin (or its equivalent) covering domestic and external central government debt, loan guarantees, and debt-related operations is essential for ensuring transparency of the debt portfolio and of outstanding loan guarantees, and it is vital for the investors in the central government debt securities.<sup>10</sup> This bulletin could be in the form of either regular ministry of finance or central bank publications or as statistical tables produced by a bureau of statistics. The bulletin should be published at least annually (preferably quarterly or semiannually) and provide information on central government debt stocks (by creditor, residency classification, instrument, currency, interest rate basis, original, and residual maturity); debt flows (principal and interest payments); debt ratios and indicators; and basic risk measures of the debt portfolio. Loan guarantees should also be decomposed by type of loan (for example, creditor, residency classification, instrument, currency, interest rate basis, original, and residual maturity), clarifying how much has already been amortized. Some basic risk measures including ratios of guaranteed debt to gross domestic product (GDP); guaranteed loans in foreign currency to total guaranteed debt; and the proportion of the guarantees triggered over the past five years, among others should be provided.

At higher rating levels, a debt statistical bulletin or its equivalent should cover following risk measures:

- Share of fixed rate to floating rate debt
- Share of short-term to long-term debt
- Average time to interest rate refixing
- Share of interest rate to be refixed within one year
- Share of foreign currency to domestic currency debt
- Currency composition of foreign currency debt
- Average time to maturity of the debt

<sup>10</sup> Such a statistical bulletin may be published in print media, posted on office websites, or both.

- Redemption profile of the debt
- Share of debt to be refinanced within one year

*Dimension 2. Reporting to parliament or congress*

The rationale is to ensure that the government is accountable for its DeM operations to the parliament or congress—and to the country’s citizens by providing frequent reports on DeM and debt-related operations and making these reports publicly available. This approach promotes transparency in DeM operations and good governance through greater accountability for the substantial responsibilities that are delegated to DeM entities.

In addition to providing full information about public debt outstanding, accountability is strengthened by submitting a detailed annual report to parliament or congress with an evaluation of the DeM operations—including borrowing, liability management operations such as debt exchanges, loan guarantees extended, and on-lending made—and then publishing the report on the government’s website. The rationale for this is to insure that DeM operations have been carried out in accordance with any objectives that have been set by the legislature and with the DeM strategy that was approved by the executive.

The report should include enough information to enable the parliament or congress to evaluate how successful the DeM operations—including new borrowings and debt-related transactions—have been in meeting the DeM objectives. If there is a principal DeM entity, this report is prepared and sent to the legislature by this entity; if there is no principal DeM entity, the DeM entities prepare this report jointly and submit it to the parliament or congress. In both instances, the report should be published on the entities’ websites.

For higher scores, the report should include information on the chosen DeM strategy, as well as an assessment of compliance with it and an explanation of potential deviations.

If there are no explicit objectives or strategy, it is possible to meet the threshold of a C score by producing an annual report that provides a thorough account of DeM operations during the period, together with the rationale for those operations. The rationale could include how DeM operations contributed to the achievement of budget and fiscal objectives and policies. It also would be expected to include reference to the management of risks (outlined in dimension 1), cost-effectiveness, and the judgments made in trading off cost against risk. In addition to the cost-risk analysis, the rationale for the operations could take into account consistency with the macroeconomic program and with the domestic market development level.

For scores of C and B, the annual report may be part of another document (for example, a report on budget execution or notes to financial statements), provided that it fully addresses the areas identified in this description.

Dimensions to be assessed

The following dimensions should be assessed (table 5):

1. Quality and timeliness of the publication of a debt statistical bulletin (or its equivalent) covering central government debt, loan guarantees, and debt-related operations
2. The presentation and content of an annual evaluation report to the parliament or congress on DeM activities and general performance

**Table 5. Assessment and Scoring of Debt Reporting and Evaluation**

Score	Requirements
A	<ol style="list-style-type: none"> <li>1. The requirement for score B are met. In addition, a debt statistical bulletin (or its equivalent), which includes main basic risk measures of the debt portfolio, is published at least semiannually, with debt data that are not more than two months old at the date of publication.</li> <li>2. The requirements for score B are met. In addition, the stand-alone annual report contains an assessment of: (a) outcomes against stated DeM objectives, (b) the chosen DeM strategy and rationale behind it, and (c) compliance with that strategy.</li> </ol>
B	<ol style="list-style-type: none"> <li>1. The minimum requirement for score C is met. In addition, a debt statistical bulletin (or its equivalent), which includes main basic risk measures of the debt portfolio, is published at least annually, with debt data that are not more than six months old at the date of publication.</li> <li>2. The minimum requirement for score C is met. In addition, the annual report (or section of a wider report) contains an assessment of how the government DeM activities have complied with the government's documented and approved DeM strategy.</li> </ol>
C	<ol style="list-style-type: none"> <li>1. A debt statistical bulletin (or its equivalent), with the main categories listed in the "Rationale and background" section of this DPI (with the exception of the basic risk measures of the debt portfolio), is published annually, with debt data that are not more than six months old at the date of publication.</li> <li>2. A report (or section of a wider report) providing details of outstanding government debt and DeM operations is submitted annually to the parliament or congress and is also made publicly available.</li> </ol>
D	<ol style="list-style-type: none"> <li>1. The minimum requirement for score C is not met.</li> <li>2. The minimum requirement for score C is not met.</li> </ol>

### Supporting documentation

- A copy of the most recent publication of the stocks and flows of the external and domestic debt of the central government
- A copy of the most recent debt statistical bulletin or its equivalent
- Copies of the annual evaluation reports should be available
- Copies of other reports (for example, the budgetary implementation report), which include details of DeM activities

### Indicative questions to ask

- What is the process, and who is responsible for preparing, a debt statistical bulletin or equivalent debt report? How frequently is this debt information published? Is it publicly available? If so, how and in what format?
- Does the debt statistical bulletin or equivalent include
  - information on central government debt stocks (by creditor, residency classification, instrument, currency, interest rate basis, and residual maturity);
  - debt flows (principal and interest payments);
  - debt ratios or indicators or both; and
  - basic risk measures of the debt portfolio?
- What other debt reports are produced by the government or central bank? Are they publicly available? If so, how and in what format?
- What is the time period or lag from the debt reporting period to the period when reliable debt reports are produced? What validation measures are used to ensure the accuracy of these reports?
- Who is responsible for signing off on or authorizing the release of these reports?
- Is an annual report on DeM activities submitted to the parliament or congress, and is the report detailed enough to form the basis for an evaluation of the borrowing and other DeM activities?
- Does this report contain (a) an evaluation of how the DeM activities have complied with the government's DeM strategy, (b) the chosen DeM strategy and rationale behind it, and (c) an assessment of outcomes against the stated DeM strategy?
- Is the report made available publicly?

### DPI-5 Audit

#### Rationale and background

*Dimension 1.* Frequency and comprehensiveness of financial audits, compliance audits, and performance audits (of the effectiveness and efficiency of government DeM operations, including the internal control system and its effectiveness) as well as publication of the external audit reports

The rationale is to ensure that the DeM activities, policies, and operations are subject to scrutiny by the national audit bodies.

Accountability for government DeM is strengthened by introducing regular audits (both external and internal) of government DeM activities in relation to (a) reliability and integrity of financial and operational information; (b) effectiveness and efficiency of DeM operations, including compliance with the stated DeM objectives and strategy (if available); (c) effectiveness of the internal control system; and (d) compliance with laws and regulations.

Standards of external audit practice should be consistent with international standards, such as those set by the International Organization of Supreme Audit Institutions (INTOSAI). Transparency and the accountability framework for DeM can also be strengthened by public disclosure of external audit reviews of DeM operations.

Financial audits seek to assess the risk of material misstatement of public debt information disclosed in financial reports, whether due to error or fraud, to issue an opinion on the fairness of the public debt assertions.

Compliance audits would first identify the direct and materially significant provisions of laws and regulations, and then perform tests to determine whether DeM has been compliant with the legal provisions.

Performance audits are audits of the effectiveness and efficiency of the DeM operations. The effectiveness aspect involves checking the achievement of the stated objectives and the actual impact of activities compared with their intended impact. It also includes an examination of internal controls and management of operational risks. The efficiency aspect looks at the efficient use of resources, including examination of information systems as well as performance measures and monitoring arrangements. In performance audits, the auditors first identify materially important areas of DeM that can be examined, and then select specific areas where the audit is likely to add significant value in promoting effectiveness, efficiency, and economy.

Audits of the internal control system involve assessing whether the control system is properly designed to (a) provide reasonable assurance for the government to achieve its DeM objectives, and (b) prevent fraud within the organization. Internal control systems that prevent fraud involve, for example, organizing a DeM unit based on segregation of duties, having sound information technology (IT) security, and having a risk control and compliance unit that frequently monitors adherence to these internal rules.

Sound practice in this area suggests that the transparency of DeM operations is enhanced when the results of external audits are made available to the public.

#### *Dimension 2. Degree of commitment to address the outcomes from the audits*

The rationale is to ensure that the relevant government decision makers are committed to address the outcomes from the audits.

The goal of external and internal auditing is to promote accountability in debt contracting and management. Mechanisms should ensure the adoption of corrective measures according to audit reports and the appropriate responses from the relevant decision makers, to ensure that the outcomes from audits are addressed.

To assess requirements under this DPI, meetings should be held with representatives of both the supreme audit institution (SAI) (normally the auditor general) and the internal audit function covering government DeM activities (normally the internal audit function of the ministry of finance or its equivalent).

Dimensions to be assessed

The following dimensions should be assessed (table 6):

1. Frequency of financial audits, compliance audits, and performance audits (of the effectiveness and efficiency of government DeM operations, including the internal control system) as well as publication of the external audit reports
2. Degree of commitment to address the outcomes from the audits

**Table 6. Assessment and Scoring of DeM Audits**

Score	Requirements
A	<ol style="list-style-type: none"> <li>1. The requirements for score B are met. In addition, the external performance audit reports are made available to the public within six months of completion of the audit.</li> <li>2. The requirements for score B are met. All actions have been implemented within the time line.</li> </ol>
B	<ol style="list-style-type: none"> <li>1. The minimum requirement for score C is met. In addition, there are regular external performance audits as well as internal audits of the effectiveness of the internal control system used for the government DeM.</li> <li>2. The minimum requirement for score C is met. In addition, there is an action plan specifying corrective measures and a time line to address the recommendations. Some actions have been implemented.</li> </ol>
C	<ol style="list-style-type: none"> <li>1. An external financial audit of DeM transactions is undertaken annually. External compliance audits have been conducted in the past two years. Audit reports are publicly available within six months of completion of the audit.</li> <li>2. The relevant decision makers produce a management response to address the outcomes of the internal and external audits of government DeM activities.</li> </ol>
D	<ol style="list-style-type: none"> <li>1. The minimum requirement for score C is not met.</li> <li>2. The minimum requirement for score C is not met.</li> </ol>

### Supporting documentation

- A copy of audit legislation, which may be available on the government or SAI website
- A copy of any financial, compliance, and performance audits of DeM activities undertaken within the past five years
- A copy of any follow-up response to a performance audit, particularly to note the reaction and commitment to address the audit findings

### Indicative questions to ask

- Have any external financial audits been undertaken by the SAI on DeM activities? If so, when, what was the process, what were the findings, and how have they been addressed? Have these been publicly disclosed, and if yes, where?
- Have any external compliance audits been undertaken by the SAI on DeM activities? If so, when, what was the process, what were the findings, and how have they been addressed? Have these been publicly disclosed, and if yes, where?
- Have any external performance audits been undertaken by the SAI on DeM activities? If so, when, what was the process, what were the findings, and how have they been addressed? Have these been publicly disclosed, and if yes, where?
- Is there an internal audit function in the principal DeM entity or the ministry of finance? If so,
  - What are the mandate, roles, and responsibilities of this function?
  - What internal audits are undertaken, how frequently, and what is the basis of determining the audit program?
  - Have any internal audits been conducted on the effectiveness of the internal control system for debt management operations? If so, when, what was the process, what were the findings, and how have they been addressed?
- What is the government's commitment to address audit findings in the area of DeM?

