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GUIDE TO THE DEBT MANAGEMENT PERFORMANCE ASSESSMENT TOOL (DEMPA)

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Economic Policy and Debt Department (PRMED)

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Abbreviations and Acronyms

BCP	Business Continuity Plan
DRP	Disaster Recovery Plan
DQAF	Data Quality Assessment Framework
DSA	Debt Sustainability Analysis
DeM	Debt Management
DeMPA	Debt Management Performance Assessment Tool
Guide	Guide to the Debt Management Performance Assessment Tool
Guidelines	Guidelines for Public Debt Management
IMF	International Monetary Fund
LICs	Low-Income Countries
N/R	Not Rated or Assessed
PEFA	Public Expenditure and Financial Accountability (Program)
DPI	Debt Management Performance Indicator
SAI	Supreme Audit Institution
SDDS	Special Data Dissemination System

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1 INTRODUCTION

The purpose of this document is to provide guidance and supplemental information to assist with country assessments of debt management performance, using the Debt Management Performance Assessment (DeMPA) tool. The DeMPA is a methodology used for assessing public debt management performance through a comprehensive set of 15 performance indicators spanning the full range of government debt management (DeM) functions. It is based on the principles set out in the IMF and World Bank *Guidelines for Public Debt Management (Guidelines),* initially published in 2001 and updated in 2003.[1] It is modeled after the Public Expenditure and Financial Accountability (PEFA) framework for performance measurement of public financial management.

The DeMPA has been designed to be a user-friendly tool to undertake an assessment of the strengths and weaknesses in government DeM practices. This guide (the "Guide") provides additional background and supporting information so that a nonspecialist in the area of debt management may undertake a country assessment effectively. The Guide can be used by assessors in preparing for and undertaking an assessment. It is particularly useful for understanding the rationale for the inclusion of the indicators, the scoring methodology, the list of supporting documents/evidence required, and the questions that could be asked for the assessment.

The Guide principally provides detailed background information and rationale for each performance indicator. It also aids each country assessment by providing the following:

- A list of supporting documentation that should be requested for examination
- Indicative questions that could be asked in relation to each performance indicator (the list is not exhaustive and should not be used as a template)[2]

2 ASSESSMENT METHODOLOGY

2.1 PERFORMANCE INDICATORS

The DeMPA is primarily concerned with the management of central government debt and covers all the central government DeM functions comprehensively, as well as related activities such as issuance of loan guarantees, on-lending, and cash-flow forecasting and cash balance management. Because it is often the responsibility of central government to report on total public debt, total nonfinancial public sector debt and loan guarantees are included in the performance indicator "DPI-15: Debt Reporting." It should be noted that the DeMPA does **not** assess performance in

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[1] The *Guidelines* are available on the World Bank and IMF Web sites; refer to http://treasury.worldbank.org/ or http://www.imf.org.

[2] In addition, a list of key References is provided in the annex.

managing the wider public debt, if that is not guaranteed by the central government. The DeMPA, however, is flexible and can be broadly applied to assess DeM performance in subnational governments.

The DeMPA performance indicators aim to measure government DeM performance and capture the elements recognized as being indispensable to achieving sound debt management practices. Each indicator comprises dimensions for assessment 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 so that all critical activities are covered while at the same time ensuring that the assessment and the number of indicators are manageable. The DeMPA performance indicators encompass the complete spectrum of government DeM operations, as well as the overall environment in which these operations are conducted. While the DeMPA does not specify recommendations on reforms or capacity- and institution-building needs, the performance indicators do stipulate a minimum level that should be met under all conditions (see section 2.3). Consequently, if the assessment shows that the minimum requirements are not met, this will clearly indicate an area requiring reform or capacity building or both.

2.2 Link Between DeMPA and PEFA

The DeMPA is modeled after the Public Expenditure and Financial Accountability (PEFA) indicators. While PEFA indicators cover critical aspects across public financial management, DeMPA focuses on government debt management only. It is important that the assessor be aware of the links between the two indicators because a PEFA assessment done in a country will help with a DeMPA assessment and vice versa. As a practical first step, the assessor should determine whether a PEFA assessment has been undertaken in the country. If one has been undertaken, the assessor should contact the PEFA Secretariat to get any publicly available information on the results. Alternatively, in the event that a DeMPA assessment precedes a PEFA assessment, the assessor should convey results to the PEFA Secretariat.

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. Other PEFA indicators that correspond to individual DeMPA indicators are shown in table 1:

Table 1. Links Between DeMPA and PEFA

PEFA	DeMPA
PI-12: Multiyear Perspective in Fiscal Planning, Expenditure Policy, and Budgeting Dimension (ii): Scope and frequency of debt sustainability analysis	DPI-6: Coordination with Fiscal Policy Dimension 2: Availability of key fiscal variables and/or analysis of debt sustainability, and the frequency with which these are undertaken

PEFA	DeMPA
PI-16: Predictability in the Availability of Funds for Commitment of Expenditures Dimension (i): Extent to which cash flows are forecast and monitored	DPI-11: Cash Flow Forecasting and Cash Balance Management Dimension 1: Effectiveness of forecasting the aggregate level of cash balances in government bank accounts

PEFA	DeMPA
PI-17: Recording and Management of Cash Balances, Debt, and Guarantees Dimension (i): Quality of debt data recording and reporting	DPI-14: Debt Records Dimension 1: Completeness and timeliness of central government debt records Dimension 2: Completeness and up-to-date records of all holders of government securities in a secure registry system DPI-15: Debt Reporting Dimension 1: Meeting statutory and contractual reporting requirements of central government debt to all domestic and external entities Dimension 2: Meeting statutory and contractual reporting requirements for total nonfinancial public sector debt and loan guarantees to all domestic and external entities Dimension 3: Quality and timeliness of the publication of a debt statistical bulletin (or its equivalent) covering central government debt
Dimension (iii): Systems for contracting loans and issuance of guarantees	DPI-1: Legal Framework Dimension 1: The existence, coverage, and content of the legal framework DPI-2: Managerial Structure Dimension 1: The managerial structure for central government borrowings and debt-related transactions Dimension 2: The managerial structure for preparation and issuance of central government loan guarantees DPI-3: Debt Management Strategy Dimension 1: The quality of the debt management strategy document Dimension 2: The decision-making process, updating, and publication of the debt management strategy In addition, can also refer to: DPI-8 (Domestic Borrowing) DPI-9 (External Borrowing) DPI-10 (Loan Guarantees, On-Lending, and Derivatives)

PEFA	DeMPA
PI-21: Effectiveness of Internal Audit Dimension (i): Coverage and quality of the internal audit function Dimension (iii): Extent of management response to internal audit functions	DPI-5: Audit Dimension 1: Frequency of internal and external audit of central government debt management activities, policies, and operations, as well as publication of external audit reports Dimension 2: Degree of commitment to address the outcomes from internal and external audits
PI-22: Timeliness and Regularity of Account Reconciliation Dimension (i): Regularity of bank reconciliations	DPI-11: Cash Flow Forecasting and Cash Balance Management Dimension 3: Where the Principal DeM Entity (or the DeM entities) operate(s) its (their) own bank accounts, the frequency of reconciliation of these bank accounts
PI-25: Quality and Timeliness of Annual Financial Statements Dimension (i): Completeness of the financial statements	DPI-15: Debt Reporting Dimension 3: Quality and timeliness of the publication of a debt statistical bulletin (or its equivalent) covering central government debt
PI-26: Scope, Nature. and Follow-Up of External Audit Dimension (i): Scope/nature of audit performed (including adherence to auditing standards) Dimension (ii): Timeliness of submission of audit reports to legislature Dimension (iii): Evidence of follow-up on audit recommendations	DPI-5: Audit Dimension 1: Frequency of internal and external audit of central government debt management activities, policies, and operations, as well as publication of external audit reports Dimension 2: Degree of commitment to address the outcomes from internal and external audits

2.3 How to Score the Performance Indicators

Each performance indicator has one or more dimensions, and each of these dimensions should be assessed separately. An aggregate score for each indicator is then based on the assessments for the individual dimensions of the indicator.

In the cases in which a dimension cannot be assessed, an **N/R** (not rated or assessed) score should be assigned. N/R scores should not be included in the aggregation.

The score **C** represents the minimum requirement for each dimension. The focus should be to assess whether the minimum requirement for a **C** score for each dimension in each indicator has been met. A minimum requirement is considered the necessary condition for effective performance under the particular dimension being measured. It is therefore recommended that the assessor begin with the **C** dimension in each indicator when undertaking an assessment.

If the minimum requirement has not been met, a score of **D** should be assigned. This suggests deficiency in performance and signals the need for corrective action.

Having ascertained whether the minimum requirement has been met, the next stage is to assess whether the additional criteria for a score of **B** or **A** have been met. The **A** score reflects sound practice for that particular dimension of the indicator. The **B** score is a score lying between the minimum requirement and sound practice for that aspect.

Once the scores for each dimension have been ascertained, they can be aggregated to arrive at scores for each indicator. The steps in determining the overall or aggregate indicator score for performance indicators that have two or more dimensions are as follows:

- For each dimension, assess what score has been reached (**A**, **B**, **C**, or **D**).
- Go to the Conversion Tables (in section 2.3), and find the appropriate section for the two-, three-, or four-dimensional indicators.
- Identify the line in the table that matches the combination of scores that has been given to the dimensions of the DPI (the order of the dimensional scores is immaterial).
- Identify the corresponding overall score for the DPI.

Conversion Tables

Individual Scores Two-dimensional indicators, excluding any N/R		Overall Score
D	D	D
D	C	D+
D	B	C
D	A	C+
C	C	C
C	B	C+
C	A	B
B	B	B
B	A	B+
A	A	A

Individual Scores Three-dimensional indicators, excluding any N/R			Overall Score
D	D	D	D
D	D	C	D+
D	D	B	D+
D	D	A	C
D	C	C	D+
D	C	B	C
D	C	A	C+
D	B	B	C+
D	B	A	B
D	A	A	B
C	C	C	C
C	C	B	C+
C	C	A	B
C	B	B	B
C	B	A	B
C	A	A	B+
B	B	B	B
B	B	A	B+
B	A	A	A
A	A	A	A

Individual Scores				Overall Score
Four-dimensional indicators				
D	D	D	D	D
D	D	D	C	D
D	D	D	B	D+
D	D	D	A	D+
D	D	C	C	D+
D	D	C	B	D+
D	D	C	A	C
D	D	B	B	C
D	D	B	A	C+
D	D	A	A	C+
D	C	C	C	D+
D	C	C	B	C
D	C	C	A	C+
D	C	B	B	C+
D	C	B	A	C+
D	C	A	A	B
D	B	B	B	C+
D	B	B	A	B
D	B	A	A	B
D	A	A	A	B+
C	C	C	C	C
C	C	C	B	C+
C	C	C	A	C+
C	C	B	B	C+
C	C	B	A	B
C	C	A	A	B
C	B	B	B	B
C	B	B	A	B
C	B	A	A	B+
C	A	A	A	B+
B	B	B	B	B
B	B	B	A	B+
B	B	A	A	B+
B	A	A	A	A
A	A	A	A	A

3 PERFORMANCE INDICATORS

3.1 GOVERNANCE AND STRATEGY DEVELOPMENT

DPI-1 LEGAL FRAMEWORK

RATIONALE AND BACKGROUND

The first rationale for this Debt management Performance Indicator (DPI) is to ensure that the legal framework clearly sets out the authority to borrow (in both the domestic and foreign markets), undertake debt-related transactions such as currency and interest rate swaps, and issue loan guarantees.

Stemming from its constitutional power to approve central government tax and spending measures, the ultimate power to borrow on behalf of the central government as a rule rests with Parliament/Congress. The first level of delegation of the borrowing power therefore comes from Parliament/Congress down to the executive branch (for example, to the President, to the Cabinet/Council of Ministers, or directly to the Minister of Finance). This delegation 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. The delegation of the borrowing power is in most cases restricted by a statement for which purposes 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.

Another common constraint is that the Parliament/Congress retains 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 or agreements between a sovereign government and another subject of international law, such as the World Bank).

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

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

What is stated above also applies to the issue of loan guarantees. Loan guarantees normally cannot be issued by the executive without approval by Parliament/ Congress. In the rare cases when these guarantees constitutionally can be issued by the executive without any delegation from Parliament/Congress, it would be sufficient to check that the issuing entity is properly authorized through the secondary legislation.

Undertaking of debt-related transactions such as swaps normally does not require the approval of Parliament/Congress.

The second rationale for this DPI is to ensure that the legal framework, at least for the higher scores, also includes specified borrowing purposes, clear DeM objectives, a requirement to develop a DeM strategy, a reporting requirement to Parliament/Congress, and a requirement for external audit of the DeM activities, policies, and operations.

The requirement of specified borrowing purposes is to safeguard against borrowing for speculative investments and other nonproductive purposes. Common borrowing purposes found in legislation are to finance budget and liquidity deficits; refinance and prefinance outstanding debt; finance investment projects approved by Parliament/Congress; finance guarantee payments; fulfill requirements by the Central Bank to replenish foreign currency reserves; fulfill requirements by the Central Bank to issue Treasury bills and bonds to support monetary policy objectives (for example, to drain excess liquidity from the domestic market); and protect and eliminate the effects caused by natural or environmental disasters.