## 3.2 Coordination with Macroeconomic Policies

IN THE BROAD POLICY FRAMEWORK, it is important that DeM be carried out in coordination with fiscal and monetary policy. Coordination is necessary to formulate DeM objectives and strategy within the context of the government's fiscal and monetary policy framework. The debt managers, fiscal policy advisers, and monetary policy authority (for example, the central bank) should share an understanding of the objectives of government DeM and fiscal and monetary policies.

Because of these interdependencies, it is important to understand how the policy instruments operate, how they can reinforce one another, and how policy tensions can arise. Clarity in the roles and objectives for government DeM and monetary policy can minimize potential conflicts. For example, the central bank may prefer that the government issue inflation-indexed bonds or borrow in foreign currency to bolster the credibility of monetary policy. The debt manager may believe that the market for such inflation-indexed debt has not been fully developed and that foreign currency debt introduces greater risk onto the government's balance sheet. Information on the government's liquidity needs (future and current), the medium- to long-term fiscal strategy, and the sustainability of debt should be shared.

### *DPI-6 Coordination with Fiscal Policy*

#### Rationale and background

*Dimension 1.* Supporting fiscal policy makers through the provision of accurate and timely forecasts on total central government debt service under different scenarios

The rationale is to ensure that reasonably reliable and timely forecasts on debt service are provided during the yearly budget preparation process.

For budget formulation and execution, total debt service forecasts under different scenarios should be prepared for the fiscal authorities. These forecasts should be conducted based on the macroeconomic forecasts covering all existing government debt and active guarantees and should be available to meet the deadlines set for the budget preparation. The principal DeM entity (or the relevant DeM entities) is responsible for providing the debt service projections in most countries. The quality of such forecasts is considered "reasonably reliable" when the difference between forecasted and actual debt service outturn is less than 10 percent over the past three years. In the event of unexpected shocks, larger deviations can be accepted but should be duly justified.

In addition to debt service forecasts based on baseline assumptions on exchange and interest rates, budget authorities should also receive alternative forecasts in case those variables deviate from their expected values. For these forecasts, two broad categories of stress tests should be used: sensitivity tests and scenario tests.

A sensitivity test provides the increase in debt servicing costs for a given change in a market variable (for example, 10 percent depreciation of the local currency). A scenario test could depict a bleak macroeconomic or market situation in which interest rates increase at the time the local currency depreciates (for instance, as a result of a prolonged and severe economic downturn). These tests may be used either separately or in conjunction with each other.

During the assessment, the meeting with the budget department (or equivalent) should check the reliability of the debt service forecasts,<sup>11</sup> and whether sensitivity and scenario tests were used.

*Dimension 2.* Availability of key macro variables, an analysis of debt sustainability, and the frequency with which it is undertaken

The rationale is to ensure that key macroeconomic variables are available and shared with the principal DeM entity (or DeM entities) and that debt sustainability analyses (DSAs) at the central government level are undertaken and shared with the principal DeM entity (or DeM entities). It is important for an effective analysis of the cost and risk of the debt portfolio. Both the projections of the key fiscal variables and the DSA are the responsibility of the fiscal authority.

Key macro variables typically include actual outcomes and forecasts of real, monetary, external, and fiscal variables that will allow users to assess the sustainability of the fiscal position and its sensitivity to changes in the economic environment.<sup>12</sup> The outlook on these variables defines the environment in which the debt managers operate and is essential for DeM strategy development.

The key fiscal variables normally include (a) the medium-term fiscal policy objectives and strategy; (b) total central government expenses, revenues, and debt level; and (c) the medium-term plan (three or more years) for total expenses and revenues.

Fiscal sustainability assessments offer critical information to the debt manager because the appropriate DeM strategy depends ultimately on the government's tolerance for risk. The extent of debt-related risk that a government is willing to take may vary over time, depending on the size of its debt portfolio and its perception regarding vulnerability to economic and financial shocks. In general, the larger the debt portfolio and the economy's vulnerability to macroeconomic and exogenous economic shocks, the larger the potential risk of loss from financial crisis or adverse developments.

A DSA is undertaken to assess the long-term (10–25 years) sustainability of the future debt path. To assess this, a DSA begins with a baseline trajectory for public

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<sup>11</sup> The team can ask for past data of three to five years for the estimated and actual debt service numbers to form an assessment whether the forecasts were reasonably reliable or not.

<sup>12</sup> The assumption regarding key macro variables should be coordinated between the budget forecasting process and debt servicing forecasts (in particular with foreign exchange and inflation rates, respectively, if there is foreign currency or inflation-indexed debt).

debt based on the assumptions underlying the macroeconomic framework. It then tests these baseline assumptions and analyzes how materialization of various risks would affect the public debt trajectory.<sup>13</sup>

It is important during the assessment to meet with officials from both the budget department and the macroeconomic unit to receive their views on the key fiscal variables.

Dimensions to be assessed

The following dimensions should be assessed (table 7):

1. Support of fiscal policy makers through the provision of accurate and timely forecasts on total central government debt service under different scenarios
2. Availability of key macro variables, an analysis of debt sustainability, and the frequency with which it is undertaken

**Table 7. Assessment and Scoring of Coordination with Fiscal Policy**

Score	Requirements
A	<ol style="list-style-type: none"> <li>1. The requirements for score B are met. In addition, the forecasts include scenario analysis, including worst-case scenarios.</li> <li>2. The requirements for score B are met. In addition, DSAs are undertaken or updated annually by the government.</li> </ol>
B	<ol style="list-style-type: none"> <li>1. The minimum requirement for score C is met. In addition, the forecasts include sensitivity analyses of the base case to interest and exchange rate shocks.</li> <li>2. The minimum requirements for score C are met. In addition, DSAs are undertaken by the government at least once every two years.</li> </ol>
C	<ol style="list-style-type: none"> <li>1. As part of the government’s annual budget preparation, reasonably reliable and timely forecasts are provided on total central government debt service.</li> <li>2. Key macro variables (actual outcomes and forecasts) and an analysis of the debt sustainability that has been undertaken by the government within the past three years are shared with the principal DeM entity (or DeM entities).</li> </ol>
D	<ol style="list-style-type: none"> <li>1. The minimum requirement for score C is not met.</li> <li>2. The minimum requirement for score C is not met.</li> </ol>

<sup>13</sup> A separate analysis is conducted to assess the sustainability of total external debt, which involves the evaluation of foreign exchange flows to timely meet the total external debt service obligations.

## Supporting documentation

- A copy of information shared between the principal DeM entity and the fiscal policy or budget authorities
- A copy of the most recent document detailing key fiscal variables (actual outcomes and forecasts)—such as central government revenues, expenditures, primary balance, and central government direct and guaranteed debt—and the analysis of debt sustainability that was shared with the debt management entities

## Indicative questions to ask

- Who is responsible for preparing forecasts of total central government debt and debt service? What assumptions are used in preparing these forecasts, and who is responsible for setting the assumptions? Do the forecasts include sensitivity analyses of the baseline to interest and exchange rate changes? Do the forecasts include scenario analyses, including forecasts for worst-case scenarios?
- What debt and other information is shared between the principal DeM entity (or DeM entities) and the fiscal or budget authorities? How frequently is this information shared?
- Does the government regularly prepare and update a document detailing key fiscal variables—actual outcomes and forecasts—(for example, revenues, expenditures, primary balance, and debt), undertake a DSA, or both? Is this document or analysis published and widely distributed? Are these shared with the principal DeM entity (or DeM entities)? If so, how were they used by the principal DeM entity (or DeM entities)?
- When was the DSA last conducted? Did it cover domestic or external debt or both? What entities or people were involved in conducting the DSA, and what were their respective roles and responsibilities? Did the government receive any external assistance? How was the output used?
- Did the result of the DSA inform fiscal or budgetary and debt policies? If so, in what manner?

## *DPI-7 Coordination with Monetary Policy*

### Rationale and background

*Dimension 1.* Clarity of separation between monetary policy operations and DeM transactions

The rationale is to ensure the clarity of separation between monetary policy operations and DeM transactions. Clarity and transparency regarding the objectives and accountabilities of monetary policy operations and government DeM are important—particularly when the central bank both implements monetary policy through open market operations and acts as an agent for the DeM entity or entities by issuing government securities in the same market.

If the central bank conducts DeM operations on behalf of the government, it has to ensure that these transactions are adequately separated from the monetary policy operations. In cases when no active monetary policy is conducted—because of currency board arrangements, for example—the dimension should be rated N/A whether the central bank conducts DeM operations or not.

If the central bank conducts DeM operations on behalf of the government, the instruments used for DeM should be separated from the monetary policy instruments. This separation can be easily observable in countries using different policy instruments, such as repurchase agreements for monetary policy and government securities for fiscal policy.

In case the same instrument is used—for example, T-bills issued for both fiscal and monetary policy purposes—the proceeds of the monetary policy T-bills should be sterilized and the amounts clearly separated in the reporting and accounting. Clear separation also requires that the decision on the amount to borrow in the form of fiscal T-bills be made by the ministry of finance or the DeM entity.<sup>14</sup>

Adequate policy separation also requires that DeM decisions not be perceived as influenced by inside information on interest rate decisions at the central bank, and the central bank must aim to avoid perceptions of conflict of interest in market operations. Preferably, insofar as the central bank acts as a DeM agent, this agency relationship between the central bank and the central government should be specified in an agency agreement.

During the assessment, it is important to meet with officials from both the central bank and the principal DeM entity (or DeM entities) and to understand their perspectives on the level and effectiveness of coordination. The assessors should also meet with market participants to ascertain whether they are informed as to whether the transactions in the domestic market are made to meet monetary policy objectives or for DeM purposes.