Common DeM objectives found in modern legislation are that central government's funding needs always be met, the cost of the debt be minimized from a medium-/long-term perspective, the risks in the debt portfolio be kept at acceptable levels, and development of the domestic debt market be promoted.

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. Based on existing good international practice, a legal requirement to develop a DeM strategy has also been included in this indicator for the highest score.

Reporting to Parliament/Congress increases transparency and strengthens accountability. This reporting requirement is commonly found in any policy-based legislation that includes longer-term objectives. In the area of central government borrowing, the reporting requirement is augmented by the fact that Parliament/Congress is delegating its borrowing power to the executive and consequently has a legitimate interest in knowing how the executive has used this power.

The requirement for external audit is normally found in the general Public Audit Act, not in the specific DeM legislation nor in the budget laws.

The key requirement for this DPI is to review the legislation to see whether it meets the list of requirements and the criteria 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 it may not be fully enforced.

SUPPORTING DOCUMENTATION

A copy of all primary legislation, which should be available on the government, Ministry of Finance, Principal DeM Entity, or Central Bank Web site.

A copy of all secondary legislation, which again should be available on the government, Ministry of Finance, Principal DeM Entity, or Central Bank Web site. If the list is extensive (for example, it can exceed 20 different documents in some countries), then it may be sufficient to obtain a copy of the most significant or relevant documents, 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 central government assigned to the Cabinet/Council of Ministers or directly to the Minister of Finance? If so, which legislation and what sections or clauses?
- Is there clear authorization in secondary legislation from the executive branch of government to the implementing entity(ies) to undertake borrowing and debt-related transactions and to issue loan guarantees on behalf of the central government? If so, which legislation and what sections or clauses?
- What sections or clauses in the legislation cover the following?
    - Specified borrowing purposes
    - Clear debt management objectives
    - Requirement to develop a debt management strategy
    - Mandatory reporting on an annual basis covering evaluation of outcomes against stated objectives and the determined strategy
    - Requirement for external audit
- Has there been any instance in the past five years in which the laws have not been adhered to? If so, what where the instances, why were the laws not adhered to, and what were the consequences?

DPI-2 MANAGERIAL STRUCTURE

RATIONALE AND BACKGROUND

The rationale for this DPI is to ensure that the managerial structure for debt management is clearly divided between the political level (Parliament/Congress, the President, the Cabinet/Council of Ministers, and the Minister of Finance) that sets the overall long-term central government DeM objectives and approves the strategy, and the entity(ies) responsible for implementing the DeM 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 impact 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.

This structure also decreases the risk that fiscal policy advisers view DeM policy as another vehicle for opportunistically reducing debt servicing costs to reduce the budget deficit in the short term by increasing market risks in the debt portfolio ("undue political interference"). When countries have access to credit markets, it is easy to reduce the budget's debt service costs in the short term (for example, by borrowing in a low-interest currency, borrowing short, or borrowing at a floating interest rate). It may also be possible to reduce the budget debt service costs even further with the help of derivatives like swaps and options. When politically expedient, any head of funding can be pressed to choose such a borrowing strategy to soften internal budget constraints. But such a short-term strategy will substantially increase the risks in the debt portfolio and the vulnerability of the country.

Other types of behavior that should be avoided by the Minister of Finance or the fiscal policy advisor (at the political level) are involvement in the discussions on any cutoff price after the bids have been received in the auction of government securities, selection of borrowing currencies in single loan transactions, and selection of the lead manager for borrowings in the international capital markets.

Undertaking a concessional loan from a multilateral creditor that includes a range of policy triggers, on the other hand, clearly has political implications and may very 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 Treasury-bond and Treasury-bill auctions.

Another rationale for this DPI is to ensure that the implementing entities (the DeM entities) regularly exchange debt information and closely coordinate their respective activities to avoid over-borrowing and to keep track of the portfolio risks. This is particularly important when the DeM activities are steered by a DeM strategy and follow a borrowing plan. For the highest score, the execution of the strategy is delegated to a Principal DeM Entity, commonly called the debt management office (DMO).

Loan guarantees are typically issued to support a certain beneficiary/project or a specific sector of the economy. Because this is a political decision per se, there is no need to separate the political decision making from the issuance of the guarantee. It is desirable, however, once the political decision has been taken, to leave preparation and the actual issuance of the loan guarantees to a professional entity(ies) to assess and price the credit risk, monitor this risk during the term of the guarantee, coordinate the borrowings of the guarantee beneficiaries with central government borrowing, and properly record these guarantees. Coordination with central government borrowing is particularly important if foreign markets are accessed. From the creditors'/investors' point of view, whether the central government borrows directly or through a loan guarantee does not make much difference. In both cases, the credit risk is the same.

Some countries use the Principal DeM Entity to prepare and issue the loan guarantees once the political decision to support a certain beneficiary or project by guarantees has been taken. Apart from the technical skill normally found at the Principal DeM Entity, this also would assure a proper coordination with central government borrowing. In countries without adequately trained staff in finance, this managerial structure is particularly relevant. This is reflected in the highest score.

Supporting Documentation

The organizational chart and secondary legislation setting out the entities involved in DeM and 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 this exists).

Indicative Questions to Ask

- Which entities have responsibility for DeM activities? What are the 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 Minister of Finance and the Cabinet/Council of Ministers 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 is exchanged between the entities responsible for DeM activities? How frequently is this information exchanged? Do they closely coordinate their respective activities to avoid over-borrowing and keep track of the portfolio risks?
- Who is responsible for signing loan agreements?
- Are there formal delegated authorities to issue loan guarantees? If so, how are these prepared and authorized?
- Who is responsible for approving and signing loan guarantees?
- Are borrowings by the beneficiary of loan guarantees coordinated with central government borrowing, and how?

DPI-3 DEBT MANAGEMENT STRATEGY

RATIONALE AND BACKGROUND

The rationale for this DPI is to ensure that the government prepares and publishes a DeM strategy that is based on the longer-term DeM objectives and set within the context of the government's fiscal policy and budget framework. The content of the strategy will vary from country to country, depending on the stage of development or DeM reform, the sources of funding, and the transactions used to manage central government debt. The content of what would be expected in the DeM strategy is set out in the DeMPA DPI-3.

The key risk indicators will vary depending on the country's debt portfolio and scope to manage risk. The analytical basis for determining the risk indicators should be disclosed to enhance transparency in the formulation of DeM strategy. 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 the following:
    - Share of foreign currency 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 share of short-term to long-term debt
    - Maximum share of floating-rate to fixed-rate debt
    - Minimum average time to interest rate re-fixing

For countries with limited access to market-based debt instruments, relying mainly on external official concessional finance, all of these risk-based parameters may not be equally relevant. In such cases, meeting the concessionality requirements, currency composition, amount of debt that must be refinanced over a particular time, and monitoring that debt is sustainable probably will be the most relevant parameters to contain the risks to the debt portfolio.

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). Based on existing good international practice, the implementing DeM entity(ies) prepare(s) 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 the Minister of Finance approves the strategy document. Some countries have also set up a specialized advisory board to comment on the draft strategy before it is approved, for extra quality assurance.

The key requirement for this DPI is to identify whether a formal DeM strategy has been produced, and if so, what does it cover, what was the process for formulating and approving the strategy, how frequently has it been produced, and is it publicly available?

Supporting Documentation

A copy of most recent DeM strategy.

Indicative Questions to Ask

- Has the government prepared a DeM strategy? If so:
  - How was the strategy produced?
  - Who was 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 under DPI-3, Dimension 1? Does the strategy express the direction that the key risk indicators should move toward (DPI-3, Dimension 1, score C)?
  - Was the strategy made publicly available? If so, when was it published, and in what format?
  - How has the strategy been implemented?
  - How often will the strategy be prepared or updated?

DPI-4 EVALUATION OF DEBT MANAGEMENT OPERATIONS

RATIONALE AND BACKGROUND

The rationale for this DPI is to ensure that the Principal DeM Entity (or DeM entities) is (are) accountable for its (their) activities by evaluating outcomes against stated objectives and ensuring compliance with the government's DeM strategy. This promotes transparency in DeM operations and good governance through greater accountability of the Principal DeM Entity (or DeM entities).

Likewise, partly because of the delegated structure described under DPI-1 but also to increase transparency and accountability, it is common for the executive branch to send a yearly report to Parliament/Congress describing the chosen strategy and the rationale behind it and explaining in what way the strategy decision has assisted in achieving the DeM objectives. This can be part of budget reporting.

The key requirement for this DPI is to identify whether these "evaluation reports" have been produced. Apart from these reports, the government as a rule also publishes annual financial statements or government accounts that will include information on debt and DeM activities. However, these documents will normally focus on financial information, and there will be little, if any, information on performance or compliance with the DeM strategy.

SUPPORTING DOCUMENTATION

Copies of the annual evaluation reports.

INDICATIVE QUESTIONS TO ASK

- Is an annual report on DeM activities prepared by the Principal DeM Entity (or by the DeM entities), and sent to the Cabinet/Council of Ministers or the Minister of Finance? If so:
    - Does this report contain an evaluation on how the DeM activities have complied with the government's DeM strategy?
    - Is this report submitted to Parliament/Congress?
    - Is this report made available publicly?

DPI-5 AUDIT

RATIONALE AND BACKGROUND

The rationale for this DPI is to ensure that government DeM activities, policies, and operations are subject to scrutiny by the national audit bodies. Standards of external audit practice should be consistent with international standards, such as those set by the International Organization of Supreme Audit Institutions (INTOSAI). The accountability framework for debt management can also be strengthened by public disclosure of audit reviews of DeM operations through regular audits of debt managers' performance and of systems and control procedures. Transparency of DeM operations is enhanced if the results of external audits are made available to the public.

It should be noted that the audits required under this performance indicator are different from the annual audits of the government's financial statements and activities. Financial audits will be assessed under the PEFA Public Financial Management Performance Measurement Framework (PI-9, PI-10, PI-25, and PI-26).

The scope of DeM audits should include the control environment, risk assessment, control activities, information and communication, and monitoring.

The key requirement for this DPI is to identify whether regular internal audits (for example, by the internal audit function of the Principal DeM Entity or the Ministry of Finance) and periodic external auditing (for example, by the country's Supreme Audit Institution [SAI]—in many countries, this is the Office of the Auditor General) have been undertaken, and if so, what was the nature of these audits, who undertook the audit, and what was the response to address the outcomes or findings of these audits.

It is recommended that the assessment include a meeting with the Supreme Audit Institution (normally the Auditor General). In addition to the questions set out below, the meeting must also aim to gain an understanding of the legal status and independence of the Supreme Audit Institution, its resources and workload, and its knowledge and understanding of the INTOSAI's *Guidance for Planning and Conducting an Audit of Internal Controls of Public Debt*.

SUPPORTING DOCUMENTATION

A copy of audit legislation, which may be available on the government or the SAI Web site.

A copy of any 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

- What is the government's commitment to the SAI in terms of resources, budget, independence, reporting, and commitment to address audit findings?

- What is the status of the auditing of the government's financial statements? This can be useful even though it is not assessed because it often explains why most of the resources are often fully committed to financial audits and there is little or no time or resources available for performance audits.
- Have there been any external audits (performance or special audits) 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 is their mandate, roles, and responsibilities?
  - What internal audits are undertaken, how frequently, and what is the basis of determining the audit program?
  - What are the legal status, powers or authority, and degree of independence of the internal audit function?
  - What are the reporting lines and procedures for internal audit reports?
  - What is the Principal DeM Entity's (or DeM entities') commitment to address audit findings?
  - Have there been any internal audits (performance or special audits) undertaken by the internal audit function on DeM activities? If so, when, what was the process, what were the findings, and how have they been addressed?

3.2 COORDINATION WITH MACROECONOMIC POLICIES

In the broad policy framework, it is important that debt management is carried out in coordination with fiscal and monetary policy. All three (debt management, fiscal policy, and monetary policy) have policy interdependencies and interlinkages that must be understood and coordinated. 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

The key requirement for this DPI is to identify the level of coordination and what information is shared among the different authorities. It is important during the assessment to meet with officials from the budget and macroeconomic unit in the Ministry of Finance and the Principal DeM Entity (or DeM entities). This can assist in obtaining each authority's perspective on the level and effectiveness of coordination and, where possible, in obtaining examples of information that is provided to and from each entity and with other government entities, as well as the frequency or regularity of information sharing.

For the forecasts of debt service, there are two broad categories of stress tests used: sensitivity tests and scenario tests. These may be used either separately or in conjunction with each other.

Sensitivity tests are normally used to assess the impact of change in *one* variable (for example, a high-magnitude parallel shift in the yield curve or a significant movement in the foreign exchange rates) on the debt and debt service.

Scenario tests include simultaneous moves in *several* variables (for example, foreign exchange rates, interest rates, and liquidity) based on a single event experienced in the past (that is, a historical scenario—for example, a natural disaster, a financial crisis, or depletion of a country's foreign exchange reserves) or a plausible market event that has not yet happened (that is, a hypothetical scenario—for example, the collapse of communication systems across the entire region/country or a sudden or prolonged severe economic downturn) and the assessment of their impact on the debt and debt service.