*Dimension 2.* Coordination with the central bank through regular information sharing on current and future debt transactions and the central government's cash flows

The rationale is to ensure the coordination of DeM with monetary policy implementation through information sharing on current and future debt transactions and the government's cash flows.

To facilitate monetary policy implementation, the central government should regularly inform the central bank about its current and future debt transactions and cash flows. Because of the size of these flows, the central bank needs to analyze

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<sup>14</sup> A few countries issue government securities with the sole purpose of developing or maintaining a market for government securities in the absence of borrowing requirements. Since the government doesn't spend the proceeds of the auctions, the issuance of government securities has a monetary effect. In this case, separation of monetary policy and debt management is assessed by the clarity and transparency of the decision-making process for issuance of securities and how transactions are initiated and communicated to the market.

and prepare for their impact on the money supply. It will be useful to obtain examples of information that is provided between the DeM entities and the central bank as well as to know the frequency or regularity of this information sharing. Examples should include how the DeM entities inform the central bank about the central government's current and future cash flows.

In case of some kind of currency board arrangement or monetary union, the central bank's view on its need for cash flow forecasts from the government is essential. Should the central bank be of the opinion that it does not need any government cash flow forecasts, the dimension should be rated N/A. However, in some currency board arrangements the government deposits surplus funds in the central bank. The drawdown of these funds could have effects on the banking sector liquidity that the bank needs to offset. In such cases the central bank could require cash flow forecasts from the government, and this dimension should be rated.

*Dimension 3.* Extent of the limit of direct access to financial resources from the central bank

The rationale is to limit monetary financing of government deficits through the central government's direct borrowing from the central bank.

Whenever possible, the central government should avoid direct borrowing from the central bank unless under exceptional circumstances<sup>15</sup> and otherwise should be legally restricted in both amount and tenors. Monetary financing of government deficits imposes undesirable constraints on monetary policy operations by increasing the money supply. In addition, if substantial amounts are borrowed from the central bank, less is borrowed in the domestic market by issuance of government securities, which will have a detrimental effect on the domestic debt market development.

Limits on government access to credit from the central banks—whether defined in terms of outstanding debt or new borrowing—must be adhered to in order to qualify for a score of C.<sup>16</sup>

Dimensions to be assessed

The following dimensions should be assessed (table 8):

1. Clarity of separation between monetary policy operations and DeM transactions
2. Coordination through regular information sharing on current and future debt transactions and the central government's cash flows with the central bank
3. Extent of the limit to direct access of financial resources from the central bank

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<sup>15</sup> These circumstances relate to financial emergencies triggered by, among other causes, episodes of financial distress, market panics, and liquidity squeeze.

<sup>16</sup> Special bonds issued by governments for conversion of short-term central bank borrowing into medium- or long-term liabilities should be included in the calculation of legal limits. However, central bank purchases of government securities in the secondary market for monetary policy purposes should not be included in the calculation of such limits.

**Table 8. Assessment and Scoring of Coordination with Monetary Policy**

Score	Requirements
A	<ol style="list-style-type: none"> <li>1. The requirements for score B are met. In addition, the agency responsibilities of the central bank in government DeM are publicly disclosed.</li> <li>2. The requirements for score B are met. In addition, there is daily information sharing with the central bank on current and future debt transactions and the central government's cash flows.</li> <li>3. Direct access to financing from the central bank is, by law, prohibited or limited to emergency situations in which other funding operations are not viable, and, when used, the tenor is limited to two weeks.</li> </ol>
B	<ol style="list-style-type: none"> <li>1. The minimum requirement for score C is met. In addition, the agency relationship between the central bank and the central government is specified in a formal agreement or agreements.</li> <li>2. The minimum requirement for score C is met. In addition, there is information sharing with the central bank at least weekly on current and future debt transactions and the central government's cash flows.</li> <li>3. The minimum requirement for score C is met. In addition, access to financing from the central bank is, by law, limited to a tenor of not more than three months.</li> </ol>
C	<ol style="list-style-type: none"> <li>1. Insofar as the central bank carries out DeM transactions as an agent of the central government, monetary policy operations are kept formally separate from DeM transactions. The central bank keeps the government and the market informed when transactions are undertaken for monetary policy purposes and when it transacts in the market as an agent on behalf of the central government.</li> <li>2. When relevant for monetary policy implementation, there is at least monthly information sharing on current and future debt transactions and central government cash flows with the central bank.</li> <li>3. Access to financing from the central bank has a ceiling limit imposed by legislation.</li> </ol>
D	<ol style="list-style-type: none"> <li>1. The minimum requirement for score C is not met.</li> <li>2. The minimum requirement for score C is not met.</li> <li>3. The minimum requirement for score C is not met.</li> </ol>

Supporting documentation

- A copy of information shared between the principal DeM entity (or DeM entities) and the central bank
- A copy of the central bank act to check the government's level of access to the resources from the bank
- A copy of the agency agreement between the government and the central bank to ascertain the central bank's expected role on behalf of the government

Indicative questions to ask

- What debt and other information is shared between the principal DeM entity (or DeM entities) and the central bank? How frequently is this information exchanged? Is a formal mechanism in place for information sharing?
- Is the relationship between the central government and the central bank specified in an agency agreement or agreements? Is this a documented

- and approved agreement? Are the responsibilities of the central bank as a government DeM agent publicly disclosed? Has it been adhered to in the past? Does the central bank maintain government DeM transactions separate from transactions for monetary policy purposes? If so, how does the central bank achieve this, and what instruments does it use? What are the de facto and de jure positions?
- Who is responsible for preparing cash flow forecasts? How frequently are these forecasts prepared, and what time period do they cover?
  - Is there a mechanism in place, such as a cash management committee, to review the cash flow forecasts and, if necessary, set expenditure or disbursement constraints or both?
  - Does the government have an overdraft or ways and means facility with the central bank? If so,
    - Is there a ceiling imposed by legislation, and what is the ceiling?
    - Does the legislation impose a tenor on the duration of this facility, and what is the tenor?
    - Has the government used the facility, and if so, how often, for what amounts, and for what tenors?
    - When does the facility have to be reduced to a zero balance?

## 3.3 Borrowing and Related Financing Activities

### *DPI-8 Domestic Borrowing*

#### Rationale and background

*Dimension 1.* The extent to which market-based mechanisms are used to issue debt; the preparation of an annual plan for the aggregate amount of borrowing in the domestic market, divided between the wholesale and retail markets; and the publication of a borrowing calendar for wholesale securities

The rationale is to ensure that domestic borrowing activities of the central government are conducted through market-based instruments and that the borrowing is undertaken in a transparent and predictable manner. The indicator includes all domestic borrowing (defined by jurisdiction) with the exception of borrowing from the central bank.

Domestic capital markets are important to obtain stable funding sources for both public and private sectors and to allow liabilities to be more closely matched to the revenues that will service them. In addition, well-developed domestic markets enhance the efficiency and stability of financial intermediation, provide a broader range of assets, and facilitate better risk management.

The following mechanisms are used by governments to issue in the domestic market:

- *Auctions*, in which the government receives bids from registered bidders or from primary dealers with whom the price of the securities is determined on either a multiple-price or a uniform-price basis
- *Syndication*, in which the government appoints a group of institutions that, for a negotiated fee, will subscribe to its bond issues and then sell them to other retail or institutional investors
- *Tap issuance*, in which the government announces the availability of a certain amount of securities to be sold and bids are received during a specified period—such sales to be set at a fixed price or at a minimum price that can be changed, depending on demand conditions
- *Retail issuance*, in which the government sets the price or yield for the securities and sells the securities in small amounts or denominations to retail investors through a program, either directly or through commercial banks, the central bank, or both, as agents

Domestic debt issuance should use market-based mechanisms. A market-based mechanism involves competition among the buyers of the securities, including securities where the interest rate is set with reference to a market-based rate. Borrowing through direct bank credits should also be market-based, that is, conducted through open procurement or other mechanisms ensuring a market-based

interest rate on the credit. Also, debt issued to retail investors should be at market-based rates.<sup>17</sup>

To be predictable and transparent, government should prepare an annual plan of aggregate amount of domestic borrowing. The plan—based on the annual budget cash flow forecasts—should be made public. The overall borrowing plan should preferably be broken down on a monthly basis in an internal document based on monthly cash flow forecasts. The government should prepare the market for the issuance by publishing a borrowing calendar in advance for wholesale instruments (excluding T-bills issued for monetary policy purposes). Ideally, the borrowing calendar should contain dates, instruments, and indicative amounts to borrow for each instrument (on a maturity basis) for the coming quarter.

*Dimension 2.* The availability and quality of documented procedures for borrowing in the domestic market and interactions with market participants

The rationale is to ensure that written procedures are prepared for all domestic borrowing operations, that the terms and conditions of the instruments issued are made public, and that regular interaction with the market participants takes place.

The procedures should include all steps in the borrowing process. When auctions are used, the procedures should cover announcement of the auction, bidding time period (opening time and closing time), processing of bids, approval of auction cut-off interest rate, announcement to successful bidders and the market, and settlement of the auction. Auction procedures often will be documented in an information memorandum (or prospectus) or operating procedures that are made available to market participants. If primary dealers are used, it is important that the incentives and obligations, as well as the eligibility criteria, be well defined and disclosed.

Regular meetings should be held with the market participants to exchange views on the direction of the borrowing program as well as on the domestic debt market development.

The documented borrowing procedures must be followed by the government debt managers. If that is not the case, the following indicators should be read as if the borrowing procedures were not in place.

Dimensions to be assessed

The following dimensions should be assessed (table 9):

1. The extent to which market-based mechanisms are used to issue debt; the preparation of an annual plan for the aggregate amount of borrowing in the

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<sup>17</sup> In cases where the government issues the retail instruments to achieve social protection objectives by offering higher yields on these instruments than is necessary to meet the borrowing requirements, the savings placed with these instruments are generally not those of the most vulnerable sectors of the community but instead of those sufficiently prosperous to maintain substantial deposits.