The key fiscal variables referred to in this DPI should set out the government's high-level fiscal strategy in the long term. It typically includes the long-term fiscal policy objectives and total central government expenses, revenues, and debt level, as well as the medium-term intentions (three or more years) for total expenses and revenues. It is focused on the long-term implications of fiscal policy and allows users to assess the sustainability of the fiscal position and its sensitivity to changes in policy.

A debt sustainability analysis is often undertaken by external agencies such as the World Bank or IMF. This would not be sufficient to score a C because the requirement for Dimension 2 is that such analysis be undertaken by the government.

SUPPORTING DOCUMENTATION

A copy of information sent to and from the Principal DeM Entity and the fiscal policy or budget authorities.

A copy of the most recent document detailing key fiscal variables (actuals and forecasts) on revenues, expenditures, primary balance, and debt, and/or the analysis of debt sustainability.

INDICATIVE QUESTIONS TO ASK

- What debt and other information is exchanged between the Principal DeM Entity (or the DeM entities) and the fiscal or budget authorities? How frequently is this information exchanged?
- Is there an established committee or working group that facilitates the flow of information and debt strategy coordination? If so, what is its composition, terms of reference, and activities?
- How does the coordination between DeM and macroeconomic policy take place? Is it a formal and institutionalized mechanism? How frequently does this occur?
- 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 base case to interest- and exchange-rate changes? Do the forecasts include scenario analyses, including forecasts for a worst-case scenario?
- Does the government regularly prepare and update a document detailing key fiscal variables (actuals and forecasts) on revenues, expenditures, primary balance, and debt, and/or undertake a debt sustainability analysis (DSA)? Is this document or analysis published and widely distributed?
- When was a DSA last undertaken? Did it cover domestic or external debt (or both)? Who was involved in undertaking the DSA, and what were their respective roles and responsibilities? How was the output used?

DPI-7 COORDINATION WITH MONETARY POLICY

RATIONALE AND BACKGROUND

The key requirement for this DPI is to ensure that there is coordination with monetary policy implementation through information sharing on debt transactions and the government's current and future cash flows. It is important during the assessment 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.

It will be useful to obtain examples of information that is provided to and from the DeM entities and the Central Bank, as well as 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 addition, the Central Bank should keep the central government informed about which transactions are for monetary policy purposes and which are for debt management. The assessors should also meet with market participants to ascertain if they are informed as to whether the transactions in the domestic market are for meeting monetary policy objectives or for debt management purposes.

The central government should avoid borrowing directly from the Central Bank, except in exceptional circumstances, and even then there should be a limit on the amount, and the period for repayment. The monetary financing of the budget has adverse consequences in terms of inflationary impact and, in a developing country context, also imposes constraints on development of the domestic debt market.

SUPPORTING DOCUMENTATION

A copy of information sent to and from the Principal DeM Entity (or the DeM entities) and the Central Bank.

A copy of the Central Bank Act to check what access the government has on the resources from the bank.

INDICATIVE QUESTIONS TO ASK

- What debt and other information is exchanged between the Principal DeM Entity (or the DeM entities) and the Central Bank? How frequently is this information exchanged?
- Does the Central Bank keep government DeM transactions separate from transactions that are undertaken for monetary policy purposes? If so, how does the Central Bank achieve this, and what instruments do they use?
- 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 & means facility with the Central Bank? If so:
  - o 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 utilized the facility, and if so, how often, what amounts, and 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

The rationale for this DPI is to ensure that borrowing activities in the domestic market in local currency, particularly in the primary wholesale or institutional market, are transparent and predictable to provide the government with a mechanism to finance its expenditures in a cost-effective manner while minimizing the risks.

International practice has shown that the government can benefit through providing market participants and investors with details of borrowing plans and other market activities well in advance and then acting consistently when issuing new Treasury bonds or undertaking other activities (such as buyback of government Treasury bills and bonds). This can lead to lower costs by providing investor certainty, increasing liquidity, broadening the investor base, and creating a level playing field for investors.

The key requirement for this DPI is to identify the instruments that are issued in the domestic market and the mechanisms that the government uses to issue securities (Treasury bills and bonds) in local currency. 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 and the price of the securities is arrived at on either a multiple-price or 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 on 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. Tap sales can 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/yield for the securities and sells the securities in small amounts/denominations to retail investors through a program, either directly or using commercial banks or the Central Bank (or both) as agents.

In addition, it is important to examine the level of disclosure to the market of the government's funding program and the operational procedures. Meeting with market participants (for example, banks, fund managers, and financial market authorities) during the assessment is useful because it provides a view independent from that obtained from government and Central Bank officials.

SUPPORTING DOCUMENTATION

A copy of the information memorandum or prospectus for each instrument.

A copy of the operating procedures for investors/participants in the primary market.

A copy of the issuance program for Treasury bills and bonds announced by the Principal DeM Entity, the DeM entity responsible for the domestic wholesale borrowing, or the Central Bank.

INDICATIVE QUESTIONS TO ASK

- What instruments are issued by the government in the domestic market, and what techniques are used to issue each instrument? What percentage of government debt is issued in this manner?
- What is the decision-making and approval process for issuing each domestic debt 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, institutions/staff roles and responsibilities, and timetable for conducting auctions of Treasury bills and bonds with regard to the following:
  - Announcement of the auction
  - Bidding time-period (opening time and closing time)
  - Processing of bids
  - Approval of auction cutoff
  - Announcement to successful bidders and to the market
  - Settlement of the auction
- What are the processes, institutions/staff roles and responsibilities, and timetable for issuing Treasury bills and bonds by tap issue and syndication, if these methods are used?
- 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 Web site? 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 Web site? What is the content of the operating procedures?
- Who is responsible for entering the debt issuance details in the debt recording? What data source is used? Who validates the data?

DPI-9 EXTERNAL BORROWING

RATIONALE AND BACKGROUND

The rationale for this DPI is to ensure that borrowing activities from external sources are well documented, have sound legal documentation, and are contracted on the most beneficial or cost-effective terms. 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.

The key requirement for this DPI is to assess whether the most beneficial and cost-effective terms and conditions are being achieved. The Principal DeM Entity (or the relevant DeM entities) should undertake regular evaluation of the "all-in cost" of each form of external borrowing, as well as any complimentary benefits offered by the lenders, such as grants and free technical assistance. A format that can be used for the all-in cost assessment is best demonstrated by the calculations provided by the World Bank Treasury, which are available on the following Web site: http://treasury.worldbank.org/Services/Financial+Products/Lending+Rates+and+Loan+Charges/index.html

A second key requirement is to ensure that sound legal features are included in the loan agreements.

A third key requirement is the time taken to capture any loan contracted into the debt recording/management system. Ideally, this should be at the time of loan contracting or signing, but often there can be a delay resulting from the time it takes to forward loan documentation to the Principal DeM Entity (or relevant DeM entities). Direct input into the debt recording/management system of the loan contracted by staff responsible for loan negotiation and contracting (front-office staff), which is then independently validated by settlement staff (back-office staff), is sound practice. However, particularly in low-income countries (LICs), this is not normal practice. Therefore, the preparation of a terms sheet (physical or electronic) by the relevant front-office staff without undue delay is a minimum requirement. The following financial information should appear on a terms sheet for an external loan:

Effective/Start Date	Maturity Date	Grace Period
Instrument	Currency	Principal Amount
Interest Rate	Interest Payment Frequency	Interest Calculation Basis
Fees	Complimentary Benefits	Lender/Creditor
Disbursement Start Date	Disbursement End Date	Disbursement Schedule
Principal Repayment Start Date	Principal Repayment End Date	Principal Repayment Amount (or Principal Repayment Schedule)

Supporting Documentation

A copy of the documented procedures for borrowing in foreign markets.

A copy of the most recent analysis of the most beneficial and cost-effective terms and conditions.

A copy of a sample of terms sheets prepared following completion of a loan contract.

Indicative Questions to Ask

- What instruments are issued by the government in the external markets, and what techniques are used to issue each instrument?
- 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? If eligible for concessional funding, what are the reasons for borrowing on a nonconcessional basis?
- What is the decision-making and approval process to contract or issue each external debt instrument?
- What are the processes, institutions/staff roles and responsibilities, and timetable for contracting or issuing each external debt instrument?
- When are legal advisors involved in the contracting of new loans? What is their involvement and role, and how much value/experience do they provide?
- Are technical evaluations carried out for new borrowing proposals to analyze the all-in cost, as well as their impact 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?
- Is a terms sheet (physical or electronic) produced for all financial terms,—including any complimentary measures—of every loan transaction? If so, when is this completed, and when is it made available to those responsible for entering the loan details into the debt recording/management system?
- Who is responsible for entering the loan details into the debt recording/management system? What data source is used? Who validates the data?
- Are there guidelines and limits for nonconcessional external borrowing?

DPI-10 LOAN GUARANTEES, ON-LENDING, AND DERIVATIVES

RATIONALE AND BACKGROUND

The rationale for this DPI is to ensure that there are strong controls and clear operational guidelines for the approval and issuance of loan guarantees and central government on-lending and, if used, for proper handling of financial derivatives. It is important that there is an entity within government that considers the impact that loan guarantees may have on the government's financial position before or when decisions are made to issue these guarantees. Loan guarantees represent potential financial claims against the government that have not yet materialized, but could trigger a realized financial obligation or liability under certain circumstances. Government on-lending is often a substitute for guaranteeing loans that are raised directly by the beneficiary. Financial derivatives are used by some governments for hedging purposes. If derivatives are not used, then Dimension 3 of DPI-10 should be assessed as "N/R" (not rated or assessed).

The key requirement for this DPI is to assess how loan guarantees and government on-lending are controlled and monitored; in particular, assessing who is responsible for monitoring and how they monitor the risks, particularly credit risk. The government can seek to mitigate the risk by charging a guarantee fee or adding an on-lending fee or risk premium to the cost of borrowing to cover credit risk and administration charges. It is also important to assess whether there are documented policies and procedures for loan guarantees and government on-lending and whether these cover the elements identified in the DeMPA DPI-10.

The key requirement for derivatives is to ensure the presence of a risk management framework and documented policies and procedures for the use of derivatives, which is supported by the following:

- A clear decision-making process and delegated authorities to transact
- Systems to record, monitor, settle, and account for derivative transactions
- Appropriate legal documentation, such as a master derivatives agreement
- Preparation of a terms sheet (physical or electronic) for all financial terms
- A risk-monitoring and compliance unit

SUPPORTING DOCUMENTATION

A copy of the operational guidelines for issuing loan guarantees and central government on-lending, including the method for calculating guarantee or on-lending fees.

A copy of the risk management framework, policies and procedures, and master derivatives agreement for transacting and managing derivatives.

A copy of a sample of terms sheets prepared for derivative transactions.

INDICATIVE QUESTIONS TO ASK

- Does the government provide loan guarantees? If so:
  - Who is responsible for approving and signing loan guarantee agreements?

- Who is responsible for assessing the credit risks before the approval of any loan guarantees?
- Who is responsible for monitoring the risk of loan guarantees, particularly credit risk?
- Does the government charge a guarantee fee? If so, how is this calculated, and who is responsible for calculating and administering the guarantee fee?

- Does the government provide on-lending? If so:
  - Who is responsible for approving and signing government 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 an on-lending fee? If so, how is this calculated, and who is responsible for calculating and administering the on-lending fee?
  - Who bears the foreign currency and interest rate risk when the government on-lends borrowed funds? How are currency, interest rate, and maturity mismatches monitored and managed?
- Does the government enter into derivative transactions? If so:
  - Who is responsible for approving and undertaking derivative transactions?
  - Who is responsible for monitoring the risk of these transactions?
  - Are limits imposed on each of the risks of these transactions, particularly credit risk? If so, what is the basis for setting the limits?
  - When are legal advisors involved in the negotiating process of concluding the legal agreements with the derivatives counterparty? What is their involvement and role, and how much value/experience do they provide?
  - Are there documented procedures for the use of derivatives? What is the content of the documented procedures?
  - Is a terms sheet (physical or electronic) produced for all financial terms of every derivative transaction? If so, when is this prepared/made available to those entering details into the debt recording/management system?
  - Who is responsible for entering derivative transactions into the debt recording/management system? What data source is used? Who validates the data?
  - Who is responsible for accounting of derivatives, and what accounting rules are applied?
- Do(es) the Principal DeM Entity (or DeM entities) have a separate unit for risk monitoring and compliance to monitor the risk of derivative transactions? If so, where is it located, how many staff are involved, and how actively do they monitor derivative transactions?

3.4 CASH FLOW FORECASTING AND CASH BALANCE MANAGEMENT

DPI-11 CASH FLOW FORECASTING AND CASH BALANCE MANAGEMENT

RATIONALE AND BACKGROUND

The rationale for this DPI is to ensure that there are cost-effective cash management policies in place to enable the authorities to meet with a high degree of certainty their financial obligations as they fall due. This requires accurate and timely forecasts of central government expenditure and revenue cash flows, together with the aggregate level of cash balances in central government bank accounts. Ideally, there should be reliable rolling 30-day forecasts of the aggregate level of overnight cash balances in central government bank accounts to enable surplus balances (or excess liquidity) to be invested or to be used to buy back domestic debt through transactions such as entering into reverse repurchase agreements or buyback of Treasury bills.