**Table 9. Assessment and Scoring of Domestic Borrowing**

Score	Requirements
A	<ol style="list-style-type: none"> <li>1. The requirements for score B are met. In addition, the borrowing calendar for wholesale securities is extended to at least three months.</li> <li>2. The requirements for score B are met. In addition, the DeM entity meets the market participants at least quarterly to exchange views on borrowing plans and the domestic market.</li> </ol>
B	<ol style="list-style-type: none"> <li>1. The minimum requirement for score C is met. In addition, the borrowing calendar for wholesale securities includes indicative borrowing amounts. The issuance result is also publicly disclosed on the day of the issuance at the same time to all participants.</li> <li>2. The minimum requirement for score C is met. In addition, the DeM entity meets regularly with market participants at least annually to exchange views on borrowing plans and the domestic market.</li> </ol>
C	<ol style="list-style-type: none"> <li>1. The central government raises funds domestically using market-based instruments to fund the projected borrowing requirement. An annual borrowing plan for the projected aggregate amount of domestic borrowing—divided between the wholesale and retail markets and other sources—is prepared. In addition, a borrowing calendar that contains issue dates and instruments for wholesale securities for the following month is prepared and published at least one week ahead of the start of the month.</li> <li>2. Borrowing procedures for all domestic borrowing as well as terms and conditions and criteria for access to the primary wholesale market and retail market are provided in print media or on the central government or the central bank web sites.</li> </ol>
D	<ol style="list-style-type: none"> <li>1. The minimum requirement for score C is not met.</li> <li>2. The minimum requirement for score C is not met.</li> </ol>

- domestic market, divided between the wholesale and retail markets; and the publication of a borrowing calendar for wholesale securities
2. The availability and quality of documented procedures for borrowing in the domestic market and interactions with market participants

Supporting documentation

- A copy of the information memorandum or prospectus for each instrument
- A copy of the operating procedures for investors or participants in the primary market
- A copy of annual borrowing
- A copy of the issuance program for T-bills and T-bonds announced by the principal DeM entity, the DeM entity responsible for the domestic wholesale borrowing, or the central bank
- A copy of the agenda of the most recent meeting with market participants
- A copy of operating procedures for other domestic instruments such as direct back credit, if used

Indicative questions to ask

- Which instruments are issued by the government in the domestic market, and which techniques are used to issue each instrument?

- When does the government announce the domestic borrowing plan, and what information is provided? How frequently is this information updated during the fiscal year?
- What are the processes, institution or staff roles and responsibilities, and timetable for conducting auctions of T-bills and T-bonds with regard to
  - announcement of the auction;
  - bidding time period (opening time and closing time);
  - processing of bids;
  - approval of auction cutoff;
  - announcement to successful bidders and the market; and
  - settlement of the auction?
- What are the processes, institution or staff roles and responsibilities, and timetable for issuing T-bills and T-bonds on tap issue or syndication, if these methods are used?
- How are retail instruments issued?
- Is there an information memorandum or prospectus for each government instrument? Is it published, or is a soft copy available on the government or central bank website? What is the content of the information memorandum or prospectus?
- Are there operating procedures or guidelines for the issuance of each government instrument? Are these published, or is a soft copy available on the government or central bank website? What is the content of the operating procedures?
- How often are meetings with market participants held? Who are invited, and what topics are discussed at these meetings?
- How is the interest rate determined if the direct bank credit is used?

### *DPI-9 External Borrowing*

Rationale and background

*Dimension 1.* Documented assessment of the most beneficial or cost-effective borrowing terms and conditions (lender or source of funds, currency, interest rate, and maturity) and a borrowing plan

The rationale is to ensure that the external borrowing operations are carefully planned and subject to a thorough analysis of the expected terms and conditions from all potential creditors and markets.

For many developing countries, borrowing from foreign or external sources is primarily from multilateral and bilateral sources. Countries are eligible for funding on either concessional or market-based interest rates, depending on their respective borrowing status. The primary tasks of the principal DeM entity (or the DeM entity responsible for external borrowing) are (a) to liaise with the government entity responsible for formulating the project, in cases where the loan is tied

to a specific project; (b) to identify the creditor that can offer the most beneficial or cost-effective terms and conditions for the external borrowing; (c) to negotiate the terms and conditions of the loan with that creditor (including currency, maturity, interest rate, and fees); and (d) to finalize all loan documentation. During the disbursement period of the loan, coordination with each creditor must occur to ensure that disbursements are completed in accordance with the loan terms and conditions. Because DeM strategies that rely excessively on foreign currency debt can have high risk, it is important that the principal DeM entity (or DeM entities) responsible for external borrowings carefully assess and manage the risks associated with foreign currency debt.

A fundamental requirement in the external borrowing process is to ensure that all potential external creditors and markets (including international bond borrowing) are identified, with their respective financial terms and conditions offered by creditors and investors to the specific debtor. The DeM entity should actively approach the creditors offering the best terms and conditions. A borrowing plan with expected disbursements of external borrowing should be developed. The borrowing plan will have its focus on the coming year, but the following years will also be included because external project financing normally includes disbursements over a period of years.

The creditor analysis and the borrowing plan will be subject to changes during the course of the year due to changes in the creditor offerings, the credit status, and the changes in the external borrowing requirement.

The terms and conditions of the loans should be subject to a financial analysis that goes beyond only concessionality analysis. The focus should be to get the lowest possible borrowing costs, including grants and technical assistance, within the guidelines of the DeM strategy in terms of currency, maturity, and fixed or floating rate composition. For commercially viable projects, the total return of the projects, including financing costs, should be calculated. For these projects the role of the debt manager is to provide full information on financing costs to those in government responsible for undertaking the analysis and appraisal of public expenditure and investment. This would facilitate the calculation of the yield or net present value (NPV) for the total project including the financing. The rationale is that the government should seek to invest as profitably as possible. A project with high direct return can also service a relatively costly financing source. Thus, the standard techniques for investment evaluation, including the expected revenues and costs for the investment as well as the financing costs, should be applied.

#### *Dimension 2. Availability and quality of documented procedures for external borrowings*

The rationale is to ensure that borrowing activities from external sources are well documented, covering all creditors and market-based funding sources.

At a minimum, the documented procedures should identify the organizational entities and the key functions within them (for example, front office, middle office, and back office) that undertake the main processes, as described above, when mobilizing external sources of financing. The procedures should describe in detail the steps taken in all the processes, including which entities participate in loan negotiations, the financial analysis undertaken, and recording of the transactions. The financial analysis should include interest rates including fees, currency, and concessionality of the loans as well as penalty fees and other charges, the disbursement and maturity profile, and impact on the existing debt service profile. Reading through the procedures, the DeMPA reviewer should be able to get a clear understanding of the processes and their soundness.

*Dimension 3. Availability and degree of involvement of legal advisers before signing of the loan contract*

The rationale is to ensure that sound legal features are included in the loan agreements.

It is important for debt managers to receive appropriate legal advice and to ensure that the transactions they undertake are backed by sound legal documentation. In doing so, debt managers can help governments clarify their rights and obligations and protect their position to the greatest degree possible in the relevant jurisdictions. Several issues deserve particular attention, including (a) the design of provisions of debt instruments, such as clear definitions of default events, especially if such events extend beyond payment defaults on the relevant obligations (for example, cross-defaults and cross-accelerations); (b) the breadth of a negative pledge clause; (c) the use of *pari passu* clauses; (d) inclusion of collective action clauses; and (e) the scope of the waiver of sovereign immunity. Disclosure obligations in the relevant markets must be analyzed in detail because they can vary from one market to another.

Evidence of consultation with legal advisors—for example, recommendations on changes in clauses submitted at various stages of the negotiation process—should be available.

Dimensions to be assessed

The following dimensions should be assessed (table 10):

1. Documented assessment of the most beneficial or cost-effective borrowing terms and conditions (lender or source of funds, currency, interest rate, and maturity) and a borrowing plan
2. Availability and quality of documented procedures for external borrowings
3. Availability and degree of involvement of legal advisers before signing of the loan contract

**Table 10. Assessment and Scoring of External Borrowing**

Score	Requirements
A	<ol style="list-style-type: none"> <li>1. The requirements for score B are met. In addition, assessments of the most beneficial or cost-effective terms and conditions for external borrowing that are obtainable from potential creditors and markets are undertaken before the start of each loan negotiation.</li> <li>2. The requirements for score B are met. In addition, the procedures for all external borrowings are reviewed and updated annually.</li> <li>3. The requirements for score B are met. In addition, legal advisers are consulted from the first stage of the negotiating process to the conclusion of the legal agreements related to the borrowing.</li> </ol>
B	<ol style="list-style-type: none"> <li>1. The minimum requirement for score C is met. In addition, the borrowing plan and assessment of the most beneficial or cost-effective terms and conditions for external borrowing are updated as changes in the borrowing conditions or requirements become apparent during the year.</li> <li>2. The minimum requirement for score C is met. In addition, the procedures for all external borrowing are formally reviewed at least every second year.</li> <li>3. The minimum requirement for score C is met. In addition, legal advisers are consulted during the negotiating process.</li> </ol>
C	<ol style="list-style-type: none"> <li>1. A yearly borrowing plan for external borrowing is prepared and assessments of the most beneficial or cost-effective terms and conditions for external borrowing that are obtainable from potential creditors and markets are conducted annually.</li> <li>2. Adequate and readily accessible internal documented procedures exist for all external borrowings, including from international capital markets, and contain the requirement to enter all financial terms of the loan transaction into the debt recording system within three weeks of signing.</li> <li>3. Legal advisers approve all clauses of the legal agreements before concluding the negotiation process.</li> </ol>
D	<ol style="list-style-type: none"> <li>1. The minimum requirement for score C is not met.</li> <li>2. The minimum requirement for score C is not met.</li> <li>3. The minimum requirement for score C is not met.</li> </ol>

Supporting documentation

- A copy of the documented procedures for external borrowing
- A copy of the most recent analysis of the most beneficial and cost-effective terms and conditions
- Documentation of the involvement of legal advisors (for example, recommendations on changes to clauses submitted at various stages of the negotiation process)

Indicative questions to ask

- Which instruments are issued by the government in the external markets, and which issuance mechanisms are used?
- What is the basis for choosing to issue or borrow from multilateral, bilateral, and commercial sources? How are the terms and conditions set for each loan, and what scope is there to negotiate these terms and conditions?

- What is the decision-making and approval process to contract or issue each external debt instrument?
- What are the processes, institution or staff roles and responsibilities, and timetable for contracting or issuing each external debt instrument?
- When are legal advisers involved in the contracting of new loans? What is their involvement and role?
- Are technical evaluations carried out for new borrowing proposals to analyze their all-in cost as well as their effect on the currency composition, interest rate structure, and maturity profile of the overall loan portfolio?
- Are there documented procedures for borrowing in foreign markets? What is the content of the documented procedures?
- Does an internal borrowing plan for external borrowing exist? How often is it revised?

### *DPI-10 Loan Guarantees, On-lending, and Derivatives*

#### Rationale and background

*Dimension 1.* Availability and quality of documented policies and procedures for approval and issuance of central government loan guarantees

The rationale is to ensure that the government has documented policies for the approval and issuance of loan guarantees and, for the higher scores, that these procedures include (a) a requirement to assess the credit risk embedded in any loan guarantee before the decision has been made to issue the guarantee, and (b) a requirement to monitor this risk during the life of the loan guarantee.

Loan guarantees represent potential financial claims against the government that have not yet materialized but could trigger a financial obligation under certain circumstances (contingent liability). To cover this risk, the government should charge a guarantee fee based on a thorough credit risk assessment. If it does not, the government is subsidizing the beneficiary of the loan guarantee. The establishment of a contingency fund (to protect the budget in the case a guarantee is called) is desirable if the government has little fiscal space to accommodate such risks.

Operational guidelines for approval and issuance of loan guarantees should be in place. These guidelines should provide details of how the credit risk should be assessed, together with measures to minimize the budget effect of a default or trigger event. This risk assessment should occur before the decision has been made to support a certain activity by the use of loan guarantees.

At a minimum, the procedures for approval and issuance of loan guarantees should include (a) the purposes of the guarantees, (b) the decision-making process, and (c) rules for debt database entry and accounting. The procedures should be updated regularly and be approved by senior management in the ministry of finance. For the higher scores, the procedure should contain the

requirements for credit risk assessment and analysis of the financial impact if the guarantee is called.

Reading through the procedures, the DeMPA reviewer should be able to get a clear understanding of the processes and their soundness.

It is common that the principal guarantee entity be given the responsibility to assess the credit risk and keep records of all outstanding loan guarantees, normally in the debt recording and management system.

*Dimension 2. Availability and quality of documented policies and procedures for approval and issuance of central government on-lending*

The rationale is to ensure that the government has documented policies and procedures for on-lending of borrowed funds (domestic or external).

Governments often support public investment programs, regional business developments, as well as the business needs of state-owned enterprises through direct government lending or on-lending of borrowed funds. Such on-lending instruments are expected to provide an adequate supply of credit for the legitimate business or investment needs of the beneficiary, as defined by the respective government policy. The government is also expected to price that credit reasonably in line with competitively determined market interest rates.

Government on-lending is also often a substitute for guaranteeing loans that are raised directly by the beneficiary. Thus, for the higher scores, these procedures should include (a) a requirement to assess the credit risk before the decision has been made to on-lend these funds, and (b) a requirement to monitor this risk during the life of the on-lending. To cover the credit risk, the government should add a charge on the interest rate based on a proper credit risk assessment. If not, the government is subsidizing the borrower of these funds.

As in the liability management process, government assets used for lending purposes require regular monitoring. Such monitoring should include regular assessments of the repayment capacity of the loan beneficiary, risks of misguided spending, or an unexpected economic downturn.

The monitoring process would involve a detailed analysis of the documentation and collateral for the largest loans, a review of a sample of small loans, and an evaluation of loan policies to ensure they are sound and prudent to protect the public's funds.

At a minimum, the procedures for approval and issuance of on-lending contracts should include (a) the purposes of the on-lending, (b) the decision-making process, and (c) rules for on-lending database entry and accounting. The procedures should be updated regularly and be approved by senior management in the ministry of finance. For the higher scores, the procedure should contain requirements for credit risk assessment and analysis of the financial impact if the on-lending beneficiary fails to repay the loan.

*Dimension 3.* Availability of a DeM system with functionalities for handling derivatives and availability and quality of documented procedures for the use of derivatives

The rationale is to ensure that the government has a debt recording and management system with proper functionalities for handling financial derivatives; that documented procedures are in place for the use of derivatives; and, for the higher scores, there are (a) rules in place for managing the counterparty exposure risk, and (b) a separate risk monitoring and compliance unit to monitor all risks connected with the derivatives.

Derivatives used as hedging instruments (for example, swaps, caps, and futures) normally entail market and credit risks as well as substantial operational risks. It is essential that these instruments be transacted within a clear risk management framework, be backed by sound legal documentation, and that systems be in place for proper recording and accounting of these transactions.

The procedures for the use of derivative transactions should include (a) the purposes of derivative transactions, (b) a clear decision-making process, (c) rules for debt database entry and accounting, and (d) involvement of legal advisers from the first stage of the negotiating process to conclusion of the legal agreements with the counterparty. For the higher scores, the procedures should contain the requirement of managing the counterparty exposure risk.

History has shown that derivatives can create significant risks if not properly handled and that it is necessary to have a system in place for proper recording and accounting of derivative transactions.

Embedded options in certain loan agreements—such as options to change a floating interest rate to a fixed interest rate, to cap a floating interest rate, to change the original borrowing currency to another currency, and to prepay a loan before the final maturity date—are not considered derivative transactions in the DeMMPA tool.

Dimensions to be assessed

The following dimensions should be assessed (table 11):

1. Availability and quality of documented policies and procedures for approval and issuance of central government loan guarantees
2. Availability and quality of documented policies and procedures for on-lending of borrowed funds
3. Availability of a DeM system with functionalities for handling derivatives, and availability and quality of documented procedures for the use of derivatives

**Table 11. Assessment and Scoring of Loan Guarantees and Derivatives**

Score	Requirements
A	<ol style="list-style-type: none"> <li>1. The requirements for score B are met. In addition, these procedures contain a requirement to calculate and charge a guarantee fee covering the credit risk, as well as a requirement for the guarantee entity to monitor the risk during the life of the loan guarantee.</li> <li>2. The requirements for score B are met. In addition, these policies and procedures contain a requirement to calculate a charge covering the credit risk, as well as a requirement for the crediting entity to monitor the risks during the life of the credit.</li> <li>3. The requirements for score B are met. In addition, the counterparty credit risk is quantified and managed throughout the life of the transaction.</li> </ol>
B	<ol style="list-style-type: none"> <li>1. The minimum requirement for score C is met. In addition, these procedures contain a requirement to assess the credit risk before a decision is made to issue a loan guarantee, as well as guidelines on how this assessment would be conducted.</li> <li>2. The minimum requirement for score C is met. In addition, these procedures contain a requirement to assess the credit risks before a decision is made to support a certain activity by credits, as well as guidelines on how this assessment would be conducted.</li> <li>3. The minimum requirement for score C is met. In addition, the documented procedures include rules specifying that all risks connected with the derivatives be monitored by a separate unit responsible for risk monitoring and compliance.</li> </ol>
C	<ol style="list-style-type: none"> <li>1. There are adequate and readily accessible internal documented procedures for the approval, issuance, and monitoring of loan guarantees.</li> <li>2. There are adequate and readily accessible internal documented procedures for the approval and provision of credits, in the form of on-lending from external or domestic borrowing sources.</li> <li>3. There is a DeM system with functionalities for handling derivatives. In addition, there are adequate and readily accessible internal documented procedures for the use of derivative transactions.</li> </ol>
D	<ol style="list-style-type: none"> <li>1. The minimum requirement for score C is not met.</li> <li>2. The minimum requirement for score C is not met.</li> </ol>

Supporting documentation

- A copy of the operational procedures for issuing loan guarantees including the method for calculating guarantee fees, the method for monitoring risks related to guarantees, and guidelines to analyze and potentially quantify risks related to guarantees
- A copy of the operational guidelines for government on-lending, including the method for calculating on-lending fees
- A copy of the risk management framework, policies and procedures, and master derivatives agreement for transacting and managing financial derivatives

Indicative questions to ask

- Does the government provide loan guarantees? If so,
  - Who is responsible for approving and signing loan guarantees?
  - Who is responsible for assessing the credit risks before the approval of any loan guarantees?

- Which risk mitigation tools does the government apply (for example, guarantee fees, guarantee limits, reporting, budget allocations, contingency accounts, covenants, and so on)?
- Who is responsible for monitoring the risk related to loan guarantees, particularly credit risk?
- Does the government charge a guarantee fee? If so, from whom (for example, sponsoring ministry or guarantee beneficiary)? How is this fee calculated, and who is responsible for calculating and administering the guarantee fee?
- Does the government appropriate for risks in the budget? If so, are these budget allocations transferred to a contingency account?
- Does the government provide on-lending? If so,
  - Who is responsible for approving and signing the on-lending agreements?
  - Who is responsible for assessing the credit risks before the approval of any government on-lending agreements?
  - Who is responsible for monitoring the risk of government on-lending, particularly credit risk?
  - Does the government charge the borrower for the credit risk? If so, how is the charge calculated, and who is responsible for calculating and administering this charge?
- Does the government enter into derivative transactions? If so,
  - Who is responsible for negotiating, approving, and undertaking derivative transactions?
  - Who is responsible for assessing and monitoring the risk of these transactions?
  - Is there a debt recording and management system for handling the derivatives?
  - Are there documented procedures for the use of derivatives? What is the content of the documented procedures?
  - When are legal advisers involved in the negotiating process of concluding the legal agreements with the derivatives counterparty? What is their involvement and role, and how much value or experience do they provide?
  - Who is responsible for entering derivative transactions into the debt recording or management system? Which data source is used? Who validates the data?
  - Who is responsible for accounting of derivatives, and which accounting rules are applied?
  - Are limits imposed on the counterparty exposure risks? If so, what is the basis for setting the limits?

## 3.4 Cash Flow Forecasting and Cash Balance Management

### *DPI-11 Cash Flow Forecasting and Cash Balance Management*

#### Rationale and background

*Dimension 1.* Effectiveness of forecasting the aggregate level of cash balances in government bank accounts

The rationale is to ensure that reasonably reliable forecasts of the central government cash balance are produced and available to the principal DeM entity (or DeM entities). Some of the forecast information, such as debt servicing, will be produced by the DeM entity, while other information, such as revenues forecast, may be provided to the DeM entity by the relevant government authority.

It is a common procedure for government line ministries (or the equivalent) to prepare monthly forecasts of the budget provision, which are used for allocating funds or providing expenditure warrants on a monthly basis. These forecasts do not take into account the timing of expenditures and collection of revenues into the government bank account(s). For example, the revenue collection process can have a delay before the funds are received by the government. To obtain reliable forecasts of the aggregated central government cash balance, it is necessary to determine the relationship between budget cash management forecasts (normally monthly) and the impact on the central government cash balance.

The principal DeM entity (or DeM entities) requires information on the aggregate level of overnight cash balances for borrowing planning, particularly for short-term instruments, and to ensure that the cash balance is in accordance with the level or range set by the government policy. The debt manager therefore requires accurate and timely forecasts of central government cash flows and the end-of-day account balances. To reduce the negative cost of carry, the government should aim at borrowing only when the funds are needed.

To assess whether the forecasts are reasonably reliable, a comparison with the actual outcomes must be undertaken. The following can be used as a guide to determine “reasonably reliable forecasts”:

- Forecasts of end-of-day cash balances should be obtained from line ministries and government agencies that cover at least 80 percent of expenditures and revenues.
- Comparisons of actual outcomes against forecast are undertaken at least monthly to identify the variance<sup>18</sup> and are used to improve the forecasting system.

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<sup>18</sup> A reasonably reliable forecast would be within 10–15 percent of actual outcome.

- The number of instances in the past 12 months when the aggregate cash balance has fallen below a minimum balance (for example, requiring a call on the overdraft or ways and means advance) or generated excess funds that were not anticipated and therefore could not be invested can be used as a measure to assess reliability of the forecasts.

*Dimension 2.* Decision of a proper cash balance (liquidity buffer) and effectiveness of managing this cash balance in government bank accounts (including the integration with any domestic debt borrowing program, if required)

The rationale is to ensure that the cash balance is actively managed and short-term issuances are planned according to the cash balance forecast.