The key requirement for this DPI is to assess the effectiveness and accuracy of forecasts of debt servicing and government cash flows, particularly to determine the aggregate level of cash balances in government bank accounts.

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 issuance/buyback of Treasury bills or entering into repurchase/reverse repurchase agreements.

In most cases, the responsibility for administering government bank accounts will lie with the Treasurer, Accountant General, Comptroller of Accounts, or Chief Accountant. In this case, Dimension 3 should be assessed as "N/R" (not rated or assessed). If the Principal DeM Entity (or the DeM entities) operate its (their) own bank accounts for debt and debt-related transactions, then Dimension 3 should be assessed.

SUPPORTING DOCUMENTATION

Evidence of aggregate daily cash balances in central government bank accounts.

Evidence of the reconciliation of government bank accounts, if applicable.

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? How accurate are the forecasts? How often are forecasts prepared?
- Who is responsible for preparing forecasts of the aggregate level of overnight cash balances in central government bank accounts? How often are forecasts prepared, and for what period are these calculated?
- What are the average overnight balances in government bank accounts? How actively are these balances managed?

- Has the government set an aggregate target or float for the balance in the government bank account? If so, what is the target or float?
- 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, what investments are used?
- Do(es) the Principal DeM Entity (or DeM entities) operate its (their) own bank accounts? If so, how frequently are the bank accounts reconciled?
- What instruments are used to manage surplus balances or excess liquidity? How is this integrated with the government's domestic debt issuance program?

3.5 Operational Risk Management

DPI-12 Debt Administration and Data Security

Rationale and Background

The rationale for this DPI is to ensure that there are strong controls and well-documented procedures for settlement of transactions, for the maintenance of the financial records, and for access to the DeM system and the payment system. The debt data in the debt recording/management system must be secure (that is, the system is located in a locked area, and access to the system by users and IT specialists is tightly controlled through access permissions and password controls), as are all loan and derivatives agreements and debt administration records. Payments must be secure (that is, controlled access to cash, checks, and electronic payment systems that are located in locked areas), with controls to ensure that there is a minimum two-person authorization process to validate and process payments.

The key requirement for this DPI is to assess the efficiency and control over loan administration and payment activities. This involves the following:

- Maintenance of loan documentation in a secure and fireproof location
- Reconciling payment advices received from creditors against internal records
- Payment orders that are subject to a two-person authorization process (such as dual signatories on checks or input/authorization on an electronic payment system)
- The off-site storage of debt recording/management system backups
- Maintaining a procedures manual that covers all debt administration activities

Obtaining evidence may prove difficult unless a site visit is undertaken to view the physical storage of documents and to check debt administration operations by working through examples of the validation of loan payment notifications and controls around the payment process.

Supporting Documentation

A copy of the procedures manual.

Evidence of the physical storage of original signed copies of loan and derivative agreements in a secure and fireproof location.

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 where debt recording/management system backups are stored.

INDICATIVE QUESTIONS TO ASK

- How and when are loan and derivative agreements made available to the Principal DeM Entity?
- Where are original signed loan and derivative agreements stored? Is this location considered to be a secure and fireproof location?
- Where are debt administration records stored and filed? Is this location considered to be a secure and fireproof location?
- How often do(es) the Principal DeM Entity (or DeM entities) reconcile loan data with creditor advices?
- Are debt data entries checked for correctness before the entries are deemed to be completed?
- Who is involved in arranging debt service payments for central government debt, and what is the authorization process?
- Has the government met all debt services 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?
- Do(es) the Principal DeM Entity (or DeM entities) have a procedures manual for processing of debt service? If so, where is it located, what is the content of the manual, and how is it updated and maintained?
- Are there documented procedures for controlling access to the central government debt recording/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 that access the debt recording/management system? Do(es) this (these) person(s) also input data to the system?
- Are audit trails for the debt recording/management system and payment system produced? If so, who is responsible for monitoring these audit trails and the users who have accessed these systems?

DPI-13 SEGREGATION OF DUTIES, STAFF CAPACITY, AND BUSINESS CONTINUITY

RATIONALE AND BACKGROUND

The rationale for this DPI is to ensure that there is clear separation between the debt managers with the authority to negotiate and transact on behalf of the central government (front-office staff) and those responsible for settlement of the transactions, including arranging payments, bank account management, and recording in the government accounting system (referred to as "segregation of duties"). Strong operational controls and well-articulated responsibilities for staff can reduce the risk of errors, policy breaches, and fraudulent behavior that 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 management of operational risk, including business continuity, is very important for DeM activities.

The key requirement for this DPI is to identify the organizational structure and individual roles and responsibilities of those responsible for DeM and assess whether these meet the criteria set for the DeMPA dimensions to be assessed. It is important to get supporting information for this DPI. For example, it is likely that each staff member may have a job description, but this may be generic rather than specific to the individual, it may be relatively informal rather than formalized, and it may not have been updated since the staff member joined the Principal DeM Entity (or DeM entities).

Staff involved in debt management should be subject to a code of conduct and conflict-of-interest guidelines regarding the management of their personal financial affairs. These guidelines set out rules that staff are required to follow, the activities that staff are/are not permitted to undertake or transact, and the requirements to disclose personal investments and financial activities. For example, if staff buy or sell government securities, this could be seen as equivalent to "insider trading" given that they may have access to budget and other government information. These guidelines will help to allay concerns that staff's personal financial interests may undermine sound DeM practices.

Business continuity planning is how an organization prepares for future incidents that could jeopardize the organization's core mission and its long-term health. Incidents include local incidents like building fires, regional incidents like earthquakes, or national incidents like pandemic illnesses.

Disaster recovery is the process of regaining access to the data, hardware, and software 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.

Many different risks can negatively affect the normal operations of an organization. A risk assessment would determine what constitutes a disaster, which risks the organization is most susceptible to, and what is the potential impact (financial and reputation), covering, among others, the following incidents: 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, loss of key personnel, and so forth.

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 and disaster recovery plan.

A copy of an operational risk management plan or guidelines.

Terms of reference or job descriptions for risk-monitoring and compliance function.