It is important that the government cash balance target be set at a point that provides sufficient protection against periods of market instability and that actions be taken to keep the cash balance at this level. Excessive cash will increase the negative cost of carry (borrowing cost is higher than the risk-adjusted yield on investments), and a cash balance below the determined level will increase the vulnerability of the government. Normally the principal DeM entity is in charge of cash balance management.

If there is an excess pool of liquidity, it will be available for investment or early repayment (prepayment) of a loan and, in case of outstanding debt securities, for buyback of domestic debt through transactions such as entering into reverse repurchase agreements or the buyback of T-bills.<sup>19</sup> Once any excess cash is invested in the market, the credit risk must be managed. If the level of the cash balance is temporarily below the determined threshold, the government should increase its liquidity buffer by borrowing short, such as using a revolving credit facility, or issuing short-dated debt securities.

Another key requirement is the extent to which the management of the aggregate level of cash balances in government bank accounts is integrated with DeM activities such as issuing or buying back of T-bills or entering into repurchase or reverse repurchase agreements.

Dimensions to be assessed

The following dimensions should be assessed (table 12):

1. Effectiveness of forecasting the aggregate level of cash balances in government bank accounts
2. Decision of an appropriate cash balance (liquidity buffer) and effectiveness of managing this cash balance in government bank accounts (including the integration with any domestic debt borrowing program, if required)

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<sup>19</sup> These transactions will reduce the negative cost of carry.

**Table 12. Assessment and Scoring of Cash Flow Forecasting and Cash Balance Management**

Score	Requirements
A	<ol style="list-style-type: none"> <li>1. The requirements for score B are met. In addition, the cash flow forecast for the coming month is broken down on daily basis.</li> <li>2. The requirements for score B are met. In addition, the central government undertakes transactions (such as the issuance and buyback of T-bills or entering into repurchase or reverse repurchase agreements) daily to ensure that the float is in accordance with the level or range set by government policy.</li> </ol>
B	<ol style="list-style-type: none"> <li>1. The minimum requirement for score C is met. In addition, the cash flow forecast for the coming month is broken down on weekly basis.</li> <li>2. The minimum requirement for score C is met. In addition, the central government undertakes transactions (such as issuance or buyback of T-bills) weekly to maintain the cash balance target set by the government.</li> </ol>
C	<ol style="list-style-type: none"> <li>1. Reasonably reliable monthly aggregate forecasts of cash inflows and outflows and cash balances on central government bank accounts are produced for the budget year and are made available to the DeM entity. In addition, the cash balance forecast is updated monthly.</li> <li>2. Issuance of short-term instruments is planned according to the forecast of monthly cash balances. In addition, the central government manages its surplus cash (that is, cash in excess of the target) through investment in the market in line with appropriate credit risk limits or with the central bank at market-related rates.</li> </ol>
D	<ol style="list-style-type: none"> <li>1. The minimum requirement for score C is not met.</li> <li>2. The minimum requirement for score C is not met.</li> </ol>

#### Supporting documentation

- Evidence of aggregate daily cash balances in central government bank accounts
- Examples of forecasts of government cash flows
- Examples of forecasts of the aggregate level of overnight cash balances in central government bank accounts

#### Indicative questions to ask

- Who is responsible for forecasting government cash flows and aggregate cash balances? How accurate are the forecasts? How often are forecasts prepared, and for what period are these calculated?
- Which model is used to compare the forecasts with the actual outcomes? Has the accuracy of the cash flow forecasts been improved during the last year? If not, what are the causes for the inaccuracy?
- How is the short-term issuance program developed? Is it linked to cash balance forecasts?
- Has the government set a target or range for the balance in the government bank account? If so, what is the range, and who decided this range?
- Who monitors that the cash balance is within the determined range, and which actions are taken to ensure that the cash balance is within this range? How often are actions taken to keep the cash balance within the determined range?

- How many instances in the past 12 months has the aggregate cash balance fallen below a minimum balance (for example, requiring a call on the overdraft or ways and means advance) or generated excess funds that were not anticipated and could not be invested?
- Does the central bank pay interest on surplus balances? If so, what is the interest rate?
- Is the government able to invest surplus balances? If so, which investments are used?
- Which instruments are used to manage surplus balances or excess liquidity? How are these instruments integrated with the government's domestic debt issuance program?

## 3.5 Debt recording and Operational Risk Management

### *DPI-12 Debt Administration and Data Security*

#### Rationale and background

*Dimension 1. Availability and quality of documented procedures for the processing of debt-related payments*

The rationale is to ensure that there are documented procedures for the processing of debt-related payments, including the following requirements: (a) all payment notifications to be checked with internal records before payments are made, (b) payment instructions to be subject to a minimum two-person authorization process, and (c) payments to be made by the due date. This set of rules and processes can be documented in a procedures manual.

Processing and controlling payments to effect settlement of government debt and debt-related transactions are key responsibilities. This settlement involves accurate, timely, and secure processing with minimal errors. In addition, there should be procedures for monitoring payment arrears and measures for controlling the level of arrears.

It is essential that strong controls and well-documented procedures exist for settlement of transactions. Payments must be secure with controls to ensure that a minimum two-person authorization process is used to validate and process payments.

The debt administration operations for payments and receivables should be checked by testing the validation of loan payment notifications and controls around the payment process and of collection of receivables.

Most principal DeM entities will have a debt recording and management system with accompanying user and technical manuals. These manuals are not sufficient to meet the minimum requirements because they are generic to the system or software and do not necessarily reflect the payment process in that country.

The documented procedures must reflect the current practice and be followed. If that does not occur, the indicators should be read as if the procedures manuals were nonexistent.

For highest score, the internal payment orders are prepared and issued electronically by straight-through processing. Straight-through processing is the ability to send payment instructions directly from a management information system to a secure financial messaging system (for example, SWIFT), the central bank, or commercial banks. With these electronic links in place, there is no need for reentry of data into payment systems, thus reducing operational risk and increasing efficiency. Control over the authorization of payments is maintained through

access rights to the system, as described in dimension 3, so that the minimum two-person check can be enforced.

*Dimension 2. Availability and quality of documented procedures for debt and transaction data recording and validation, as well as storage of agreements and debt administration records*

The rationale is to ensure that there are documented procedures for the debt data recording (new debt, disbursements, and repayments) and validation as well as for storage of agreements and debt administration records, including the following requirements: (a) accuracy of debt data is ensured by segregation of responsibilities for data entry and confirmation of the accuracy by separate staff before the entries are deemed to be completed; (b) debt data are constantly validated against received payment notifications; (c) all original, signed copies of loan and derivative agreements are stored and filed in a secure location; and (d) all debt administration records are kept in a secure filing system.

An original, signed copy of each loan and derivative agreement should be stored in a secure location that will protect the documents from incidents such as theft, fire, flood, or other incidents that may damage or destroy any of these records. A copy of each agreement should be available with the principal DeM entity (or the DeM entities). All correspondence with the lender or counterparty during the life of each loan or derivative (referred to as “debt administration records”) should be kept in a secure filing system. Scanned copies of original loan agreements and all debt administration records, if backed up and stored securely, will meet the requirements for this dimension.<sup>20</sup>

It is essential that strong controls and well-documented procedures exist for maintenance of the financial records.

For the highest score, an independent confirmation of all data must be conducted annually with external creditors and major domestic investors.

User and technical manuals that accompany a debt recording and management system are not sufficient to meeting the minimum requirements.

The documented procedures must reflect the current practice and be followed. If that does not occur, the indicators should be read as if the procedures manuals are not in place.

*Dimension 3. Availability and quality of documented procedures for controlling access to the central government’s debt data recording and management system and audit trail*

The rationale is to ensure that there are documented procedures for controlling access to the debt recording and management system.

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<sup>20</sup> It is also important to ensure that these backups include key documents that have been scanned and/or are maintained on the servers related to processing of DeM operations (for example, payment advices from creditors).

The debt data in the debt recording and management system must be secure, the system should be located in a locked area, and access to the system by users and information technology specialists should be tightly controlled through access permissions and password controls. Access permissions for individuals should be updated on the day that their responsibilities change. For the highest score, the system must produce audit trails that show who has accessed the system, the time they accessed it, the level accessed, and the activities of each user. The audit trails should be monitored for exceptions at least monthly.

User and technical manuals that accompany the debt recording and management system are not sufficient for meeting the minimum requirements.

The documented procedures must reflect the current practice and be followed. If that does not occur, the indicators should be read as if the procedures manuals are not in place.

#### *Dimension 4. Frequency and off-site, secure storage of debt recording and management system backups*

The rationale is to ensure that debt recording and management system backups are made frequently and that the backups are stored in a separate and secure location.

A copy of the debt data (backups) should be made frequently and stored in a secure location outside the building in which the debt database is located. While locations such as the central bank or another ministry building are acceptable, the house of the head of the debt management office or of the IT person is not acceptable. The storage location of the backups should be protected from incidents such as theft, fire, flood, or other incidents that may damage or destroy any of these backups. Debt data backups should be tested regularly (at least quarterly) to make sure that they can effectively be used if needed.

#### Dimensions to be assessed

The following dimensions should be assessed (table 13):

1. Availability and quality of documented procedures for the processing of debt-related payments and receivables
2. Availability and quality of documented procedures for debt and transaction data recording and validation, as well as storage of agreements and debt administration records
3. Availability and quality of documented procedures for controlling access to the central government's debt data recording and management system and audit trail
4. Frequency and off-site, secure storage of debt recording and management system backups

**Table 13. Assessment and Scoring of Debt Administration and Data Security**

Score	Requirements
A	<ol style="list-style-type: none"> <li>1. The requirements for score B are met. In addition, internal payment orders are prepared and issued electronically by straight-through processing, and the procedures manual is formally reviewed at least every year.</li> <li>2. The requirements for score B are met. In addition, an independent confirmation of data is annually conducted with external creditors, and the major domestic investors and the procedures are formally reviewed at least every year.</li> <li>3. The requirements for score B are met. In addition, the systems produce audit trails that show the user's activities, and the documented procedures are formally reviewed at least every year.</li> <li>4. The requirements for score B are met. In addition, debt recording and management system backups are made daily and stored in a secure filing system before they are moved to the separate, secure location weekly.</li> </ol>
B	<ol style="list-style-type: none"> <li>1. The minimum requirement for score C is met. In addition, internal payment orders are prepared electronically, and the procedures manual is formally reviewed at least every second year.</li> <li>2. The minimum requirement for score C is met. In addition, the procedures manuals are formally reviewed at least every second year.</li> <li>3. The minimum requirement for score C is met. In addition, the documented procedures are formally reviewed at least every second year.</li> <li>4. The minimum requirement for score C is met. Debt recording and management system backups are made at least once per week and are stored in a separate, secure location.</li> </ol>
C	<ol style="list-style-type: none"> <li>1. There is an adequate and readily accessible procedures manual for the processing of debt service payments.</li> <li>2. There are adequate and readily accessible procedures manuals for debt data recording and validation, as well as for storage of agreements and debt administration records.</li> <li>3. There are adequate and readily accessible documented procedures for controlling access to the central government's debt recording and management system.</li> <li>4. Debt recording and management system backups are made at least once per month, and the backups are stored in a separate, secure location where they are protected from incidents such as theft, fire, flood, or other incidents that may damage or destroy any of these backups.</li> </ol>
D	<ol style="list-style-type: none"> <li>1. The minimum requirement for score C is not met.</li> <li>2. The minimum requirement for score C is not met.</li> <li>3. The minimum requirement for score C is not met.</li> <li>4. The minimum requirement for score C is not met.</li> </ol>

Supporting documentation

- A copy of the procedures manual for processing of debt-related payments and receivables, for debt data recording and validation, and for storage of agreements and debt administration records
- Evidence of the physical storage of original, signed copies of loan and derivative agreements in a secure location, of the scanning and maintenance of such agreements in electronic form in a secure location, or of both
- Evidence of validation procedures against payment notifications

- Evidence of an independent confirmation of all data with external creditors and major domestic investors
- Evidence of a two-person authorization process
- A copy of the system access permissions and evidence of system security and access controls
- Evidence that audit trails are monitored
- Evidence of the storage location of debt recording and management system backups (the location verified by the assessors)

#### Indicative questions to ask

- Does the principal DeM entity (or DeM entities) have a procedures manual for processing of debt-related payments and receivables? If so, where is it located, what is the content of the manual, and how is it updated and maintained?
- Who is involved in arranging debt service payments, and what is the authorization process?
- Has the government met all debt service payment obligations by the due date? If not,
  - How often have payments been late, and how late have they been?
  - What were the reasons for, or sources of, the delay?
  - Were penalty charges imposed for late payment? If so, how significant were these penalty charges?
- Is there a procedures manual for the debt data recording and validation and for storage of agreements and debt administration records? If so, where is it located, what is the content of the manual, and how is it updated and maintained?
- Are debt data entries checked for accuracy before the entries are deemed to be completed?
- How often does the principal DeM entity (or DeM entities) reconcile loan data with creditors?
- Where are the original, signed loan and derivative agreements stored? Is this location considered to be a secure location to protect these records from incidents such as theft, fire, flood, or other incidents that may damage or destroy any of these records?
- Where are debt administration records stored and filed? Is this location considered to be a secure and fireproof location?
- Are the loan agreements and debt administration records scanned? If so, where are the scanned copies stored? Do these include key documents that have been scanned or are maintained on the servers related to processing of DeM operations?
- Are there documented procedures for controlling access to the central government debt recording and management system and payment system? If so, where are these located, what are the controls, and how frequently are they updated?

- Who sets the access levels and functions for those staff members or persons who access the debt recording and management system? Do these persons also enter data into the system?
- Are audit trails produced for the debt recording and management system and payment system? If so, who is responsible for monitoring these audit trails and the users who have accessed the system?
- Who is responsible for backing up the debt recording and management system? What is the process for making the backups? How often are the backups made, and where are the backups stored?

### *DPI-13 Segregation of Duties, Staff Capacity, and Business Continuity*

#### Rationale and background

*Dimension 1.* Segregation of duties for some key functions, as well as the presence of a risk monitoring and compliance function

The rationale is to ensure that the internal organization of the principal DeM entity (or DeM entities) is based on segregation of duties between the debt managers with the authority to negotiate or contract the loan agreement and enter the contract information in the debt management system, and those responsible for (a) confirmation of contract information, and (b) initiating and processing payments, as well as to ensure that there is a separate risk monitoring and compliance function.

An efficient organizational structure should be in place across the principal DeM entity (or the DeM entities) to maintain security and control over government borrowing and debt-related transactions as well as the use of public funds. Segregation of duties is one of the most important parts of an effective internal control system for any financial activity. Strong operational controls and well-articulated responsibilities for staff members will reduce the risk of errors, policy breaches, and fraudulent behavior, which can potentially lead to significant losses to the government that can tarnish the reputation of not only the principal DeM entity (or relevant DeM entities) but also the whole government.

The negotiation of loans or decisions around the issuance of debt securities, whether in the domestic market or in international markets, will normally rest with the head of the principal DeM entity or higher (for example, the minister of finance). These officials can formally sign the resulting agreements and other documentation and may enter contract information in the debt management system on a preliminary basis. However, confirmation and finalization of the contract information in the system should be undertaken by other staff in the back office (by checking it against documentation provided by the creditor). Different individuals should be responsible for entering data in the debt recording system on the one hand, and

checking data entries on the other. In addition, the functions of contract negotiation and contract data entry should be organizationally separated from the functions of transaction settlement (that is, initiating and processing the payment).

There should be a risk monitoring and compliance function within the principal DeM entity (or the DeM entities), often in the middle office. Its primary function is to monitor whether all government DeM operations are (a) within the authorities and limits set by government policies, (b) in compliance with statutory and contractual obligations, and (c) within the risk parameters included in the approved DeM strategy and in accordance with the operational risk management plan. Another responsibility is to ensure that the activities comply with any statutory obligation. This function could be overseen by an individual staff member or, more ideally, a specialized unit with this role and the associated responsibilities.

#### *Dimension 2. Staff capacity and human resource management*

The rationale is to ensure that a sufficient number of DeM staff are employed, that they are adequately trained, and that individual job descriptions have been prepared. For the higher scores, there are code-of-conduct and conflict-of-interest guidelines as well as individual training and development plans and yearly performance assessments for key DeM staff.

The organizational structure and management policies should support sound human resource management practices with a sufficient and adequately trained staff and formal job descriptions reflecting current assignments. To assess whether there are sufficient DeM staff, assessors must have information on the number of outstanding loans, weekly front-office operations, daily back-office activities, and other activities the DeM staff is engaged in. In small countries the number of staff will likely be small. In this case, assessing whether there are sufficient staff will come down to whether the “segregation of duties” criteria can be met. This is explained under Dimension 1. The capacity to perform the tasks will, of course, be an important factor.<sup>21</sup>

Furthermore, the debt managers should be subject to code-of-conduct and conflict-of-interest guidelines, which set out rules that staff members are required to follow, the activities that they are or are not permitted to undertake or transact, and the requirements to disclose personal investments and financial activities.<sup>22</sup>

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<sup>21</sup> For some small countries, it can be efficient to combine certain DeM functions, such as back-office and risk-control functions, with similar functions not directly related to debt management, particularly when financing transactions are few and infrequent. This practice would provide the scale to facilitate the segregation of responsibilities; for example, a treasury back office would also process other transactions such as payables and receivables, or a risk monitoring and compliance function could cover all risks and procedures in a finance department, not just those relating to debt.

<sup>22</sup> A general code-of-conduct for civil servants is not qualified if such provisions are not included.

For example, if staff members buy or sell government securities, this activity could be perceived as equivalent to insider trading because they may have privileged access to budgetary and other government information. These guidelines will help allay concerns that staff members' personal financial interests could undermine sound DeM practices. Preferably, these guidelines should be reviewed and updated at least annually.

Training plans should ensure that each staff member receives the training that he or she needs to perform the duties assigned.

*Dimension 3.* Presence of an operational risk management plan, including business continuity and disaster recovery arrangements

The rationale is to ensure that there is a business continuity and disaster recovery plan as well as, for the higher scores, documented guidelines for operational risk management (an operational risk management plan).

Business continuity planning allows an organization to prepare for future incidents that could jeopardize the performance of its duties, the ability to meet business objectives, and its long-term health. Such incidents include local incidents such as building fires, regional incidents such as earthquakes, or national incidents such as pandemic illnesses.

Disaster recovery is the process of regaining access to the data, hardware, and software and having the minimum number of staff necessary to resume critical business operations after a natural or human-induced disaster. A disaster recovery plan (DRP) should also include plans for coping with the unexpected or sudden loss of key personnel. A DRP is part of the business continuity planning process.

In some countries, a DRP may exist in the central bank (because of international requirements imposed by the Bank for International Settlements and other international agencies) but not in the ministry of finance, where some of the DeM operations are located. This situation is not sufficient to meet minimum requirements because DPI-13 requires the principal DeM entity (or the DeM entities) to be covered by a DRP. If the ministry of finance has a DRP, it is important to check that the DRP incorporates DeM operations, that staff members in the principal DeM entity (or the DeM entities) are aware of the DRP and what it covers, and that the DRP has been tested to cover all relevant DeM operations.

Many different risks can negatively affect the normal operations of an organization. An operational risk assessment would determine what constitutes a disaster, which risks the organization is most susceptible to, which systems and activities are critical, and what the potential impact (financial and reputational) might be. The assessment covers incidents such as natural disasters, fire, power failure, terrorist attacks, organized or deliberate disruptions, theft, fraud, system or equipment failures (or both), human error, computer viruses, legal issues, worker strikes or disruptions, and loss of key personnel. Actions to mitigate those risks are included in the operational risk management plan.

The guidelines for operational risk management must be followed. If that does not occur, the following indicators should be read as if these guidelines were not in place.

Dimensions to be assessed

The following dimensions should be assessed (table 14):

1. Segregation of duties for some key functions, as well as the presence of an operational risk monitoring and compliance function
2. Staff capacity and human resource management
3. Presence of an operational risk management plan, including business continuity and disaster recovery arrangements

**Table 14. Assessment and Scoring of Segregation of Duties, Staff Capacity, and Business Continuity**

Score	Requirements
A	<ol style="list-style-type: none"> <li>1. The minimum requirements for score B are met. In addition, there is a separate unit responsible for risk monitoring and compliance that reports directly to the head of the relevant DeM entity.</li> <li>2. The requirements for score B are met. In addition, there are individual training and development plans and yearly performance assessments for debt management staff.</li> <li>3. The requirements for score B are met. In addition, there is an operational recovery site that is tested at least annually.</li> </ol>
B	<ol style="list-style-type: none"> <li>1. The minimum requirements for score C are met. In addition, there is clear organizational separation between staff responsible for loan negotiation and preliminary contract data entry and those responsible for (a) confirmation of contract information and finalization of records in the system, and (b) initiating and processing payments. There is at least one staff member responsible for risk monitoring and compliance.</li> <li>2. The minimum requirement for score C is met. In addition, there are code-of-conduct and conflict-of-interest guidelines in place that are reviewed and updated as needed. Staff has been trained on the provisions of the above guidelines when joining the DeM entity (or entities) and at least every two years thereafter.</li> <li>3. The minimum requirement for score C is met. Documented guidelines exist for operational risk management.</li> </ol>
C	<ol style="list-style-type: none"> <li>1. There is clear separation between staff responsible for loan negotiation and preliminary contract data entry and those responsible for (a) confirmation of contract information and finalization of records in the system, and (b) initiating and processing payments.</li> <li>2. There are sufficient and adequately trained staff members with formal job descriptions reflecting their current tasks.</li> <li>3. There is a written business continuity plan and DRP, which has been tested in the past three years.</li> </ol>
D	<ol style="list-style-type: none"> <li>1. The minimum requirement for score C is not met.</li> <li>2. The minimum requirement for score C is not met.</li> <li>3. The minimum requirement for score C is not met.</li> </ol>