Indicative Questions to Ask

- What are the roles and responsibilities for all staff 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 arranging payment and accounting for the debt transactions? Are these functions performed by different staff or separate divisions (or both)?
- Are staff entering data and those checking data entries into the debt recording/management system organizationally separate?
- How many professional staff are in the Principal DeM Entity (or DeM entities)? How long have the staff been employed on their current DeM activities? What qualifications do staff have?
- What is the situation with regard to staff recruitment and retention? What is the level of staff turnover?
- Do all staff have clear job descriptions or terms of reference? If so, how frequently are these reviewed and updated?
- Do staff have individual training and development plans? If so, how are these formulated, and what are the policy and budget for training?
- What training have staff received? When and where was this training conducted or provided?
- Do staff have performance assessments? If so, how frequently? What is the process?
- Do staff have code-of-conduct or conflict-of-interest guidelines (or both)? If so, who is responsible for preparing and monitoring these guidelines?
- Is there a business continuity and disaster recovery plan? If so, is there an alternative recovery site for relocating the business, and where is it located? When was the plan tested last?
- Are there documented guidelines for operational risk management? What risks are covered in these guidelines?

- Do(es) the Principal DeM Entity (or DeM entities) have a separate unit for risk monitoring and compliance to monitor operational risk? If so, where is it located, how many staff are involved, and how actively do they monitor operational risk?

3.6 DEBT RECORDS AND REPORTING

DPI-14 DEBT RECORDS

RATIONALE AND BACKGROUND

The rationale for this DPI is to ensure that there are secure systems to maintain an accurate, consistent, and complete debt database covering central government domestic and external debt, debt-related transactions, and loan guarantees. This includes the registry system for government securities issued in the domestic market.

The key requirement for this DPI is to assess the effectiveness and completeness of the debt recording/management system to record, monitor, settle, and account for all debt and derivative transactions. There should be tight controls and security around the system and the debt database. Ideally, the debt recording/management system should interface with the government's financial management information and accounting system(s).

Another key requirement is to assess the effectiveness of the central depositary (registry) system in maintaining accurate and timely records of all holders of government securities issued in the domestic market. 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 how much domestic debt is held by foreigners is available for statistical reporting purposes. Also, the registry should ensure that the records are regularly reconciled and audited.

SUPPORTING DOCUMENTATION

A copy of a sample of reports that have been generated from the debt recording/ management system to ascertain how up-to-date the debt records are.

Evidence that records in the registry system have been reconciled and audited.

INDICATIVE QUESTIONS TO ASK

- What debt recording/management system(s) is (are) used?
- Does the debt recording/management system capture all debt transactions for central government debt and government loan guarantees?
- Does the debt recording/management system record all categories of central government debt and loan guarantees?
- What is the time period or lag from the input/validation of debt records and when these records can reliably be used for analysis and reporting?
- How does the registry system operate? Does the system have book-entry or physical securities (or both)?
- 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?

DPI-15 DEBT REPORTING

RATIONALE AND BACKGROUND

The rationale for this DPI is to ensure that the government regularly publishes information on the stock and composition of its debt, including their currency, maturity, residency classification, and interest rate structure, as well as the costs of servicing its debt. Data on debt stocks and flows should be disseminated consistent with international reporting standards.[3]

The key requirement for this DPI is to assess the completeness and timeliness of debt reporting, covering central government external and domestic debt and nonfinancial public sector debt and loan guarantees. It would be useful for the assessment to obtain feedback from the World Bank or IMF (or both) on the quality and timeliness of reporting of government debt.

As the DeMPA indicates (footnote 13), the nonfinancial public sector consists of the central government (budgetary, extra budgetary, and social security funds), state and local governments, and nonfinancial public corporations. Therefore, it excludes financial public corporations (among which are state-owned banks) and the Central Bank.

The DeMPA sets out the information that should be published in a debt statistical bulletin or its equivalent. Basic risk measures would include the following:

- Share of fixed-rate to floating-rate debt
- Share of short-term to long-term debt
- Average time to interest rate re-fixing
- Share of foreign currency to domestic debt
- Currency composition of foreign currency debt
- Average maturity of the debt
- Maturity profile of the debt

SUPPORTING DOCUMENTATION

A copy of the most recent publication of the stocks and flows of central government external and domestic debt.

A copy of the most recent publication of the stocks and flows of total nonfinancial public sector debt and loan guarantees.

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[3] For example, countries report data to the World Bank's Debtor Reporting System, the IMF's Special Data Dissemination System (SDDS), and so forth, and at times also benchmark with the IMF's Data Quality Assessment Framework (DQAF) for External Debt Statistics, an internationally accepted framework to assess the quality of external debt data, including good practices for data compilation and dissemination.

A copy of the most recent debt statistical bulletin or its equivalent.

INDICATIVE QUESTIONS TO ASK

- What statutory and contractual reporting requirements does the government have?
- How well has the government met these statutory and contractual reporting requirements?
- Who is responsible for preparing and submitting debt data to the IMF and World Bank (for example, for the Debtor Reporting System)? How are these debt data prepared, and when are they submitted?
- What debt reporting standards are applied?
- 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 this publicly available? If so, how and in what format?
- Does the debt statistical bulletin or equivalent include the following?
  - 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)
  - Basic risk measures of the debt portfolio
- What other debt reports are produced by the government or Central Bank? Are these publicly available? If so, how and in what format?
- What is the time period or lag from the debt reporting period to 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?

Annex

Key References

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http://treasury.worldbank.org/web/pdf/guidelines_2001_english.pdf

IMF and World Bank. 2002. *Guidelines for Public Debt Management: Accompanying Document and Selected Case Studies*. Washington, DC: IMF and World Bank
http://www.imf.org/external/pubs/ft/pdm/eng/guide/pdf/080403.pdf

IMF. 2007. *Manual on Fiscal Transparency*. Washington, DC: IMF
http://www.imf.org/external/np/pp/2007/eng/101907m.pdf

Guidance for Planning and Conducting an Audit of Internal Controls of Public Debt
http://www.intosaipdc.org.mx/Anexos/Products/PlanConducting_i.pdf

International Definitions and Standards

BIS (Bank for International Settlements), Commonwealth Secretariat, Eurostat, IMF, OECD (Organisation for Economic Co-operation and Development), Paris Club Secretariat, UNCTAD (United Nations Conference on Trade and Development), and World Bank. 2003. "External Debt Statistics: Guide for Compilers and Users." IMF, Washington, DC
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IMF. 2002. *Government Finance Statistics (GFS) Manual 2001*. Washington, DC: IMF
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Other Useful References

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http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTDEBTDEPT/0,,contentMDK:21518980~isCURL:Y~menuPK:64166739~pagePK:64166689~piPK:64166646~theSitePK:469043,00.html

Wheeler, Graeme. 2004. *Sound Practice in Government Debt Management*. Washington, DC: World Bank