## Supporting documentation

- An organizational chart setting out all the entities involved in DeM and their respective roles and staff responsibilities
- A sample of job descriptions for staff involved in DeM activities
- A sample of individual training and development plans
- A sample of performance assessments
- A copy of the code-of-conduct and conflict-of-interest guidelines
- A copy of the business continuity plan and DRP
- A copy of an operational risk management plan or guidelines
- Terms of reference or job descriptions for the risk monitoring and compliance function

## Indicative questions to ask

- What are the roles and responsibilities of the staff members in the principal DeM entity (or DeM entities)?
- Who has the authority to negotiate and transact on behalf of the central government? Who is responsible for settling the transactions, arranging payments, and recording debt data? Are these functions performed by different staff members, by separate divisions, or both?
- Are there staff members responsible for monitoring government DeM operations to ensure that such operations are within the authorities and limits set by government policies and comply with statutory and contractual obligations? Is this work reinforced by the organizational structure and by job descriptions for the staff members responsible for risk monitoring and compliance?
- Does the principal DeM entity (or DeM entities) have a separate unit for risk monitoring and compliance? If so, where is it located, how many staff members are involved, and how actively do they monitor the risks?
- How many professional staff members are in the principal DeM entity (or DeM entities)? How long have the staff members been employed in their current DeM activities? What are the qualifications of staff members?
- What is the situation regarding staff recruitment and retention? What is the level of staff turnover?
- Do all staff members have clear job descriptions or terms of reference? If so, how frequently are these job descriptions reviewed and updated?
- Do staff members have individual training and development plans? If so, how are these plans formulated, and what are the policies and budget for training?
- What training have staff members received? When and where was this training conducted or provided?
- Do staff members have performance assessments? If so, how frequently? What is the process?

- Do staff members have code-of-conduct guidelines, conflict-of-interest guidelines, or both? If so, who is responsible for preparing and monitoring the guidelines? Are staffs trained on these guidelines?
- Is there a business continuity plan and a DRP? If so, is there an alternative recovery site for relocating the business, and where is it located? When was the plan last tested? How was the test conducted?
- Are there documented guidelines for operational risk management? What risks are covered in these guidelines?

## *DPI-14 Debt and Debt-Related Records*

### Rationale and background

*Dimension 1.* Completeness and timeliness of central government records on its debt, loan guarantees, and debt-related transactions

The rationale is to ensure that the central government has complete records of its debt, loan guarantees, and debt-related transactions, such as currency and interest rate swaps.

Sound practice requires a comprehensive debt management system that records, monitors, settles, and accounts effectively for all central government debt and debt-related transactions, including past debt relief and debt restructuring (such as Paris Club rescheduling). This system should provide for an accurate, consistent, and complete database of domestic, external, and guaranteed debt. It forms the base for all DeM activities, including the cost-risk analysis of the debt portfolio, DeM strategy development, borrowing plans, and debt service.

For disbursing loans, which are commonly used for project financing, it is important that the actual disbursement be recorded without delay. It is only when a loan is disbursed partially or fully (paid out) that a debt is created. Before disbursements, the lender has only a commitment to lend the funds, but no borrowing has been undertaken yet.

*Dimension 2.* Complete and up-to-date records of all holders of government securities in a secure registry system, if applicable

The rationale is to ensure that there is an accurate and secure registry system for government debt securities issued in electronic form.

A secure registry system is essential for any debt securities issued in electronic form (often referred to as “dematerialized,” “book-entry,” or “scriptless” securities). Instead of keeping debt securities in paper or physical form in a secure location, the investors in these securities now rely completely on an electronic registry system to keep track of their legal title to these instruments and for the payment of interest and principal on the due dates. Thus, the registry system must be very secure. Because the ownership of government securities may change daily through transactions in the secondary market, there must be

robust processes in place for the timely, accurate, and secure updating of the registry. In most countries, the registry system will be developed, maintained, and managed by the central bank. In some countries, the registry system is provided by an external party such as commercial banks or Computershare (a private company).

To assess whether the registry system is secure, the following should be considered:

- Identification of the entity responsible for managing and maintaining the registry system and its location
- Assessment of registry system management, the resources available, and the management procedures, including controls for maintaining the system
- Assessment of the settlement process of government securities
- Frequency and nature of the audit of the registry and registry system

When the registry system allows nominee accounts (that is, accounts in the name of a local custodian bank that holds securities on behalf of its clients), the beneficial owner can be determined only from the books of the custodian. In such cases, some official entity (for example, the central bank or the central depository) should ensure that information on the amount of domestic debt held by foreigners is available for statistical reporting purposes. Also, the registry should ensure that holders of government securities are regularly provided with statements of their holdings. Internal or external performance audits of the registry system should be undertaken, which includes an examination of internal controls and management of operational risks. (See description of audits in DPI-5.)

Dimensions to be assessed

The following dimensions should be assessed (table 15):

1. Completeness and timeliness of central government records on its debt, loan guarantees, and debt-related transactions
2. Complete and up-to-date records of all holders of government securities in a secure registry system, if applicable

**Table 15. Assessment and Scoring of Debt and Loan Guarantee Records**

Score	Requirements
A	<ol style="list-style-type: none"> <li>1. The requirements for score B are met. In addition, there are complete debt records within a one-month lag.</li> <li>2. The requirements for score B are met. In addition, settlement for government securities is made on a delivery versus payment (DVP) basis.</li> </ol>
B	<ol style="list-style-type: none"> <li>1. The minimum requirement for score C is met. In addition, there are complete debt records within a two-month lag.</li> <li>2. The minimum requirement for score C is met. In addition, the audit is done annually.</li> </ol>
C	<ol style="list-style-type: none"> <li>1. There are complete records within a three-month lag for central government domestic, external, and guaranteed debt, as well as all debt-related transactions, including past debt relief and debt restructuring.</li> <li>2. Government securities are dematerialized and kept in a central registry that has up-to-date and secure records of all holders of government debt. It is subject to an audit of internal controls and management of operation risk every two years.</li> </ol>
D	<ol style="list-style-type: none"> <li>1. The minimum requirement for score C is not met.</li> <li>2. The minimum requirement for score C is not met.</li> </ol>

Supporting documentation

- A copy of a sample of reports that have been generated from the debt recording or management system to ascertain how up to date the debt records are
- Copies of the recent disbursement and payment notices
- Evidence that records in the registry system have been reconciled and audited

Indicative questions to ask

- What debt recording and management system is used?
- Does the debt recording and management system capture all debt transactions and loan guarantees?
- What is the time period or lag from the time a loan is disbursed to the time the disbursement is entered into the debt recording and management system?
- How does the registry system operate?
- How frequently are registry records reconciled and audited?
- Does the registry system allow nominee accounts? If so, how is the residency of the holders of government securities determined?
- What physical security is in place for the registry system and registry operations?
- Has the registry system been audited to assess the effectiveness of the internal control system and security of the data?
- Does the registry regularly provide statements of holdings to investors (or allow electronic access to the same)?
- Have major holders of government securities experienced any problems with the accuracy or timeliness of registry services?

# Annex 1. Mapping of the revised DeMPA

DeMPA 2009		DeMPA 2015	
<b>Governance and Strategy Development</b>		<b>Governance and Strategy Development</b>	
DPI-1	Legal Framework (1 dimension)	DPI-1	Legal Framework (1 dimension)
DPI-2	Managerial Structure (2 dimensions)	DPI-2	Managerial Structure (2 dimensions)
DPI-3	Debt Management Strategy (2 dimensions)	DPI-3	Debt Management Strategy (2 dimensions)
DPI-4	Evaluation of Debt Management Operations (1 dimension)	DPI-4	Reporting and Evaluation (2 dimensions)
DPI-5	Audit (2 dimensions)	DPI-5	Audit (2 dimensions)
<b>Coordination with Macroeconomic Policies</b>		<b>Coordination with Macroeconomic Policies</b>	
DPI-6	Coordination with Fiscal Policy (2 dimensions)	DPI-6	Coordination with Fiscal Policy (2 dimensions)
DPI-7	Coordination with Monetary Policy (3 dimensions)	DPI-7	Coordination with Monetary Policy (3 dimensions)
<b>Borrowing and Related Financing Activities</b>		<b>Borrowing and Related Financing Activities</b>	
DPI-8	Domestic Market Borrowing (2 dimensions)	DPI-8	Domestic Borrowing (2 dimensions)
DPI-9	External Borrowing (3 dimensions)	DPI-9	External Borrowing (3 dimensions)
DPI-10	Loan Guarantees, On-lending, and Derivatives (3 dimensions)	DPI-10	Loan Guarantees, On-lending, and Derivatives (3 dimensions)
<b>Cash Flow Forecasting and Cash Balance Management</b>		<b>Cash Flow Forecasting and Cash Balance Management</b>	
DPI-11	Cash Flow Forecasting and Cash Balance Management (2 dimensions)	DPI-11	Cash Flow Forecasting and Cash Balance Management (2 dimensions)
<b>Operational Risk Management</b>		<b>Debt Recording and Operational Risk Management</b>	
DPI-12	Debt Administration and Data Security (4 dimensions)	DPI-12	Debt Administration and Data Security (4 dimensions)
DPI-13	Segregation of Duties, Staff Capacity, and Business Continuity (3 dimensions)	DPI-13	Segregation of Duties, Staff Capacity, and Business Continuity (3 dimensions)
		DPI-14	Debt Records (2 dimensions)
<b>Debt Recording and Reporting</b>			
DPI-14	Debt Records (2 dimensions)		
DPI-15	Debt Reporting (3 dimensions)		Discontinued

Note: DeMPA = Debt Management Performance Assessment. DPI = Debt Management Performance Indicator.

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## Annex 3. Treatment of Arrears in Finance Statistics

A COMMON DEFINITION OF DEBT in public debt management laws is the following: All financial liabilities created by (a) borrowing, (b) credits accepted under supplier's credit agreements, (c) issuance of debt securities to regularize arrears, and (d) assumption of the payment obligations under a guaranteed loan. This is the debt that commonly is managed by the DeM unit.

For statistical purposes, however, arrears in general should also be reported as debt (IMF 2001, 2009, 2011). In these documents, arrears should be recorded as a memorandum item under the government balance sheet. Securitization is often the trigger to add arrears to domestic debt, but this should not be the only trigger, according to these recommendations. IMF (2009) suggests that the definition of debt would also include arrears that are rescheduled or refinanced. Other examples are unpaid pension contributions to the public service pension agency that have been outstanding for years, and substantial amounts of arrears in general that are rolled over from one year to the next.





